

**WATERWORKS DISTRICT NO. 2
OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
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 2-16-05

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
BOARD OF COMMISSIONERS
DECEMBER 31, 2003

<u>Commissioners</u>	<u>Office</u>	<u>Year Elected</u>	<u>Term</u>
Clyde H. Masson 1527 Hwy 491, Cloutierville, La 71416 318/379-0126	President	2001	3yrs.
John N. Rachal P. O. Box 33, Flora, La 71428 318/352-4731	Vice-President	2001	3 yrs.
John T. Batten, Jr. 4645 Hwy 494, Natchez, La 71456 318/352-6328	Sec./Treasurer	2001	4 yrs.
Donald D. Forest 252 Hwy 119, Natchez, La 71456 318/352-7412		2002	5 yrs.
Henderson Howard, Jr. P. O. Box 236, Natchez, La 71456 318/352-4880		2003	5 yrs.
Emile Metoyer 2353 Bermuda Road, Bermuda, La 71456 318/379-2407		2001	4yrs.
Kenneth Prudhomme 646 Fish Hatchery Road, Natchitoches, La 71457 318/352-2762		2001	2 yrs.
E. C. Roge 1894 Highway 119, Natchez, La 71456 318/352-9912		2003	2 yrs

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
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WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003


Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Leslie Dunn, Manager of the Waterworks District No. 2 of Natchitoches Parish, who, duly sworn, deposes and says, that the financial statements herewith given presents fairly the financial position of Waterworks District No. 2 of Natchitoches Parish, at December 31, 2003 and the results of operations for the year then ended in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.


Manager

Sworn to and subscribed before me, this 24 day of January, 2005.

 ID# 033769
NOTARY PUBLIC

HINES, JACKSON & HINES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 2188 - 133 EAST FIFTH STREET
NATCHITOCHES, LA 71457

A. NEILL JACKSON, JR., CPA
1926-1999

FRANK S. HINES, CPA
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E. MERLIN SQUYRES, CPA
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the accompanying basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, 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 management of the Waterworks District No. 2 of Natchitoches Parish. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 2 of Natchitoches Parish as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 24, 2005, on our consideration of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 our audit.

The Management's Discussion and Analysis information on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, taken as a whole. The accompanying supplemental information schedules listed in the table of contents, including the schedule of expenditures of federal awards, are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hines, Jackson & Hines

Natchitoches, Louisiana
January 24, 2005

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003

The Management's Discussion and Analysis of Waterworks District No. 2 of Natchitoches Parish's financial performance presents a narrative overview and analysis of Waterworks District No. 2 of Natchitoches Parish's financial activities for the year ended December 31, 2003. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the Waterworks District No. 2 of Natchitoches Parish's financial statements, which begin on page 8.

