

Livingston Parish Sewer District Two

Annual Financial Statements

As of and For the Year Ended December 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-4-04

LEROY J. CHUSTZ
Certified Public Accountant
A Professional Accounting Corporation

Livingston Parish Sewer District Two
Annual Financial Statements
As of and For the Year Ended December 31, 2003
With Supplemental Information Schedules

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

**Board Members of
Livingston Parish Sewerage District Two
Denham Springs, Louisiana**

I have audited the accompanying basic financial statements of the **Livingston Parish Sewerage District Two**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2003, as listed in the Table of Contents. These basic financial statements are the responsibility of **Livingston Parish Sewerage District Two's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*. Those standards and the guide require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position and the results of operations and cashflows for the year then ended of the **Livingston Parish Sewerage District Two**, as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 20, 2004, on my consideration of the **Livingston Parish Sewerage District Two's** internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Livingston Parish Sewerage District Two's** basic financial statements. The accompanying supplementary information, such as the Management's Discussion and Analysis, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the **Livingston Parish Sewerage District Two**, but is required by the Governmental Standards Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

Leroy J. Chustz

Certified Public Accountant
April 20, 2004

Required Supplemental Information (Part I)
Management's Discussion and Analysis

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

MANAGEMENT'S DISCUSSION AND ANALYSIS 12-31-2003

This section of the Livingston Parish Sewer District Two's annual financial report presents our discussion and analysis of the District's financial performance during this fiscal year. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the additional information stated on attached financial summaries

OVERVIEW OF FINANCIAL STATEMENTS:

The following narrative illustrates the minimum requirements as established by Governmental Accounting Standards Board Statement 34 as it pertains to the Livingston Parish Sewer District Two.

1. ****MANAGEMENT DISCUSSION and ANALYSIS****
 2. ****BASIC FINANCIAL STATEMENTS****
 3. ****REQUIRED SUPPLEMENTARY INFORMATION****
-

BASIC FINANCIAL STATEMENTS:

This annual report consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the operations of Sewer District Two of Livingston Parish as a whole and present a longer-term view of the current District finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities report the District's net assets and changes in them. The net difference between the assets and liabilities measures the health of the District's finances. Increases or decreases are noted as a measurement for your evaluation of the financial position of the District.

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

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FINANCIAL HIGHLIGHTS:

1- District had cash and investments of \$1,816,966 on 12-31-2003 representing a decrease of \$17,236 from prior year end.

2- District had accounts receivable of \$65,385 on 12-31-2003 representing an increase of \$44,656 from prior year end

3- District had prepaid insurance of \$19,095 on 12-31-2003 representing an increase of \$2,946 from prior year end

4- District had restricted assets of \$214,747 on 12-31-2003 representing an increase of \$3,714 from prior year end

5- District had land, plant facilities and equipment net of accumulated depreciation of \$4,411,154 on 12-31-2003 representing an increase of \$36,687 from prior year end. Depreciation expense totaled \$202,269 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation

7- District had capital purchases and asset improvements placed in service of \$238,956 including construction in progress during period ended 12-31-2003

8- District had sewer service sales and sewer maintenance fees of \$751,095 along with \$94,365 of non operating income on 12-31-2003

9-District had net income from all operations of \$104,260 on 12-31-2003

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

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Financial Analysis of the Entity:

STATEMENT OF NET ASSETS:

	2003	2002
Current and other assets	\$ 1,902,711	\$ 1,872,343
Cash assets restricted	214,747	211,033
Capital Assets (Net)	4,411,154	4,374,467
Total Assets	<u>\$ 6,528,613</u>	<u>\$ 6,457,843</u>
Current liabilities	\$ 22,278	\$ 11,452
Other liabilities	91,362	91,145
Long Term debt payable	1,003,921	1,048,454
Total Liabilities	<u>\$ 1,117,561</u>	<u>\$ 1,151,051</u>
Net Assets:		
Reserved Retained Earnings	214,757	217,077
Unreserved Earnings	5,196,295	5,089,715
Total Net Assets	<u>5,411,052</u>	<u>5,306,792</u>

Net assets of the District increased by \$104,260 from the previous year resulting from operating and non-operating revenues exceeding expenses for 12-31-2003.

General Revenue Information:

The District receives no ad-valorem taxes or sales taxes, but rather is a customer-user based system whereby customers of the District pay service fees on sewer usage by previously established sewer rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly sewerage bill which is reserved. The District has experienced growth in the past five year period with a forecast of continued accelerated growth in 2004. The customer base has grown from an approximate 1050 customers in 1998 to a billable customer count of 1,850 by the close of 12-31-2003.

