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**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

**Annual Financial Statements
December 31, 2005**

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

Release Date 8/2/06

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Annual Financial Statements
December 31, 2005
With Supplemental Information Schedules

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Accountant's Compilation Report

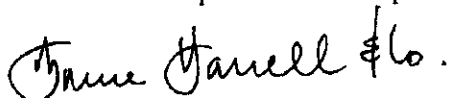
Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Mt. Hermon, Louisiana

We have compiled the accompanying financial statements of the business-type activities of Mount Hermon Water District, Louisiana, a component unit of the Washington Parish Council, as of and for the fiscal year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and the accompanying supplementary information schedules on pages 30 through 34, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis, on pages 5 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

We are not independent with respect to Mount Hermon Water District, Louisiana.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

March 22, 2006

Management's Discussion and Analysis

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Management's Discussion and Analysis

Introduction

Mount Hermon Water District is pleased to present its Annual Financial Report developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (hereinafter referred to as GASB 34), and related standards. Please read the following in conjunction with the District's financial statements and footnotes, which follow this section.

Financial Highlights

- Total assets for the year were \$1,374,063 at December 31, 2005, and exceeded liabilities in the amount of \$671,827 (i.e., net assets). Of the total net assets, \$61,436 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt, or restricted for capital activity and debt service.
- User fee revenues (water sales) for the fiscal year ending December 31, 2005 remained relatively constant increasing to \$113,803 representing an approximate 11.85% increase from the total user fees of \$101,745 for the fiscal year ending December 31, 2004. One of the reasons for the stability in total water sales was that there was only a small increase in the number of customers from December 31, 2004 to December 31, 2005.
- The District's operating expenses, as noted in "Statement B - Statement of Revenues, Expenses, and Change in Net Assets" and consisting of those expenses resulting from the District's ongoing operations, other than interest expense and other non-operating expenses, increased by \$2,332 (2.58% increase) as compared to the prior fiscal year, totaling \$92,568 for the fiscal year ended December 31, 2005. The largest component of the increase in operating expenses was a \$1,723 increase in repairs and maintenance expense.
- Total long-term debt decreased from \$693,216 at December 31, 2004, to \$684,806 at December 31, 2005. The decrease is due primarily to the payment of principal on the outstanding bond.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Management's Discussion and Analysis

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Mount Hermon Water District's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule and key information schedules on operation of the District.

Financial Analysis

The purpose of financial analysis is to help determine whether Mount Hermon Water District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Management's Discussion and Analysis

Condensed Balance Sheet

	December 31, 2005	December 31, 2004	Dollar Change	Percent Change
Current and Other Assets	\$ 120,325	\$ 91,845	\$ 28,480	31.01%
Capital Assets	<u>1,253,738</u>	<u>1,293,818</u>	<u>(40,080)</u>	-3.10%
Total Assets	<u>\$ 1,374,063</u>	<u>\$ 1,385,663</u>	<u>\$ (11,600)</u>	-0.84%
Long-Term Debt Outstanding	\$ 684,806	\$ 693,216	\$ (8,410)	-1.21%
Other Liabilities	<u>17,430</u>	<u>17,477</u>	<u>(47)</u>	-0.27%
Total Liabilities	<u>702,236</u>	<u>710,693</u>	<u>(8,457)</u>	-1.19%
Invested in Capital Assets, Net of Related Debt	568,932	600,602	(31,670)	-5.27%
Restricted for Capital Activity and Debt Service	41,459	36,484	4,975	13.64%
Unrestricted	<u>61,436</u>	<u>37,884</u>	<u>23,552</u>	62.17%
Total Net Assets	<u>671,827</u>	<u>674,970</u>	<u>(3,143)</u>	-0.47%
Total Liabilities and Net Assets	<u>\$ 1,374,063</u>	<u>\$ 1,385,663</u>	<u>\$ (11,600)</u>	-0.84%

The major components of change for "Current and Other Assets" is a \$19,437 increase in operating cash (including LAMP deposits) and a \$5,615 increase in restricted cash, less decreases in receivables and other current assets.