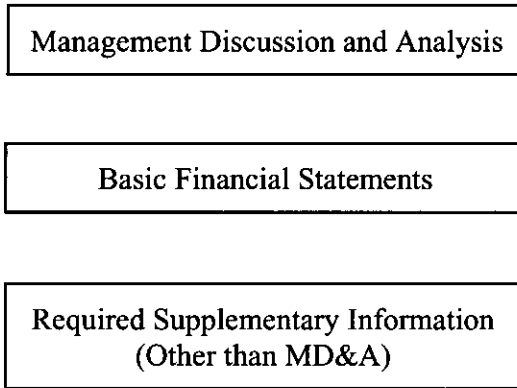
FINANCIAL HIGHLIGHTS

- 1) The Waterworks District No. 2 of Natchitoches Parish had cash and cash equivalents and investments of \$603,962 at December 31, 2003 which represents a decrease of \$14,605 from prior year end.
- 2) The Waterworks District No. 2 of Natchitoches Parish had accounts receivable of \$40,630 at December 31, 2003 which represents an increase of \$968 from prior year end.
- 3) The Waterworks District No. 2 of Natchitoches Parish had accounts payable and accruals of \$105,736 at December 31, 2003 which represents an increase of \$92,376 from prior year end.
- 4) The Waterworks District No. 2 of Natchitoches Parish had total operating revenues of \$519,909 for the year ended December 31, 2003 which represents an increase of \$9,585 from prior year.
- 5) The Waterworks District No. 2 of Natchitoches Parish had charges for services revenues of \$483,065 for the year ended December 31, 2003 which represents an increase of \$7,980 from prior year.
- 6) The Waterworks District No. 2 of Natchitoches Parish had total operating expenses of \$471,124 for the year ended December 31, 2003 which represents an increase of \$27,304 from prior year.
- 7) The Waterworks District No. 2 of Natchitoches Parish had salaries and board per diem of \$146,136 for the year ended December 31, 2003 which represents an increase of \$12,828 from prior year.
- 8) The Waterworks District No. 2 of Natchitoches Parish had interest expense of \$48,883 for the year ended December 31, 2003 which represents an increase of \$18,222 from prior year.
- 9) The Waterworks District No. 2 of Natchitoches Parish had a net change in net assets of \$9,009 for the year ended December 31, 2003 which represents a decrease of \$38,866 from prior year.
- 10) The Waterworks District No. 2 of Natchitoches Parish had capital asset purchases of \$1,503,851 for the year ended December 31, 2003 which represents an increase of \$1,495,944 from prior year.
- 11) The Waterworks District No. 2 of Natchitoches Parish had long-term debt principal payments of \$47,991 for the year ended December 31, 2003 which represents a decrease of \$6,847 from prior year.
- 12) The Waterworks District No. 2 of Natchitoches Parish had new long-term debt of \$1,325,625 for the year December 31, 2003.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Waterworks District No. 2 of Natchitoches Parish as established by Governmental Accounting Standards Board Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.



These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplementary information.

Basic Financial Statements

This annual report consist of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets and Cash Flows (on pages 8, 9 and 10) provide information about the activities of Waterworks District No. 2 of Natchitoches Parish as a whole and present a longer-term view of the District's 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 Revenues, Expenses, and Changes in Fund Net Assets report the District's net assets and changes in them. You can think of the District's net assets, the difference between assets and liabilities, as one way to measure the Fund's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets
As of Year End

	2003	2002
Current and other assets	\$ 650,916	\$ 663,390
Capital assets, net	2,681,087	1,291,340
Total Assets	\$ 3,332,003	\$ 1,954,730
Accounts payable, accruals and other liabilities	\$ 186,225	\$ 91,869
Long-term debt and leases	1,784,686	510,778
Total Liabilities	1,970,911	602,647
Net assets		
Investment in capital assets, net of related debt	896,401	780,562
Restricted	74,883	48,482
Unrestricted	389,808	523,039
Total Net Assets	1,361,092	1,352,083
Total Liabilities and Net Assets	\$ 3,332,003	\$ 1,954,730

Net assets of the Waterworks District No. 2 of Natchitoches Parish's increased by \$9,009 or 0.67% from the previous fiscal year. The increase is the result of operating and other revenues exceeding operating and other expenses during the fiscal year ended 2003 (See table below).

Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended

	2003	2002
Operating Revenues	\$ 519,909	\$ 510,324
Operating Expenses	471,124	443,820
Operating Income	48,785	66,504
Nonoperating Revenues/(Expenses)	(39,776)	(18,629)
Change in net assets	\$ 9,009	\$ 47,875

The Waterworks District No. 2 of Natchitoches Parish's total operating revenues increased by \$9,585 or 1.88% from the previous year. The total operating expenses increased by \$27,304 or 6.15% from the previous year.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, Waterworks District No. 2 of Natchitoches Parish had \$2,681,087, net of depreciation, invested in a broad range of capital assets (See table below). This amount represents a net increase (including additions and deductions) of \$1,389,747 or 107.62% from the previous year.