Livingston Parish Sewer District Two
Denham Springs, Louisiana
Statement of Activities

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	2003	2002
Sewer Service Sales-operations	\$ 751,095	\$ 533,359
Non operating revenues	94,365	140,379
	845,460	673,738
Subtotal Revenues		
District Expenses direct	(287,152)	(406,540)
District Expenses general	(454,048)	(310,842)
Beginning Net Assets	5,306,792	5,350,436
Changes in net assets	\$ 104,260	\$ (43,644)
Ending Net Assets	5,411,052	5,306,792

District total revenues increased by \$217,736 and non operating revenues decreased by \$46,014 respectively from the previous year. The total cost of operations increased by \$23,818 from the previous year due to the following:

- (A) increased maintenance of lift station pumps and repairs
- (B) small increase of general expenses relating to salaries, insurance, and benefits

Capital Assets:

District began investing in a major improvement project on site relating to a new Wastewater Treatment Plant which will be completed in 2005.

The Louisiana Tax Commission has approved a bond issuance to cover approximately 5.0 million dollars of additional capital improvements to be completed by mid 2005 on the infrastructure of this treatment facility.

Livingston Parish Sewer District Two
Denham Springs, Louisiana
Statement of Activities (Continued)

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Summary: The District committed to advance this infrastructure improvement project with funding to follow in mid 2004. The District selected to use a portion of cash balances for the initial construction design of a wastewater treatment facility, and the appropriate line connections needed during late 2003 to be refunded by June, 2004 into District cash accounts from the bond issue.

Capital Assets:

	2003	2002
1.LAND	\$ 138,134	\$ 138,134
<hr style="border-top: 1px dashed black;"/>		
Systems, equipment, assets	6,853,702	6,614,746
(Accum. Depreciation expense)	(2,580,682)	(2,378,413)
<hr style="border-top: 1px dashed black;"/>		
2.NET EQUIP- SYSTEMS	\$ 4,273,020	4,236,333
<hr style="border-top: 3px double black;"/>		

Total Capital Assets Net \$4,411,154 \$ 4,374,467

DEBT:

District has a total outstanding debt of \$1,048,331 as of 12-31-2003.

District is currently completing a new debt issuance for 2004 with favorable low long term interest rates for approximately \$5,000,000.

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

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CONTACTING Livingston Parish Sewer District Two's Management:

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to show that the Livingston Parish Sewer District Two's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Director of Operations, James Ray Clark , Post Office Box 1059 Denham Springs, La 70727.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

1. **Proprietary Fund Financial Statements:**
 - Enterprise funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF NET ASSETS
As of December 31, 2003

	2003
Current Assets	
Cash and Cash Equivalents	\$ 479,244.30
Certificate of Deposit (with original maturities in excess of three months)	57,553.55
Prepaid Expense	19,095.40
Receivables	65,385.33
Total Current Assets	621,278.58
Restricted Assets	
Cash and Cash Equivalents	576,276.89
Certificates fo Deposit	918,639.59
Total Restricted Assets	1,494,916.48
Property, Plant & Equipment	
Land	138,134.05
Plant and Facilities	6,853,702.44
Less: Accumulated Depreciation	(2,580,682.02)
Total Property, Plant, and Equipment (Net)	4,411,154.47
Other Assets	
Deposits	1,263.40
TOTAL ASSETS	6,528,612.93
Current Liabilities	
Accounts Payable	21,678.41
Salaries & Related benefits	600.05
Total Current Liabilities	22,278.46
Current Liabilities (Payable from Restricted Assets)	
Accrued interest payable	46,951.63
Bond payable - FMHA - current portion	22,410.44
Bond payable - 1997 A series - current portion	22,000.00
Current Liabilities (Payable from Restricted Assets)	91,362.07
Long-Term Liabilities	
Bond Payable - FMHA	770,920.82
Bond Payable - 1997 A series	233,000.00
Long-Term Liabilities	1,003,920.82
TOTAL LIABILITIES	1,117,561.35
Net Assets	
Reserved Net Assets for bond retirement & system improvements	1,494,916.48
Investment in Fixed Assets - Net of Related Debt	3,362,823.21
Unrestricted Net Assets	553,311.89
NET ASSETS	\$ 5,411,051.58

