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WARD TWO WATER DISTRICT

Annual Financial Statements

As of December 31, 2003 and for the Year then Ended

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 5-26-04

LEROY J. CHUSTZ
Certified Public Accountant
A Professional Accounting Corporation

**LIVINGSTON PARISH
WARD TWO WATER DISTRICT
DENHAM SPRINGS, LOUISIANA**

Basic Financial Statements
and Independent Auditor's Reports

As of and for the Years Ended December 31, 2003
With Supplemental Information Schedules

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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

I have audited the accompanying basic financial statements of the **Livingston Parish Ward Two Water District**, 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 Ward Two Water District'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 of the **Livingston Parish Ward Two Water District**, 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 March 18, 2004, on my consideration of the **Livingston Parish Ward Two Water District'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 Ward Two Water District's** basic financial statements. The accompanying supplementary information, such as the Managements Discussion and Analysis and the other supplemental information, as listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements of **Livingston Parish Ward Two Water District**, but are required by the Governmental Standards Board and the United States Department of Agriculture, respectively. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and I express no opinion on it.

Leroy J. Chustz
Certified Public Accountant
March 18, 2004
LJC/JSC/jlc

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

MANAGEMENT'S DISCUSSION AND ANALYSIS 12-31-2003

This section of the Livingston Parish Ward Two Water District'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 Ward Two Water District.

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 Ward Two Water District 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 Ward Two Water District
Denham Springs, Louisiana**

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FINANCIAL HIGHLIGHTS:

1- District had cash and investments of \$603,391 on 12-31-2003 representing a decrease of \$1,207,667 from prior year end.

2- District had accounts receivable of \$173,387 on 12-31-2003 representing a decrease of \$119,930 from prior year end primarily from a reimbursement

3- District had inventory of \$297,496 on 12-31-2003 representing an increase of \$108,442 from prior year end

4- District had restricted assets of \$1,231,630 on 12-31-2003 representing an increase of \$151,561 from prior year end

5- District had construction in progress of \$941,331 on 12-31-2003 representing an increase of \$501,385 from prior year end

6- District had land, plant facilities and equipment net of accumulated depreciation of \$16,033,324 on 12-31-2003 representing an increase of \$617,628 from prior year end. Depreciation expense totaled \$565,450 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation

7- District had capital purchases and asset improvements placed in service of \$681,694 during period ended 12-31-2003

8- District had water service sales, tap fee revenues, and sewer maintenance fees of \$2,958,288 along with \$112,448 of non operating income on 12-31-2003

9- District had net income from all operations of \$93,132 on 12-31-2003

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

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Financial Analysis of the Entity:

STATEMENT OF NET ASSETS:

	2003	2002
Current and other assets	\$ 1,420,001	\$ 2,500,687
Cash assets restricted	1,105,210	1,080,169
Capital Assets (Net)	16,033,323	15,416,071
 Total Assets	 \$ 18,558,534	 \$ 18,996,927
	<hr/> <hr/>	<hr/> <hr/>
Current liabilities	\$ 692,610	\$ 1,020,262
Other liabilities	535,062	440,186
Long Term debt payable	11,779,914	12,078,662
 Total Liabilities	 \$ 13,007,586	 \$ 13,539,110
	<hr/>	<hr/>
Net Assets:		
Reserved Retained Earnings	1,155,074	1,155,074
Unreserved Earnings	4,395,874	4,302,743
 Total Net Assets	 5,550,948	 5,457,817
	<hr/> <hr/>	<hr/> <hr/>

Net assets of the District increased by \$93,132 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 water usage by previously established water rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly water bill which is reserved. The District has experienced extreme growth in the past five year period with a forecast of continued accelerated growth in 2004. The customer base has grown from an approximate 7000 customers in 1998 to a billable customer count of 11,850 by the close of 12-31-2003. A northern expansion completed in late 2002, rendered an additional 2000 new customers.