Capital Assets at Year End
(Net of Depreciation)

	<u>2003</u>	<u>2002</u>
Land	\$ 1,806	\$ 1,806
Buildings and building improvements	40,914	44,682
Distribution system	1,125,309	1,226,864
Automobiles	0	0
Machinery and equipment	9,207	17,988
Construction in progress	<u>1,503,851</u>	<u>0</u>
Total	<u>\$ 2,681,087</u>	<u>\$ 1,291,340</u>

This year's major additions included:

Construction in progress - Distribution system	\$ 1,503,851
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This year's major retirements included:

Distribution system	\$ 17,028
Automobiles	\$ 12,586
Machinery and equipment	\$ 48,963

Debt

Waterworks District No. 2 of Natchitoches Parish had \$1,784,686 in long-term debt and leases outstanding at year end compared to \$510,778 at the previous year end, an increase of \$1,273,908 or 249.41% as shown in the table below.

Outstanding Debt at Year End

	<u>2003</u>	<u>2002</u>
Capital lease	\$ 332	\$ 4,058
Construction line of credit	1,325,625	0
Revenue bonds	303,246	326,237
Certificate of indebtedness	<u>155,483</u>	<u>180,483</u>
Totals	<u>\$ 1,784,686</u>	<u>\$ 510,778</u>

New debt during the year included:

Construction line of credit	\$ 1,325,625
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WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2003

ECONOMIC FACTORS AND NEXT YEAR'S RATES AND FEES

Management of Waterworks District No. 2 of Natchitoches Parish consider the following factors and indicators when setting next year's rates and fees. These factors and indicators include:

- 1) Long-term debt
- 2) Cost of operations
- 3) Number of Customers
- 4) State and federal Grants

Waterworks District No. 2 of Natchitoches Parish expects various construction projects, currently in progress and not started as of year end, to be completed during 2004. This will enable the District to provide better services to more customers. The effect of the completion of these projects on the District's financial statements will be based on the number and timing of any new customers being added to the system and the reduction of repairs, maintenance and supplies costs. The District will increase water rates to \$15.00 for the first 3,000 gallons and \$2.50 for every 1,000 gallons thereafter on April 1, 2004.

CONTACTING WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Waterworks District No. 2 of Natchitoches Parish's finances and to show Waterworks District No. 2 of Natchitoches Parish's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Leslie Dunn, Manager, 1665 Highway 119, Natchez, Louisiana 71456.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF NET ASSETS
DECEMBER 31, 2003

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 357,079
Investments	172,000
Accounts receivable	40,630
Prepaid expenses	<u>5,279</u>
Total Current Assets	574,988
Noncurrent Assets	
Restricted assets	74,883
Capital assets, net	2,681,087
Deposits	<u>1,045</u>
Total Assets	<u>\$ 3,332,003</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current Liabilities	
Current portion of long-term debt	\$ 1,375,668
Current portion of capital lease obligation	332
Accounts payable and accruals	<u>105,736</u>
Total Current Liabilities	1,481,736
Noncurrent Liabilities	
Long-term debt, net of current portion	408,686
Capital lease obligation, net of current portion	0
Customer deposits	<u>80,489</u>
Total Liabilities	1,970,911
NET ASSETS	
Investment in capital assets, net of related debt	896,401
Restricted	74,883
Unrestricted	<u>389,808</u>
Total Net Assets	<u>1,361,092</u>
Total Liabilities and Net Assets	<u>\$ 3,332,003</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003

OPERATING REVENUES	
Charges for services	\$ 483,065
Connect fees	21,999
Late fees	11,378
Miscellaneous	<u>3,467</u>
Total Operating Revenues	519,909
OPERATING EXPENSES	
Bad debt expense	2,046
Depreciation	114,104
Employee benefits	29,685
Fuel	7,047
Insurance	22,861
Legal and accounting	10,629
Licenses and permits	6,391
Office supplies and other expenses	12,728
Payroll taxes	10,843
Repairs and maintenance	14,014
Salaries and board per diem	146,136
Supplies	54,468
Telephone	7,147
Utilities	<u>33,025</u>
Total Operating Expenses	<u>471,124</u>
Operating Income	48,785
Nonoperating Revenues/(Expenses)	
Interest income	9,107
Interest expense	<u>(48,883)</u>
Total Nonoperating Revenues/(Expenses)	<u>(39,776)</u>
Change in Net Assets	9,009
Net Assets, Beginning of year as restated	<u>1,352,083</u>
Net Assets, End of year	<u>\$ 1,361,092</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