"Capital Assets" decreased by \$40,080, reflecting depreciation expense charged for the fiscal year ending December 31, 2005.

The decrease in "Long-Term Debt Outstanding" of \$8,410 is due to payment of principal on the existing water revenue bond for the District. A more detailed analysis of the changes in long-term debt is included in a following section entitled "Long-Term Debt Activity".

"Other Liabilities" decreased by \$47, at 0.27% decrease compared to the prior year.

"Total Net Assets" (total assets less total liabilities) decreased by \$3,143 for the fiscal year ending December 31, 2005, with the major reason for the decrease being the depreciation expense charged on assets, as noted above.

**Mount Hermon Water District
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Franklinton, Louisiana**

Management's Discussion and Analysis

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31, 2005	Year Ended December 31, 2004	Dollar Change	Percent Change
Revenues:				
Operating Revenues	\$ 122,211	\$ 109,027	\$ 13,184	12.09%
Nonoperating Revenues	1,652	126	1,526	1211.11%
Total Revenues	<u>123,863</u>	<u>109,153</u>	<u>14,710</u>	13.48%
Expenses:				
Depreciation Expense	40,080	40,080	-	0.00%
Other Operating Expense	52,488	50,156	2,332	4.65%
Nonoperating Expense	<u>34,438</u>	<u>34,911</u>	<u>(473)</u>	-1.35%
Total Expenses	<u>127,006</u>	<u>125,147</u>	<u>1,859</u>	1.49%
Income (Loss) Before Contributions	(3,143)	(15,994)	12,851	
Capital Contributions	-	(50)	50	
Change in Net Assets	(3,143)	(16,044)	12,901	
Beginning Net Assets	<u>674,970</u>	<u>691,014</u>	<u>(16,044)</u>	
Ending Net Assets	<u>\$ 671,827</u>	<u>\$ 674,970</u>	<u>\$ (3,143)</u>	

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Mount Hermon Water District is being conservatively managed. Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) and "Non-Operating Revenues" (consisting of interest income and bad debt recovery) remained fairly constant, as did the number of customers served by the District. For the category of expense most controllable by the District, "Other Operating Expense", there was a \$2,332 increase from the prior year with the main components consisting of a \$1,723 increase in repair and maintenance expense. The final category, "Nonoperating Expense" includes interest expense which decreased by \$473 from the prior fiscal year.

The District showed a "Loss Before Contributions" of \$3,143 for the fiscal year ended December 31, 2005, as compared to a loss of \$15,994 for the fiscal year ended December 31, 2004.

**Mount Hermon Water District
of the
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Franklinton, Louisiana**

Management's Discussion and Analysis

Budgetary Highlights

Mount Hermon Water District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information.

Budget vs. Actual - Fiscal Year Ended December 31, 2005

	<u>Budget Year Ended December 31, 2005</u>	<u>Actual Year Ended December 31, 2005</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Operating	\$ 106,700	\$ 122,211	\$ 15,511
Nonoperating	174	1,652	1,478
Total Revenues	<u>106,874</u>	<u>123,863</u>	<u>16,989</u>
Operating Expenses:			
Accounting	3,600	3,300	300
Bad Debt	600	260	340
Depreciation	40,000	40,080	(80)
Insurance	2,900	2,791	109
Maintenance Supplies	250	-	250
Mileage	4,500	4,500	-
Miscellaneous	440	76	364
Office Expense	-	44	(44)
Operations & Maintenance Contract	34,000	34,699	(699)
Repairs and Maintenance	400	2,114	(1,714)
Utilities	5,000	4,704	296
Total Operating Expenses	<u>91,690</u>	<u>92,568</u>	<u>(878)</u>
Non-Operating Expenses:			
Interest Expense	36,250	34,438	1,812
Total Nonoperating Expenses	<u>36,250</u>	<u>34,438</u>	<u>1,812</u>
Total Expenses	<u>127,940</u>	<u>127,006</u>	<u>934</u>
Income (Loss) Before Capital Contributions	<u>\$ (21,066)</u>	<u>\$ (3,143)</u>	<u>\$ 17,923</u>

Operating Revenues were \$15,511 more than budgeted for the fiscal year ended December 31, 2005, totaling \$122,206.