The accompanying notes are an integral part of this statement.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2003

	2003
OPERATING REVENUES:	
Sewer Fees	\$ 751,095.23
Permits & Inspection fees	50,894.40
User Fees	23,421.00
Total Operating Revenues	825,410.63
OPERATING EXPENSES:	
Direct Expenses	
Depreciation	202,269.00
System Maintenance	84,883.12
Total Direct Expenses	287,152.12
General and Administrative Expenses	
Salaries	178,171.56
Payroll Taxes & Group Insurance	44,285.44
Per Diem	2,220.00
Insurance	41,201.08
Professional Fees	22,412.48
License & Permits	3,311.63
Fuel and Supplies	21,272.99
Equipment Repairs	14,821.93
Office Expense	71,031.08
Total General and Administrative Expenses	398,728.19
Total Operating Expense	685,880.31
NET OPERATING INCOME (LOSS)	139,530.32
NON-OPERATING REVENUES & EXPENSES	
Interest Income	20,049.90
Less: Interest Expense	-55,320.72
Total Non-Operating Revenue (Expense)	-35,270.82
NET INCOME (LOSS)	104,259.50
NET ASSETS AT BEGINNING OF YEAR	5,306,792.08
NET ASSETS AT END OF YEAR	\$ 5,411,051.58

The accompanying notes are an integral part of this statement.

**LIVINGSTON PARISH SEWER DISTRICT TWO
 PROPRIETARY FUND - ENTERPRISE FUND
 STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2003**

Cash Flows from Operating Activities

Received from Customers	\$ 780,754.30
Other Receipts	(251,054.25)
Payments for Operations	<u>(224,677.00)</u>
Net cash provided (used) by operating activities	<u>305,023.05</u>

Cash Flows from Capital and Related Financing Activities

Paid for Capital Acquisitions	(238,956.47)
Principal Repayments, Revenue Bonds Payable	(46,399.55)
Interest Payments - Revenue Bonds Payable	<u>(53,237.60)</u>
Net cash provided (used) by Capital and Related Financing Activities	<u>(338,593.62)</u>

Cash flows from Investing Activities

Receipt of Interest	20,049.90
Purchase of Investments	<u>(3,714.37)</u>
Net cash Provided (used) by Investing Activities	<u>16,335.53</u>

Net Increase (Decrease) in Cash	(17,235.04)
Cash at Beginning of Year	<u>1,834,202.00</u>
Cash at End of the Year	<u><u>\$1,816,966.96</u></u>

Reconciliation of Cash & Cash Equivalents to the Statement of Net Assets

Cash and Cash Equivalents	<u>479,244.30</u>
Restricted Cash and Cash Equivalents	<u>576,276.89</u>
Total Cash and Cash Equivalents	<u><u>1,055,521.19</u></u>

**Reconciliation of Net Operating Income (Loss) to Net Cash Provided
 (Used) by Operating Activities**

Operating Income	139,530.32
Adjustments to Reconcile Operating Income (Loss) to Net Cash:	
Depreciation Expense	202,269.00
Change in Accounts Receivable	(44,656.33)
Changes in Prepaid Expense	(2,946.40)
Changes in Accounts Receivable	<u>10,826.46</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 305,023.05</u></u>

The accompanying notes are an integral part of this statement.

Basic Financial Statements
Notes to the Financial Statements

LIVINGSTON PARISH SEWERAGE DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and For the Year Ended December 31, 2003

INTRODUCTION

Livingston Parish Sewerage District Number Two, Denham Springs, Louisiana, was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3811, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The District is composed of three board members who are appointed by the Parish Council of Livingston. Board members are compensated for meeting attendance at the rate of \$60.00 per meeting.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Sewerage District Two is considered a component unit of Livingston Parish Government. As a component unit, the accompanying financial statements should be included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of Livingston Parish Sewerage District Two. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meetings the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. All individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements. The Livingston Parish Sewerage District Two has no governmental funds and only one proprietary fund.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Livingston Parish Sewerage District Two reports the following proprietary funds:

Operating Fund - Accounts for financial resources of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's primary sources of revenues are user charges and fees charged for connecting to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

The entity's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the District's investment policy allow the entity to invest in collateralized certificates of deposits, government-backed securities, commercial paper, the state-sponsored investment pool, and mutual funds consisting solely of government-backed securities.

D. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible. The District periodically evaluates the collectability of delinquent accounts.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

E. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. As of year end, December 31, 2003, the District had no significant inventory.