Livingston Parish Ward Two Water District
Denham Springs, Louisiana
Statement of Activities

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	2003	2002
Water Service Sales-operations	\$ 2,958,288	\$ 2,742,501
Non operating revenues	112,448	192,012
	-----	-----
Subtotal Revenues	3,070,736	2,934,513
District Expenses direct	(1,093,003)	(886,709)
District Expenses general	(1,884,601)	(1,568,485)
Beginning Net Assets	5,457,816	4,978,497
Changes in net assets	\$ 93,132	\$ 479,319
Ending Net Assets	<u>5,550,948</u>	<u>5,457,816</u>

District total revenues increased by \$136,223 and non operating revenues decreased by \$79,564 respectively from the previous year. The total cost of operations increased by \$522,410 from the previous year due to the following:

- (A) increased depreciation resulting from assets being placed into service in 2003
- (B) increased interest on new debt from northern expansion funding in 2002
- (C) increased engineering and right of way professional fees for many renovation projects accomplished to improve selected water system infrastructure sites
- (D) increased general expenses of salaries, insurance, and benefits by increase in staff due to expansion projects in northern and southern areas of the District

Capital Assets:

District invested in a major improvement project in the southern area of the District during 2003. The northern expansion program was concluded in late 2002 with some selected capital improvements required in early 2003. The southern expansion project will increase customer base substantially during 2004-2005 from southern areas of the District. Louisiana Tax Commission has approved a bond issuance to cover approximately 2.7 million dollars of additional capital improvements to be completed by mid 2005 on the infrastructure of the District.

Livingston Parish Ward Two Water District
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 early 2004. District cash balances were converted into the construction of water wells, elevated tanks, and line expansion during 2003 to be refunded by May, 2004 into District cash accounts from the bond issue.

Capital Assets:

	2003	2002
1.LAND	\$ 322,672	\$ 322,672
<hr/>		
Systems, equipment, assets	18,458,332	17,776,642
(Additions in 2003 \$717,444)		
(Accum. Depreciation expense)	(3,689,012)	(3,123,563)
<hr/>		
2.NET EQUIP- SYSTEMS	\$ 14,769,320	14,653,079
<hr/>		
3.CONSTRUCTION IN PROGRESS	\$ 941,331	439,946
(Southern expansion projects)		
In progress for 2004		
<hr/>		
Total Capital Assets Net	\$ 16,033,323	\$ 15,415,696

DEBT:

District has a total outstanding debt of \$12,252,914 as of 12-31-2003. District is currently completing a new debt issuance for 2004 which will refinance old debt with favorable low long term interest rates for approximately \$3,365,000 from an 1994 bond issuance. The funds from the new bond issuance will provide funds for another \$2,690,338 for major southern area capital asset expansion needs regarding wells, line installation, and elevated tanks. The southern expansion will result in the addition of greater than 2500 customers to the existing customer base of 11,850 customers now receiving water service throughout other regions of the District .

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

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CONTACTING Livingston Parish Ward Two Water District'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 Ward Two Water District's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Manager, Preston Killcrease , Post Office Box 637 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 Ward Two Water District
Proprietary Fund - Enterprise Fund
Statement of Net Assets
As of December 31, 2003**

Current Assets	
Cash and cash equivalents	\$ 829,859.72
Accounts receivables (net)	172,386.67
Unbilled water sales	130,970.77
Prepaid insurance	88,960.32
Inventory	297,496.56
Total Current Assets	<u>1,519,674.04</u>
Noncurrent Assets	
Investments	179,416.65
Total Noncurrent Assets	<u>179,416.65</u>
Restricted Assets	
Revenue bond sinking fund	155,020.66
Revenue bond revenue fund	335,367.69
Depreciation and contingency fund	335,356.47
Total Restricted Assets	<u>825,744.82</u>
Property, Plant and Equipment, at cost	
Land	322,671.85
Construction in Progress	941,329.71
Plant, Facilities and Equipment (Net)	14,769,321.97
Total Property, Plant, and Equipment (Net)	<u>16,033,323.53</u>
Other Assets	
Deposits	375.00
TOTAL ASSETS	<u>18,558,534.04</u>
Current Liabilities	
Accounts Payable	79,145.12
Taxes Payable	5,493.13
Accrued salaries and leave	9,350.91
Accrued Interest Payable - current portion	76,538.79
Bond payable - current portion	333,000.00
Customer Deposits	535,062.25
Total Current Liabilities	<u>1,038,590.20</u>
Current Liabilities (Payable from Restricted Assets)	
Accrued Interest Payable	49,081.89
Bonds Payable	140,000.00
Total Current Liabilities (Payable from Restricted Assets)	<u>189,081.89</u>
Long-Term Liabilities	
Bonds Payable	11,779,913.92
Total Long-Term Liabilities	<u>11,779,913.92</u>
TOTAL LIABILITIES	<u>13,007,586.01</u>
Net Assets	
Reserved Net Assets for revenue bond retirement & system repairs and improvement	670,724.16
Investment in Fixed Assets - Net of related debt	3,780,409.61
Unrestricted Net Assets	1,099,814.26
TOTAL NET ASSETS	<u>\$ 5,550,948.03</u>