**Mount Hermon Water District
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Washington Parish Council
Franklinton, Louisiana**

Management's Discussion and Analysis

Budgeted "Operating Expenses" were \$878 higher than projected primarily because of increases in repairs and maintenance expense.

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>Increase (Decrease)</u>
Customers:			
Residential	316	310	6
Commercial	5	5	-
Total	<u>321</u>	<u>315</u>	<u>6</u>

The above table shows an increase of six customers from the prior fiscal year.

**Mount Hermon Water District
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Franklinton, Louisiana**

Management's Discussion and Analysis

Other Significant Trends and Account Changes (Continued)

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2005, and 2004.

	Year Ended December 31, 2005	Year Ended December 31, 2004	Increase (Decrease)
0 - 30 Days Past Due	\$ 6,776	\$ 5,851	\$ 925
31 - 60 Days Past Due	-	320	(320)
61 - 90 Days Past Due	-	67	(67)
Over 90 Days Past Due	-	16	(16)
Past Due	1,823	-	\$ 1,823
Total Accounts Receivable for Water (Before Allowance for Bad Debts)	<u>\$ 8,599</u>	<u>\$ 6,254</u>	<u>\$ 2,345</u>

For the fiscal year ending December 31, 2005, accounts receivable was separated into "current" and "past due" instead of divided into the number of days past due. The above table shows a \$925 increase in current and a \$1,420 increase in past due accounts.

Capital Assets

At the end of the fiscal year ending December 31, 2005, Mount Hermon Water District had \$1,253,738 (net of accumulated depreciation) recorded in capital assets. This includes water systems and improvements, the District's investment for storage for water system equipment and supplies, and land owned by the District. The changes in capital assets are presented in the table below.

	December 31, 2005	December 31, 2004	Dollar Change	Percent Change
Land	\$ 3,890	\$ 3,890	-	0.00%
Water Distribution System	1,603,212	1,603,212	-	0.00%
Subtotal	1,607,102	1,607,102	-	0.00%
Less: Accumulated Depreciation	(353,364)	(313,284)	(40,080)	12.79%
Net Capital Assets	<u>\$ 1,253,738</u>	<u>\$ 1,293,818</u>	<u>\$ (40,080)</u>	-3.10%

The decrease of \$40,080 in capital assets is attributable to depreciation charged on capital assets for the fiscal year ending December 31, 2005.

**Mount Hermon Water District
of the
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Washington Parish Council
Franklinton, Louisiana**

Management's Discussion and Analysis

Long-Term Debt Activity

The primary source of long-term financing for Mount Hermon Water District water system improvements is a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The sole issue consists of 1996 Water Revenue bonds with a principal balance of \$684,806 at December 31, 2005. These bonds mature on February 6, 2036 and were issued at an interest rate of 5.0%, with a term of 40 years.

Bonds financed for Mount Hermon Water District require a specific debt to net income ratio. Specifically, bond covenants require:

The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2005, the bond debt coverage factor was 167%, which is above the percentage required by the bond covenant of 120%, as compared to 131% for the fiscal year ending December 31, 2004.

Future Economic Plans

The Mount Hermon Water District's management approach is conservative. The Board of Commissioners actively monitor revenues and expenses and approve rate increases only when necessary to pay operating expenses and fund water revenue bond requirements.