F. Restricted Assets

The District is required to maintain the following reserves as a condition of the loans made to the Sewer District and/or bond covenants.

FARMERS HOME ASSOCIATION LOAN

A. *Reserve Bond Sinking Fund*

Each month the district must transfer into the revenue bond sinking fund, a sum equal to one-twelfth of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Said fiscal agent bank shall make available from the revenue bond sinking fund to the paying agent for all installments on the bond payable from said fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principal and interest so falling due on such date.

B. *Sewerage System Revenue Bond Reserve Fund*

Each month the district must transfer into the reserve fund, a sum equal to five per cent of the sum required to be transferred in each month into the revenue bond sinking fund as required in the reserve bond sinking fund, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bonds. The money in the reserve fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the revenue bond sinking fund as to which there would otherwise be default.

C. *Depreciation and Contingency Fund*

Each month the district must transfer into the depreciation and contingency fund the sum of \$168.00. All monies in the depreciation and contingency fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the sewerage system, which will either enhance its revenue producing capacity or provide a higher degree of service.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

1997-A SERIES BONDS

- A. A Sewerage System Revenue Bond and Interest Sinking Fund (the "Revenue Bond Sinking Fund")**, sufficient in amount to pay promptly and fully the principle of and interest on the bond and unrefunded bond, including any additional pari passu bonds issued hereafter in the manner provided in this resolution, as they severally became due and payable by depositing with the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) by transferring from said Revenue Fund to the Sinking Fund before the 20th day of each month of each year beginning on the first day of the month following delivery of the bond, a sum equal to one-twelfth (1/12) of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Money in the Revenue Bond Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of and interest on the bond and parity bonds.

Following the required payments to the Revenue Bond Sinking Fund, the monies remaining in the Revenue Fund shall be distributed in accordance with the following paragraphs:

- B. A "Sewerage System Revenue Bond Reserve Fund"**, by transferring to the regularly designated fiscal agent bank (which must be a member of the Federal Deposit Insurance Corporation) monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the sum required in (b) above, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bond, the unrefunded bond, and any additional parity bonds. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.
- C. A "Depreciation and Contingency Fund"**, by transferring from the Sewerage System Revenue Fund on or before the 20th day of each month to the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) the sum equal to five percent (5%) of the sums required to be transferred in each month into the Revenue Bond Sinking Fund, as required in (b) above, but not less than \$168.00 per month. All monies in the Depreciation and Contingency Fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions,

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

and the costs of improvements to the Sewerage System, which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and the Reserve Fund.

Restricted assets have been set aside in the current period as required by the applicable bond resolution in order to service the bonds payable.

G. Capital Assets

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	<u>Estimated Lives</u>
Infrastructure assets	40
Land improvements	40
Buildings and building improvement	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

H. Compensated Absences

Employees of the District earn leave based on the number of hours worked each pay period. At this time the District has no provisions for leave carryover; therefore, a leave accrued was not recorded in the financial statements.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

J. Fund Equity

In the government wide financial statements, equity is reported as net assets and is segregated into three components. Those components are: amounts invested in capital assets (net of related debt), amounts restricted, and unrestricted net assets.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Information

Livingston Parish Sewerage District Two uses the following budget practices:

- The District's secretary/treasurer prepares a proposed budget and submits same to the Board of Directors no later than fifteen days prior to the beginning of each fiscal year.
- A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
- A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
- After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is being adopted.
- All budgetary appropriations lapse at the end of each fiscal year.
- Budgets for the funds are presented on the modified accrual basis of accounting. All budgetary amounts presented reflect the original amended budget (which have been adjusted for legally authorized revisions of the annual budget during the year).

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

3. CASH AND CASH EQUIVALENTS

At December 31, 2003, the District had cash and cash equivalents (book balances) as follows:

<u>December 31, 2003</u>	
Demand Deposits	\$ 580,264
Money Market Funds	421,111
Certificates of Deposits	<u>54,146</u>
 Total	 <u>\$ 1,055,521</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposits (bank balances) secured at December 31, 2003, are as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Board or by its agent in its name

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name; or collateralized with no written or approved collateral agreement