The accompanying notes are an integral part of this statement.

**Livingston Parish Ward Two Water District
Proprietary Fund - Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year ended December 31, 2003**

OPERATING REVENUES:

Water sales	\$ 2,670,180.49
Water tap fees	187,594.00
Sewer maintenance fes and charges	<u>54,069.21</u>
Total Operating Revenues	<u>2,911,843.70</u>

OPERATING EXPENSES:

Direct Expenses

Depreciation	565,450.00
Electricity	142,924.22
Equipment operation and maintainence	79,882.96
System maintainence	226,819.37
Meter Reading	93,640.40
Small tools and supplies	<u>11,084.23</u>
Total Direct Expenses	<u>1,119,801.18</u>

General and Administrative Expenses

Salaries and Benefits	601,438.26
Payroll taxes and group insurance	103,581.73
Insurance	120,049.93
Interest	574,185.50
Office Expense	92,025.76
Professional Fees	289,263.46
Telephone	22,067.71
Per Diem	3,840.00
Bad Debt Expense	154.29
Miscellaneous	<u>15,446.71</u>
Total general and administrative expenses	<u>1,822,053.35</u>
Total operating expenses	<u>2,941,854.53</u>

NET OPERATING INCOME (LOSS) (30,010.83)

NON-OPERATING REVENUE

Special Services	63,220.00
Forfieted discounts	46,444.00
Interest	28,925.13
Miscellaneous	16,863.52
Department of Health & Hospitals Service Fee	<u>3,439.68</u>
Total Non-Operating Revenues	<u>158,892.33</u>

NET INCOME (LOSS) 128,881.50

Special Item:

Legal Settlement Expense (Note 12)	<u>35,750.00</u>
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INCOME (LOSS) AFTER SPECIAL ITEM 93,131.50

NET ASSETS AT BEGINNING OF YEAR 5,457,816.53

NET ASSTES AT END OF YEAR \$ 5,550,948.03

The accompanying notes are an integral part of this statement.

**LIVINGSTON PARISH WARD TWO WATER DISTRICT
 PROPRIETARY FUND - ENTERPRISE FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2003**

Cash flows from operating activities	
Cash received from customers and others	\$ 3,031,774.26
Cash payments to suppliers for goods and services	(1,914,848.85)
Cash payments to employees for services	(601,438.26)
Claims paid to outsiders	(35,750.00)
Other operating revenues (expenses)	<u>158,892.33</u>
Net cash provided (used) by operating activities	<u>638,629.48</u>
Cash flows from capital and related financing	
Cash payments to creditors	<u>(436,748.46)</u>
Net cash provided (used) by capital and related financing	<u>(436,748.46)</u>
Cash flows from investing activities	
Cash payments for the aquisition of capital assets	<u>(1,183,078.10)</u>
Net cash provided (used) by investing activities	<u>(1,183,078.10)</u>
Net increase (decrease) in cash and cash equivalents	(981,197.08)
Cash and cash equivalents at beginning of year	<u>1,811,057.71</u>
Cash and cash equivalents at the end of the year	<u>\$ 829,860.63</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Income (loss) after special item	\$ 93,131.50
Adjustments to reconcile operating income (loss) to net cash	
Depreciation	565,450.00
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	119,930.56
(Increase) decrease in prepaid expense	(14,384.32)
(Increase) decrease in unbilled water sales	2,710.36
(Increase) decrease in investments	75,008.28
(Increase) decrease in inventory	(108,442.62)
Increase (decrease) in accounts payable	36,552.89
Increase (decrease) in accrued liabilities	(168,276.42)
Increase (decrease) in customer deposits	<u>36,949.25</u>
Net cash provided (used) by operating activities	<u>\$ 638,629.48</u>

The accompanying notes are an integral part of this statement.