Cash Flows From Operating Activities	
Receipts from customers	\$ 518,732
Cash payments to suppliers for goods and services	(201,271)
Cash payments to employees and board members for services	(156,979)
Other operating revenues/(expenses)	<u>0</u>
Net Cash From Operating Activities	160,482
 Cash Flows From Capital and Related Financing Activities	
Proceeds from construction line of credit	1,325,625
Principal payments on lease obligations	(3,726)
Principal payments on revenue bonds	(22,991)
Principal payments on certificate of indebtedness	(25,000)
Acquisition/construction of capital assets	(1,430,141)
Interest paid	<u>(28,104)</u>
Net Cash From Capital and Related Financing Activities	(184,337)
 Cash Flows From Investing Activities	
Interest income	<u>9,250</u>
Cash Flows From Investing Activities	<u>9,250</u>
 Net Increase/(Decrease) in Cash and Cash Equivalents	(14,605)
 Cash and Cash Equivalents, Beginning of year	<u>406,567</u>
 Cash and Cash Equivalents, End of year	<u>\$ 391,962</u>
 Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income	\$ 48,785
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation expense	114,104
Bad debt expense	2,046
(Increase)/decrease in operating assets	
Accounts receivable	(3,157)
Prepaid expenses	(1,162)
Increase/(decrease) in operating liabilities	
Accounts payable and accruals	(2,114)
Customer deposits	<u>1,980</u>
Net Cash Flows From Operating Activities	<u>\$ 160,482</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

The Waterworks District No. 2 of Natchitoches Parish was created by an ordinance of the Natchitoches Parish Police Jury on April 10, 1963. The District is a political subdivision of the Natchitoches Parish Police Jury, whose jurors are elected officials. The District Commissioners are appointed by the Natchitoches Parish Police Jury.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This Codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles. The accompanying financial statements of Waterworks District No. 2 of Natchitoches Parish present information only as to the transactions of the programs of Waterworks District No. 2 of Natchitoches Parish as authorized by Louisiana statutes and administrative regulations.

Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of Waterworks District No. 2 of Natchitoches Parish are maintained in accordance with applicable statutory provisions:

Revenue Recognition

Revenues are recognized using the full accrual basis of accounting; therefore, revenues are recognized in the accounting period in which they are earned and become measurable.

Expense Recognition

Expenses are recognized on the accrual basis; therefore, expenses, including salaries, are recognized in the period incurred, if measurable.

B. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows and consistent with GASB Statement 9, Waterworks District No. 2 of Natchitoches Parish defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents - includes all short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the day of purchase, have a maturity date no longer than three months qualify under this definition.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Receivables

All receivables are reported at their gross value and, where applicable, are reduced by the estimated portion that is expected to be uncollectible.

D. Bad Debts

Uncollectible accounts receivable are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. At December 31, 2003, \$188 were considered to be uncollectible.

E. Capital Assets

Capital assets are carried at historical costs. Depreciation of all exhaustible capital assets used by Waterworks District No. 2 of Natchitoches Parish are charged as an expense against operations in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Capital assets net of accumulated depreciation are reported on the Statement of Net Assets. Depreciation is computed using the straight line method over the estimated useful life of the assets, generally 10 to 40 years for buildings and building improvements, 7 to 25 years for the distribution system, 5 years for automobiles and 5 to 10 years for machinery and equipment. Expenditures for maintenance, repairs and minor renewals are charged to earnings as incurred. Major expenditures for renewals and betterments are capitalized.

F. Compensated Absences

All full time employees of Waterworks District No. 2 of Natchitoches Parish are entitled to one week of vacation each year. Vacation time may not be carried over from one year to the next and does not vest or accumulate. Therefore, no liability for compensated absences has been recorded in the accompanying financial statements.