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Not Required To Be Collateralized	Total Carrying Value
		1	2	3		
Cash and Cash Equivalents	\$ 434,471	\$ 154,146	\$ 0	\$ 356,885	\$ 0	\$ 479,244
Certificates of Deposit (With original maturities in excess of three months)	57,554	45,854	0	11,699		57,554
Restricted Assets	1,494,917	100,000	0	973,805	421,111	1,494,917
Total Deposits	\$ 492,024	\$ 200,000	\$ 0	\$ 368,584	\$ 421,111	\$ 2,031,715

Deposits are collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

4. RESTRICTED ASSETS

The following reserve accounts are required as a condition of District's bonds or loans:

FMHA

	Sinking Fund	Reserve Fund	Depreciation and Contingency Fund
Required Balance	\$ 51,731	\$ 21,727	\$ 14,112
Balance at December 31, 2003	<u>51,731</u>	<u>63,602</u>	<u>39,833</u>
Over (Under) Funded Amount	<u>\$ 0</u>	<u>\$ 41,875</u>	<u>\$ 25,721</u>

1997 SERIES A

	Sinking Fund	Reserve Fund	Depreciation and Contingency Fund
Required Balance	\$ 31,083	\$ 11,077	\$ 13,776
Balance at December 31, 2003	<u>31,169</u>	<u>13,809</u>	<u>14,604</u>
Over (Under) Funded Amount	<u>\$ 85</u>	<u>\$ 2,732</u>	<u>\$ 828</u>

The remaining balance of \$1,280,169 in restricted assets is legally required to be restricted to expenditures related to sewer repairs and improvements.

5. INVESTMENTS

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the District's name.

All investments held by the District fall into Category 1 credit risk, defined as: insured or registered, or securities held by the District or its agent in the District's name. In accordance with GASB-31,

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

Accounting and Financial Reporting for Certain Investments and for External Investment Pools, all investments are carried at fair value, with the estimate of fair value based on quoted market prices.

6. ACCOUNTS RECEIVABLE

Customer accounts receivable are as follows:

	<u>December 31, 2003</u>
Receivable from Sewer Two Consumers	\$ <u>65,385</u>
Total Receivable at December 31, 2003	\$ <u>65,385</u>

7. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in capital assets:

	BALANCE				BALANCE
	01/01/03	ADDITIONS	DELETIONS		12/31/03
Land	\$ 138,134	\$ 0	\$ 0		\$ 138,134
Plant	5,866,300	15,822	0		5,882,122
Equipment	484,721	45,835	0		530,556
Vehicles	94,307		0		94,307
Plant and facilities	<u>169,419</u>	<u>177,300</u>	<u>0</u>		<u>346,719</u>
Total	<u>\$ 6,752,881</u>	<u>\$ 238,957</u>	<u>\$ 0</u>		<u>\$ 6,991,838</u>
Less: Accumulated depreciation					<u>2,580,682</u>
Plant and facilities (net)					<u>\$ 4,411,156</u>
Depreciation expense					<u>\$ 202,269</u>

8. LONG-TERM DEBT

The following is a summary of loan transactions of the Sewer District for the year ending December 31, 2003 :

	FMHA BOND	1997 REFUNDING BONDS	TOTAL
Bonds payable at January 1, 2003	\$ 814,781	\$ 276,000	\$ 1,090,781
Bonds Retired	<u>21,450</u>	<u>21,000</u>	<u>42,450</u>
Bonds payable at December 31, 2003	<u>\$ 793,331</u>	<u>\$ 255,000</u>	<u>\$ 1,048,331</u>

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

Repayment is to be made as follows:

YEAR ENDED	FMHA BONDS		1997 REFUNDING BONDS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2004	\$ 22,410	\$ 39,667	\$ 22,000	\$ 15,300	\$ 99,377
2005	23,531	38,546	24,000	13,980	100,057
2006	24,708	37,369	25,000	12,540	99,617
2007	25,943	36,134	26,000	11,040	99,117
2008	27,240	34,837	28,000	9,480	99,557
2009-2013	158,044	152,341	130,000	19,980	460,365
2014-2018	201,710	108,676			310,386
2019-2023	257,436	52,948			310,384
2024-2028	52,309	2,615			54,924
TOTAL	\$ 793,331	\$ 503,133	\$ 255,000	\$ 82,320	\$ 1,633,784

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, damage, or destruction of assets, torts, injuries, natural disasters, and many other unforeseeable events. The District purchases commercial insurance policies and bonds for any and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds. There has been no significant decreases in insurance coverage from the prior year, and the amount of settlements has not exceeded the insurance coverage for the past three fiscal years.