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

INTRODUCTION

Ward Two Water District, Denham Springs, Louisiana, was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on August 23, 1975, 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 water to customers within the boundaries of the district. The District is composed of five 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. The District serves approximately one third of the Parish of Livingston. The areas of service are in the western portion of the parish, north of Florida Boulevard and a small area south of Florida Boulevard between Denham Springs and Walker. The District serves approximately 47,000 people with twenty eight employees. As of March 31, 2004 there were 11,552 metered customers, two hundred eighty five miles of water main lines within a service area of 81,291 acres.

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, the Ward Two Water District is considered a component unit of Livingston Parish Government. As a component unit, the accompanying financial statements are 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 the Ward Two Water District. 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. Ward Two Water District has no governmental funds and only one proprietary fund

LIVINGSTON PARISH WARD TWO WATER DISTRICT
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 Ward Two Water District reports the following proprietary funds:

Water Revenue 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 Ward Two Water District's investment policy allow the entity to invest in collateralized certificates of deposits, government back 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 show net of an allowance for uncollectible. The District periodically evaluates the collect ability of delinquent accounts. The District's experience has been that accounts write offs have been very low due to the necessity of water and the customer deposit which is required for all customers.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
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.

F. Restricted Assets

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

1994 Waterworks Revenue Bonds

1. *Bond Sinking Fund*

On or before the 20th day of each month there shall be transferred from the Revenue Fund to the Sinking Fund, (i) beginning on December 20, 1993, a sum equal to one-fourth (1/4) of the interest falling due on the next interest payment date and beginning April 20, 1994, and thereafter, a sum equal to one-sixth (1/6) of the interest falling due on the next interest payment date, and (Two) beginning April 20, 1994, and thereafter, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sum, if any, as may be required to pay said principal and interest as the same respectively become due.

2. *Revenue Bond Reserve Fund*

The funding of a "Reserve Fund" (the "Reserve Fund"), in the amount of not less than the Reserve Requirement, (\$335,143), with an initial deposit as provided in the Supplemental Resolution at the time of delivery of the Bonds and subsequent annual deposits in the Reserve Fund of one-fifth (1/5th) of the amount required to establish and maintain the Reserve Requirement in the Reserve Fund within a period of five (5) years; provided that if any monies are withdrawn from the Reserve Fund to pay principal and /or interest on the Bonds, Unrefunded Bonds or Parity Bonds, such monies shall be restored from monies remaining in the Revenue Fund, after making the payments required by paragraphs (a) and (b) of this Section. Monies in the Reserve Fund may be appropriated and expended from time to time by the Board solely for the purpose of paying principal of and interest on the Bonds, Unrefunded Bonds and Parity Bonds payable from the Sinking Fund as to which there would otherwise be a default.

3. *Depreciation and Contingency Fund*

The funding of a "Depreciation and Contingency Fund" (the "Depreciation and Contingency Fund") by transferring from the Revenue Fund on or before the 20th day of each month, commencing with the first full month after delivery of the Bonds, after making the deposits referred to in (a) and (b) above, a sum equal to 5% of Gross Revenues of the System, until such time as the Depreciation and Contingency Fund contains \$335,143. 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 to the System; and the costs of improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available

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

balances in the Sinking Fund or the Reserve Fund are deficient, 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 Sinking Fund and the Reserve Fund. If at any time it shall be necessary to use monies in the Depreciation and Contingency Fund provided for the purpose of paying principal of or interest on Bonds, Unrefunded Bonds or Parity Bonds payable from the Sinking Fund or the Reserve Fund as to which there would otherwise be default, then the monies so used shall be replaced from the revenues first thereafter received which are not herein above required to be used for current expenses or for Sinking Fund and Reserve Fund requirements, it being the intention hereof that there shall be on deposit in the Depreciation and Contingency Fund at all times, as nearly as possible, the amount herein specified.