G. Estimates

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

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

A. Deposits with Financial Institutions

For reporting purposes, deposits with financial institutions including savings, demand deposits, time deposits, and certificates of deposit. Under state law Waterworks District No. 2 of Natchitoches Parish may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further the Fund may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

A. Deposits with Financial Institutions (Continued)

Deposits in bank accounts are stated at cost, which approximates market. Under state law, these deposits 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 bank. These pledged 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. The deposits at December 31, 2003 were secured as follows:

	Cash	Certificates of Deposit	Total
Deposits in bank accounts per balance sheet (does not include \$400 in petty cash)	\$ 391,562	\$ 212,000	\$ 603,562
	Cash	Certificates of Deposit	Total
Bank Balances:			
1. Insured or collateralized with securities held by the entity or its agency in the entity's name	\$ 142,652	\$ 172,000	\$ 314,652
2. Collateralized with securities held by the pledging institution's trust department or agent in the entity's name	255,119	40,000	295,119
3. Uncollateralized, including any securities held for the entity but not in entity's name	0	0	0
Total Bank Balances	\$ 397,771	\$ 212,000	\$ 609,771

The following is a breakdown by banking institution and amount of the balances shown above:

Banking Institution	Amount
Bank of Montgomery	\$ 355,119
City Bank and Trust Company	140,000
Exchange Bank	9,416
First Federal Bank of Louisiana	72,000
Sabine State Bank	33,236
Total	\$ 609,771

B. Investments

At December 31, 2003, Waterworks District No. 2 of Natchitoches Parish had investments of \$0.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 3 RESTRICTED ASSETS

At December 31, 2003, Waterworks District No. 2 of Natchitoches Parish had the following restricted assets:

Cash and cash equivalents	\$	34,883
Certificates of deposit		<u>40,000</u>
Total		<u>\$ 74,883</u>

NOTE 4 ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at December 31, 2003:

Class of Receivable		
Charges for services	\$	40,394
Interest		<u>236</u>
Total		<u>\$ 40,630</u>

NOTE 5 CAPITAL ASSETS

A summary of Waterworks District No. 2 of Natchitoches Parish's capital assets at December 31, 2003 follows:

	Balance December 31, 2002	Additions	Retirements	Balance December 31, 2003
Capital Assets, not being depreciated				
Land	\$ 1,806	\$ 0	\$ 0	\$ 1,806
Construction in progress	<u>0</u>	<u>1,503,851</u>	<u>0</u>	<u>1,503,851</u>
Total Capital Assets, not being depreciated	1,806	1,503,851	0	1,505,657
Capital Assets, being depreciated				
Buildings and Building Improvements	68,183	0	0	68,183
Less accumulated depreciation	<u>(23,501)</u>	<u>(3,768)</u>	<u>0</u>	<u>(27,269)</u>
Total Buildings and Building Improvements	44,682	(3,768)	0	40,914
Distribution System	2,906,916	0	(17,028)	2,889,888
Less accumulated depreciation	<u>(1,680,052)</u>	<u>(101,555)</u>	<u>17,028</u>	<u>(1,764,579)</u>
Total Distribution System	1,226,864	(101,555)	0	1,125,309
Automobiles	49,961	0	(12,586)	37,375
Less accumulated depreciation	<u>(49,961)</u>	<u>0</u>	<u>12,586</u>	<u>(37,375)</u>
Total Automobiles	0	0	0	0
Machinery and Equipment	126,746	0	(48,963)	77,783
Less accumulated depreciation	<u>(108,758)</u>	<u>(8,781)</u>	<u>48,963</u>	<u>(68,576)</u>
Total Machinery and Equipment	<u>17,988</u>	<u>(8,781)</u>	<u>0</u>	<u>9,207</u>
Total Capital Assets, being depreciated	<u>1,289,534</u>	<u>(114,104)</u>	<u>0</u>	<u>1,175,430</u>
Total Capital Assets, net	<u>\$ 1,291,340</u>	<u>\$ 1,389,747</u>	<u>\$ 0</u>	<u>\$ 2,681,087</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 6 ACCOUNTS PAYABLE AND ACCRUALS

The following is a summary of accounts payable at December 31, 2003:

<u>Class of Payable</u>	
Vendor	\$ 84,957
Interest	20,779
Other	<u>0</u>
Total	<u>\$ 105,736</u>

NOTE 7 LONG TERM-DEBT

The following is a summary of debt transactions of Waterworks District No. 2 of Natchitoches Parish for the year ended December 31, 2003:

	<u>Balance</u> <u>Dec. 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2003</u>	<u>Current</u> <u>Amounts</u>
Construction line of credit-2003	\$ 0	\$ 1,325,625	\$ 0	\$ 1,325,625	\$ 1,325,625
Revenue Bonds-1979	35,000	0	17,000	18,000	18,000
Revenue Bonds-1987	291,237	0	5,991	285,246	7,043
Certificate of Indebtedness-1999	<u>180,483</u>	<u>0</u>	<u>25,000</u>	<u>155,483</u>	<u>25,000</u>
Total	<u>\$ 506,720</u>	<u>\$ 1,325,625</u>	<u>\$ 47,991</u>	<u>\$ 1,784,354</u>	<u>\$ 1,375,668</u>

The terms of the individual debt issues of the District are as follows:

	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
Construction line of credit - 2003	3.27%	2004	\$ 1,325,625	\$ 1,325,625
Revenue Bonds - 1979	5.00%	2004	249,000	18,000
Revenue Bonds - 1987	5.75%	2026	350,000	285,246
Certificate of Indebtedness - 1999	5.38%	2009	<u>250,000</u>	<u>155,483</u>
Total			<u>\$ 2,174,625</u>	<u>\$ 1,784,354</u>

The annual requirements to amortize all debt outstanding as of December 31, 2003, including interest payments are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Construction</u> <u>Line of Credit</u>	<u>Revenue Bonds</u>	<u>Certificates</u> <u>of Indebtedness</u>	<u>Total</u>
2004	\$ 1,345,488	\$ 41,591	\$ 33,365	\$ 1,420,444
2005	0	22,691	32,020	54,711
2006	0	22,691	30,675	53,366
2007	0	22,691	29,330	52,021
2008	0	22,691	27,985	50,676
Thereafter	<u>0</u>	<u>385,736</u>	<u>32,123</u>	<u>417,859</u>
Total	<u>\$ 1,345,488</u>	<u>\$ 518,091</u>	<u>\$ 185,498</u>	<u>\$ 2,049,077</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE 8 LEASES

On January 12, 1994, Waterworks District No. 2 of Natchitoches Parish entered into a lease agreement for the acquisition of an office building. The agreement provides for one hundred and twenty (120) monthly payments of \$330.35. At the maturity of the lease term, the District may purchase the office building for one (1) dollar. The cost of the office building, \$25,000, is included as an asset and an obligation in the financial statements.

The following is a schedule of future minimum lease payments and the present value of the net future minimum lease payments as of December 31, 2003:

<u>Year Ending</u> <u>December 31</u> 2004	<u>Office Building</u>
Total minimum lease payments	\$ 335
Less amount representing interest	335
Present value of minimum lease payments	<u>\$ 332</u>

Waterworks District No. 2 of Natchitoches Parish was not obligated under any operating leases at December 31, 2003.

NOTE 9 LITIGATION

There was no outstanding litigation against Waterworks District No. 2 of Natchitoches Parish at December 31, 2003.

NOTE 10 PRIOR YEAR RESTATEMENT OF NET ASSETS

The following adjustments were made to restate beginning net assets for December 31, 2003:

Fund Equity, beginning of year as previously reported	\$ 1,984,416
Adjustment: Change in useful lives of capital assets	<u>(632,333)</u>
Net Assets, beginning of year as restated	<u>\$ 1,352,083</u>

NOTE 11 SUBSEQUENT EVENTS

Permanent Financing of Construction Line of Credit

On March 3, 2004, Waterworks District No. 2 of Natchitoches Parish paid off the construction line of credit with permanent financing through the United States Department of Agriculture, Rural Development, water revenues bonds, Series 2004.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE 1