10. PER DIEM PAID TO BOARD MEMBERS

Board members are appointed by the Livingston Parish Council and serve at the pleasure of the Council. There are no set terms of office. Board members are paid \$60 per diem for each meeting they attend.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2003

2003

<u>BOARD MEMBER</u>	<u>MEETINGS ATTENDED</u>	<u>PER DIEM</u>
Kenneth Bingham	11	\$ 660
Thomas Walton	13	780
J.K. Parker	13	780
		<u>\$ 2,220</u>

11. INCOME TAXES

Livingston Parish Sewerage District Two is exempt from all federal and state income taxes.

12. LITIGATION

According to the Sewerage District's attorney, there is no pending litigation against the Livingston Parish Sewerage District Two.

13. RETIREMENT PLAN

The Sewer District does not sponsor an employee retirement program at this time.

14. SUBSEQUENT EVENT

The District is presently attempting to obtain through grants and/or debt instruments, financing for an approximately \$ 5,000,000 capital improvement program.

15. COMMITMENTS

On April 20, 2003 the District awarded a contract to construct a wastewater treatment facility in the amount of \$4,774,700.

Required Supplemental Information (Part II)
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Proprietary Fund

Livingston Parish Sewer District Two
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts: GAAP Basis	Final Budget: Favorable (Unfavorable)
Operating Revenues				
Sewer Fees	\$ 707,000	\$ 707,000	\$ 751,095	\$ 44,095
Permits and Inspection fees	6,000	6,000	50,894	44,894
User fees	20,000	20,000	23,421	3,421
Sewer 1 Maintenance Fees	42,000	42,000		(42,000)
Road Bores	2,000	2,000		
Miscellaneous Income				0
Total Revenues	<u>777,000</u>	<u>777,000</u>	<u>825,411</u>	<u>50,411</u>
Operating Expenses				
Direct Expenses				
Depreciation	203,000	203,000	202,269	731
Systems Maintenance	76,600	76,600	84,883	(8,283)
General and Administrative Expenses				
Salaries	184,000	184,000	178,172	5,828
Payroll taxes & Group Insurance	45,000	45,000	44,285	715
Per Diem	3,000	3,000	2,220	780
Insurance	38,000	38,000	41,201	(3,201)
Professional Fees	20,100	20,100	22,412	(2,312)
Liscenses, permits and fees	9,500	9,500	3,312	6,188
Fuel & Supplies	21,000	21,000	21,273	
Office Expense	71,000	71,000	71,031	(31)
Equipment Repairs	15,000	15,000	14,822	
Total Operating Expenditures	<u>686,200</u>	<u>686,200</u>	<u>685,880</u>	<u>33,096</u>
Net Operating Income (Loss)	90,800	90,800	139,530	17,315
Non-Operating Revenues & Expenses				
Interest Income	7,000	7,000	20,050	(13,050)
Interest Expense	(60,000)	(60,000)	(55,321)	(4,679)
Total Non-Operating Income	<u>(53,000)</u>	<u>(53,000)</u>	<u>(35,271)</u>	<u>(17,729)</u>
Excess of Revenues (Expenditures)	37,800	37,800	104,260	\$ (415)
Net Assets December 31, 2002	5,306,792	5,306,792	5,306,792	
Net Assets December 31, 2003	<u>\$ 5,344,592</u>	<u>\$ 5,344,592</u>	<u>\$ 5,411,052</u>	

OTHER REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board Members of
Livingston Parish Sewerage District Two
Denham Springs, Louisiana**

I have audited the basic financial statements of **Livingston Parish Sewerage District Two**, Denham Springs, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2003, and have issued my report thereon dated April 20, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **Livingston Parish Sewerage District Two's** financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered **Livingston Parish Sewerage District Two's** internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of **Livingston Parish Sewerage District Two's** management, pass-through entities, and the Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Leroy J. Chustz

Certified Public Accountant, APAC
April 20, 2004

Livingston Parish Sewerage District Two

**Schedule of Findings
Year Ended December 31, 2003**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Livingston Parish Sewerage District Two.
2. No reportable conditions were disclosed during the audit of the basic financial statements.
3. No instances of noncompliance were disclosed during the audit of the basic financial statements.
4. There were no federal awards received by Livingston Parish Sewerage District Two.

Livingston Parish Sewerage District Two

**Schedule of Prior Year Findings
For The Year Ended December 31, 2003**

B. SUMMARY OF PRIOR YEAR AUDIT RESULTS

There were no prior year audit findings.