2002 DEQ Loan

1. Debt Service Fund

The requirement is establishment of fund "into which will be deposited monthly from the revenue account accumulations for the payment of principal and interest due on the bonds" as the payment of principal and interest are required semiannually.

2. Debt Service Reserve

The requirement is the establishment of a fund "into which will be deposited an amount equal to one years payments of principal and interest."

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. The total interest expense included during the current fiscal year was \$574,185.50. Of this amount, no interest was included as part of the cost of capital assets under construction in connection with construction projects.

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	N/A
Land improvements	40
Buildings and building improvements	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

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

H. Compensated Absences

The Livingston Parish Ward Two Water District provides various forms of compensated leave benefits to its employees. An employee can earn sick leave and vacation leave based upon the number of hours worked each pay period and years of continuous employment. At termination or retirement only unused vacation time can be paid to the employee. As a result, only the amount of unused vacation time is accrued in the Livingston Parish Ward Two Water District basic financial statements.

The Ward Two Water District's recognition and measurement criteria for compensated absences follows:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Only the portion that employees can be paid for is reported on the government-wide 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.

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 Ward Two Water 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

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

during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Information

Livingston Ward Two Water District 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).

3. CASH AND CASH EQUIVALENTS

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

December 31, 2003	
Cash on Hand	\$ 650
Demand Deposits	501,126
Time Deposits	<u>328,084</u>
Total	<u><u>\$ 829,860</u></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 of 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

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

bank that is mutually acceptable to both parties. Deposits (bank balances) secured at December 31, 2003 are as follows:

	<u>December 31, 2003</u>
Bank balances	<u>\$ 844,738</u>
Federal deposit insurance	275,321
Pledged securities	<u>569,417</u>
Total insurance and securities	<u>844,738</u>
Unsecured deposits at 12/31	<u><u>\$ 0</u></u>

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

4. INVESTMENTS

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or it's 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 it's 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 it's agent in the District's name. In accordance with GASB-31, 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.

5. ACCOUNTS RECEIVABLE

Customer accounts receivable are as follows:

	<u>December 31, 2003</u>
Accounts Receivable (gross)	\$ 173,182
Insufficient funds checks receivable	2,033
Construction Reimbursement	
Less: Allowance for uncollectible accounts	<u>(2,828)</u>
Accounts Receivable (net)	<u><u>\$ 172,387</u></u>

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

6. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in capital assets.

	BALANCE 01/01/03	ADDITIONS	DELETIONS	BALANCE 12/31/03
Land	<u>\$ 322,672</u>			<u>\$ 322,672</u>
Buildings	222,588			222,588
Equipment	857,168	12,938		870,106
Furniture and fixtures	13,681			13,681
Vehicles	216,375	17,873		234,248
Plant and facilities	<u>16,466,828</u>	<u>686,634</u>		<u>17,153,462</u>
Total	<u>\$ 17,776,640</u>	<u>\$ 717,445</u>	<u>\$ 0</u>	<u>\$ 18,494,085</u>
Less: Accumulated depreciation				<u>(3,689,080)</u>
Plant and facilities (net)				<u>\$ 14,805,005</u>
Depreciation expense				<u>\$ 565,517</u>

7. LONG-TERM DEBT

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

	DEQ LOAN	REVENUE BONDS	GENERAL OBLIGATION BONDS	TOTAL
Bonds payable at January 1, 2003	\$ 9,000,000	\$ 3,640,000	\$ 395,000	\$ 13,035,000
Bonds Issued				
Bonds Retired	<u>305,000</u>	<u>135,000</u>	<u>18,000</u>	<u>458,000</u>
Bonds payable at December 31, 2003	<u>\$ 8,695,000</u>	<u>\$ 3,505,000</u>	<u>\$ 377,000</u>	<u>\$ 12,577,000</u>
Advance refunding difference				<u>\$ (324,087)</u>
Net Bonds Payable December 31, 2003				<u>\$ 12,252,913</u>

Repayment is to be made as follows:

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

A. \$4,225,000 Revenue Parity Bonds of 1994

The bonds will mature on April 1 in the principal amounts from \$40,000 to \$195,000 and will bear interest from April 1, 1994, payable on April 1 and October 1 of each year, commencing October 1, 1994, at the rates per annum from 3.35% to 5.65%.