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
DECEMBER 31, 2003

<u>Members</u>	<u>Meetings</u>	<u>Amount</u>
John T. Batten, Jr.	10	\$ 600
Donald D. Forest	12	720
Henderson Howard, Jr.	7	420
James L. Johnson	2	120
Clyde Masson	12	720
Emile Metoyer	12	720
Kenneth Prudhomme	11	660
Norman Rachal	12	720
E. C. Roge	6	360
Richard Williamson	3	<u>180</u>
Total		<u>\$ 5,220</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

SECTION #1

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

- | | | |
|----|---|-------------|
| 1. | Type of auditors' report issued. | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a) Material weaknesses identified? | None |
| | b) Reportable conditions identified not considered to be material weaknesses? | None |
| | c) Noncompliance material to the financial statements noted? | None |

FEDERAL AWARDS

- | | | |
|----|---|-------------|
| 1. | Internal control over major program: | |
| | a) Material weaknesses identified? | None |
| | b) Reportable conditions identified not considered to be material weaknesses? | None |
| 2. | Type of auditors report issued on compliance for major programs. | Unqualified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)? | None |
| 4. | Identification of major programs: | |

CFDA Number

10.760

Name of Federal Program

Water and Waste Disposal Systems
for Rural Communities -
Guaranteed Loan

- | | | |
|----|--|-----------|
| 5. | Dollar threshold used to distinguish between Type A and Type B programs. | \$300,000 |
| 6. | Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530? | Yes |

SECTION #2

FINANCIAL STATEMENT FINDINGS

None reported.

SECTION #3

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2003

<u>FEDERAL GRANTOR/PASS-THROUGH</u> <u>GRANTOR/PROGRAM NAME</u>	<u>CFDA</u> <u>NUMBER</u>	<u>Expenditures</u>
United States Department of Agriculture Passed through Louisiana Department of Agriculture and Forestry Water and Waste Disposal Systems for Rural Communities-Guaranteed Loan *	10.760	\$ <u>1,345,488</u>
Total United States Department of Agriculture		<u>1,345,488</u>
TOTAL FEDERAL AWARDS		\$ <u>1,345,488</u>

Notes to the Schedule of Federal Awards

- A. Federal awards are recorded when the reimbursable expenditures have been incurred.
- B. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Note: The dollar threshold to distinguish between type A and type B programs was \$300,000.

* Denotes a major federal award program.

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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 of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 2003, and have issued our report thereon dated January 24, 2005. We conducted our 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 the Waterworks District No. 2 of Natchitoches Parish's financial statements are free of material misstatement, we performed tests of its 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 our audit and, accordingly, we do not express such an opinion. The results of our 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 our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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 misstatement 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Waterworks District No. 2 of Natchitoches Parish and the Legislative Auditor of the State of Louisiana and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hines, Jackson & Hines

Natchitoches, Louisiana
January 24, 2005

HINES, JACKSON & HINES, L.L.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

Compliance

We have audited the compliance of the Waterworks District No. 2 of Natchitoches Parish with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. The Waterworks District No. 2 of Natchitoches Parish's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Waterworks District No. 2 of Natchitoches Parish's management. Our responsibility is to express an opinion on the Waterworks District No. 2 of Natchitoches Parish's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Waterworks District No. 2 of Natchitoches Parish's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Waterworks District No. 2 of Natchitoches Parish's compliance with those requirements.

In our opinion, the Waterworks District No. 2 of Natchitoches Parish complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the Waterworks District No. 2 of Natchitoches Parish is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Waterworks District No. 2 of Natchitoches Parish, federal awarding agencies, pass-through entities and the Louisiana State Legislative Auditor and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hines, Jackson & Hines

Natchitoches, Louisiana
January 24, 2005

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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Nothing came to our attention that would require disclosure under Government Auditing Standards.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Correct Action Planned</u>	<u>Name(s) of Contact Person(s)</u>	<u>Anticipated Completion Date</u>
-----------------	-------------------------------	-------------------------------	-------------------------------------	------------------------------------

Nothing came to our attention that would require disclosure under Government Auditing Standards.