B. \$650,000 General Obligation Bonds of 1977

Interest on the bonds is payable semiannually on June 1st in the amounts varying from \$25,350 to \$22,625 through the year 2017 and are issued as fully registered certificated bonds.

C. \$9,000,000 DEQ Loan

The District borrowed \$9,000,000 from the Louisiana Department of Environmental Quality. Presently the loan is in the interim construction phase. The interim phase was concluded December 31, 2002. At that time, the loan was converted to permanent financing and the repayment term will be 20 years at 3.95% interest.

The following reserve accounts are required as a condition of the above loans or bond:

1994 REVENUE PARITY BONDS

	Sinking Fund	Reserve Fund	Depreciation and Contingency Fund
Required balance	\$ 152,019	\$ 335,143	\$ 335,143
Balance at December 31, 2003	155,021	335,356	335,356
Over (Under) Funded Amount	<u>\$ 3,002</u>	<u>\$ 213</u>	<u>\$ 213</u>

2002 DEQ LOAN

	Sinking Fund	Reserve Fund
Required balance	\$ 311,244	\$ 654,493
Balance at December 31, 2003	0	0
Over (Under) Funded Amount	<u>\$ (311,244)</u>	<u>\$ (654,493)</u>

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

The annual requirements to amortize all long-term debt outstanding, at December 31, 2003, including interest of \$ 5,654,430, are as follows:

YEAR ENDED	REVENUE BONDS 1994 PARITY BONDS		GENERAL OBLIGATION BONDS		DEQ LOANS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2004	\$ 140,000	\$ 192,722	\$ 19,000	\$ 18,613	\$ 315,000	\$ 343,453	\$ 1,028,788
2005	150,000	185,143	20,000	17,650	330,000	331,010	1,033,803
2006	155,000	177,099	21,000	16,637	340,000	317,975	1,027,711
2007	165,000	168,616	22,000	15,575	355,000	304,545	1,030,736
2008	175,000	159,434	23,000	14,175	370,000	283,215	1,024,824
2009-2013	1,030,000	634,410	137,000	51,525	2,075,000	1,180,556	5,108,491
2014-2018	1,365,000	286,710	135,000	13,925	2,515,000	729,071	5,044,706
2019-2023	325,000	18,525			2,395,000	193,846	2,932,371
TOTAL	\$ 3,505,000	\$ 1,822,659	\$ 377,000	\$ 148,100	\$ 8,695,000	\$ 3,683,671	\$18,231,430

On April 1, 1995, the District issued \$4,225,000 in Waterworks Revenue Bonds with an average interest rate of 5.8 percent to advance refund \$1,820,000 of outstanding 1989 series bonds with an average interest rate of 8.6 percent. The District purchased United States Government Securities valued at \$2,063,413 and deposited them into an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$1,820,000 of 1989 series bonds. As a result, \$1,820,000 of the 1989 series bonds are considered to be defeased and the liability for the bonds has been removed from the District's books. \$255,000 of 1989 series bonds were not advance refunded and remain on the District's books.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$531,288. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by \$187,382.50 and to obtain economic gain of \$115,344.57.

8. 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 ant 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

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

year, and the amount of settlements has not exceeded the insurance coverage for the past three fiscal years.

9. 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.

2003

<u>BOARD MEMBER</u>	<u>MEETINGS ATTENDED</u>	<u>PER DIEM</u>
Theodore Graham- President 33580 Cane Market Road Walker, Louisiana 70785-4102 (225) 664-9189	12	\$ 720
Tyrus Cobb - Vice President 10660 Dunmark Road Denham Springs, LA 70726-1113 (225) 664-9291	13	780
Stanley Spillman - Secretary - Treasurer Post Office Box 692 Watson, La 70786 (225) 665-2669	14	840
John Easterly 37917 La Hwy. 16 Denham Springs, LA 70726 (225) 664-8923	12	720
Melvin Meyers 7637 Curry Davis Drive Denham Springs, LA 70726	13	780
Total		<u>\$ 3,840</u>

10. INCOME TAXES

Ward Two Water District is exempt from all federal and state income taxes.

11. LITIGATION

As of December 31, 2002 Ward Two Water District was involved in a legal dispute with a disgruntled contractor claiming additional monies were due from Ward Two in connection with a water line extension. The dispute has now been settled in an out of court agreement, with no party admitting liability, in the amount of \$35,750. This will be presented on the Statement of Revenue, Expenses, and Changes in Net Assets as a special item.

There is also a personal injury action brought as a class action alleging injury to users of the Ward Two water system resulting from the presence of coliform bacteria in the water. According to legal council, there is a relatively low likelihood of an outcome unfavorable to the Water District.

12. RETIREMENT PLAN

Ward Two Water District does not belong to a retirement system; however, the District contributes to the Social Security System as required by law. The District adopted a self-employed retirement plan (SEP) during 1996. The District contributed \$13,065 into the SEP during 2003. Employees are fully vested when the contribution is made by the District.

13. SPECIAL ITEM

According to Generally Accepted Accounting Principals (GAAP) a special item is a financial event that is either unusual in nature or infrequent in occurrence and is within the control of management. In 2002, Ward Two Water was involved in a legal dispute concerning contract performance in which a contractor claimed additional fees due to down time. The District disagreed with the addition fees charged, however in 2003 as legal fees began to accrue the District decided to admit no liability and pay \$35,750 for dismissal of the suit. This legal settlement is not representative of the Districts' normal, everyday operating activities and should not be treated as such. Consequently, this expenditure was not capitalized as it was attributable to any specific assets or project and was charged as an expense in the Statement of Revenues, Expenditures and Changes in Fund Balance in 2003.

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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

I have audited the basic financial statements of the **Livingston Parish Ward Two Water District**, 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 March 18, 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, and the *Louisiana Governmental Audit Guide*.

Compliance

As part of obtaining reasonable assurance about whether the **Livingston Parish Ward Two Water District's** basic financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 instances of noncompliance that is required to be reported under *Government Auditing Standards* and the *Louisiana Governmental Audit Guide*, which are described in the schedule of findings and questioned costs as item 2003-1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the **Livingston Parish Ward Two Water District's** internal control over financial reporting to determine our auditing procedures for the purpose of expressing my opinion on the basic 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. However, I noted certain matters involving the internal control over financial control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement could adversely affect **Livingston Parish Ward Two Water District's** ability to record, process, summarize and report financial data consistent with assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-1.

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 basic 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. However, of the reportable conditions above, I consider item 2003-1, to be a material weakness.

This report is intended for the information and use of the **Livingston Parish Ward Two Water District** and its management, the Louisiana Legislative Auditor, the State of Louisiana and is not intended to be, and should not be used by anyone other than these specified parties.

Leroy J. Chustz

Certified Public Accountant, APAC

March 18, 2004

**Livingston Parish Ward Two Water District
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 Ward Two Water District.
2. A reportable condition was disclosed during the audit of the basic financial statements.
3. One instance of noncompliance was disclosed during the audit of the basic financial statements.
4. There were no federal awards received by State Plumbing Board of Louisiana.

B. FINDINGS--FINANCIAL STATEMENTS AUDIT

Compliance and Internal Control

Finding 2003-1 Restricted Assets for Department of Environmental Quality Loan

Criteria -

The Livingston Parish Ward Two Water District is required by the loan agreement with the State of Louisiana, Department of Environmental Quality to adopt a resolution to set up a debt service account and a reserve account and then make monthly transfers to those accounts.

Condition -

The Livingston Parish Ward Two Water District did not adopt a resolution or set up the required restricted assets accounts as prescribed in the loan agreement with the State of Louisiana, Department of Environmental Quality.

Effect -

The Livingston Parish Ward Two Water District's restricted assets in relation to the Department of Environmental Quality loan were underfunded and therefore, did not comply with the loan agreement.

Cause -

According to management, the responsibility of ensuring that all proper restricted assets accounts are established for every issuance of a debt instruments had never been assigned to any employee or any of the district's outside service organizations.

Recommendation -

The Board should assign this responsibility to an individual that will examine the loan or bond agreement and ensure that the District is in compliance with said agreements.

Management Response -

See Management's Corrective Action Plan

**LIVINGSTON PARISH WARD TWO WATER DISTRICT
P. O. BOX 637
DENHAM SPRINGS, LOUISIANA 70727**

Management Response to Financial Audit for the period 12-31-2003 finding:

The board of commissioners of the District held cash reserves in excess of one years annual payment as per the loan requirement as of 12-31-2003, however did not designate an authority to oversee the reserve or physically restrict these funds within the cash accounts held on hand. A misunderstanding on separating debt service funds from the total amount of all general funds on hand has ultimately resulted in this finding.

The board of commissioners of the Ward Two Water District shall by official resolution adopt policy assigning the overview of restricting required cash reserves regarding the DEQ loan agreement, to the Office Manager along with the review and assistance from the Administrative Secretary. The review of reserves will be made each month to ensure that full compliance at all times to restricted cash balances for debt service reserve amounts is in conformance with the agreement. A separate general ledger account will be established to reflect the fully funded cash amount for the debt service reserve (separate from general funds). This resolution will be in place on or before June 15, 2004.

**Livingston Parish Ward Two Water District
Status of Prior Year Findings
For The Year Ended December 31, 2003**

Internal Control and Compliance Material to the Financial Statements

No findings reported.

Internal Control and Compliance Material to Federal Awards

Not applicable.

Management Letter

No management letter findings.

OTHER SUPPLEMENTAL INFORMATION

**AS REQUIRED BY
THE UNITED STATES DEPARTMENT OF AGRICULTURE**

**LIVINGSTON PARISH WARD TWO WATER DISTRICT
SUPPLEMENTAL INFORMATION AS REQUIRED BY
THE UNITED STATES DEPARTMENT OF AGRICULTURE
FOR THE YEAR ENDED DECEMBER 31, 2003**

Water Rates & Tap Fees as of Year End Are as Follows:

WATER FEES

First 2,000 gallons	\$7.13 (Flat Rate)
Next 3,000 gallons	\$2.52 (per thousand)
Next 5,000 gallons	\$2.12 (per thousand)
Over 10,000 gallons	\$1.37 (per thousand)

TAP FEES

3/4" Tap	\$ 305.00
1" Tap	\$ 305.00
1 1/2" Tap	\$ 305.00
2" Tap	\$ 305.00
4" Tap	\$ 400.00

Breakdown of Residential & Nonresidential Users:

Active Customers Billed	11,552
Residential Customers	10,529
Nonresidential Customers	<u>1,023</u>
Total	<u>11,552</u>

Accounts Receivable Aging:

0-30 Days	\$ 147,155.34
>30 Days	4,728.04
>60 Days	2,851.80
>90 Days	<u>18,447.06</u>
Accounts Receivable December	<u>\$ 173,182.24</u>

The District did not report accounts receivable in 2003 by number of account in each aging bracket but began doing so in 2004.

**LIVINGSTON PARISH WARD TWO WATER DISTRICT
 SUPPLEMENTAL INFORMATION AS REQUIRED BY
 THE UNITED STATES DEPARTMENT OF AGRICULTURE
 FOR THE YEAR ENDED DECEMBER 31, 2003**

Schedule of Insurance Coverage:

Policy	Expiration of Policy	Amount of Coverage
Directors & Officers Policy	December 10, 2004	\$5,000,000 each loss & in aggregate
Commercial General Liability	December 18, 2004	\$1,000,000 per occurrence
Business Automobile Liability	December 18, 2004	\$1,000,000 per occurrence
Workers Compensation	December 18, 2004	As Statutorily Required
Government Crime	October 31, 2004	\$1,000,000 per occurrence
Umbrella Liability Policy	October 31, 2004	\$4,000,000 per occurrence