Financial Statements

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Statement A

**Balance Sheet
December 31, 2005 and 2004**

Assets

Current Assets:

	2005	2004
Cash	\$ 30,279	\$ 36,384
LAMP - Regular Savings	25,542	-
Accounts Receivable (Net)	8,599	6,254
Accrued Billings	5,361	4,407
Prepaid Insurance	446	317
Total Current Assets	70,227	47,362

Restricted Assets:

LAMP - RUS Depreciation & Contingency Fund	23,023	24,036
LAMP - RUS Bond Reserve Fund	26,855	20,227
Total Restricted Assets	49,878	44,263

Property, Plant and Equipment:

Land	3,890	3,890
Water System	1,603,212	1,603,212
Total Property, Plant and Equipment	1,607,102	1,607,102
Less: Accumulated Depreciation	-353,364	-313,284
Net Property, Plant and Equipment	1,253,738	1,293,818

Other Assets:

Utility Deposits	220	220
Total Other Assets	220	220
Total Assets	\$ 1,374,063	\$ 1,385,663

(Continued)

See accompanying notes and accountant's report.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Statement A

**Balance Sheet
December 31, 2005 and 2004**

Liabilities and Net Assets

	2005	2004
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 6,705	\$ 5,950
Sales Tax Payable	59	53
Other Payable	1,071	941
Total Current Liabilities (Payable From Current Assets)	7,835	6,944
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits Payable	8,419	7,779
Current RUS Bond Payable	10,422	9,992
Accrued RUS Bond Interest	1,176	2,754
Total Current Liabilities (Payable From Restricted Assets)	20,017	20,525
Long-Term Liabilities:		
RUS Bonds Payable	674,384	683,224
Total Long-Term Liabilities	674,384	683,224
Total Liabilities	702,236	710,693
Net Assets:		
Invested in Capital Assets, Net of Related Debt	568,932	600,602
Restricted for Capital Activity and Debt Service	41,459	36,484
Unrestricted	61,436	37,884
Total Net Assets	671,827	674,970
Total Liabilities and Net Assets	\$ 1,374,063	\$ 1,385,663

(Concluded)

See accompanying notes and accountant's report.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Statement B

**Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2005 and 2004**

	2005	2004
Operating Revenues		
Water Sales	\$ 113,803	\$ 101,745
Installation Fees	4,744	4,535
Penalties	3,356	2,298
Miscellaneous Revenue	308	449
Total Operating Revenues	122,211	109,027
 Operating Expenses		
Accounting	3,300	3,300
Bad Debt	260	887
Depreciation Expense	40,080	40,080
Insurance	2,791	3,727
Mileage	4,500	2,250
Miscellaneous	76	-
Office Expense	44	-
Operations and Maintenance - Contract	34,699	33,714
Per diem - Board Commissioners	-	1,500
Repairs and Maintenance	2,114	391
Utilities	4,704	4,387
Total Operating Expenses	92,568	90,236
 Operating Income (Loss)	29,643	18,791
 Non-Operating Revenues (Expenses)		
Interest Income	1,652	126
Interest Expense	-34,438	-34,911
Total Non-Operating Revenues (Expenses)	-32,786	-34,785
 Income (Loss) Before Contributions	-3,143	-15,994
Capital Contributions	-	-50
Change in Net Assets	-3,143	-16,044
 Net Assets, Beginning of Year	674,970	691,014
Net Assets, End of Year	\$ 671,827	\$ 674,970

See accompanying notes and accountant's report.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Statement C

**Statement of Cash Flows
Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 118,912	\$ 108,270
Received (Paid) for Meter Deposit Fees	640	926
Paid for Operations	<u>-51,726</u>	<u>-52,724</u>
Net Cash Flows From Operating Activities	<u>67,826</u>	<u>56,472</u>
 Cash Flows From Capital and Related Financing Activities		
Return of Capital Contributions	-	-50
Principal Payments - Long-Term Debt	-8,410	-10,052
Interest Payments - Long-Term Debt	<u>-36,016</u>	<u>-34,373</u>
Net Cash Flows From Capital and Related Financing Activities	<u>-44,426</u>	<u>-44,475</u>
 Cash Flows From Investing Activities		
Receipt of Interest and Dividends	<u>1,652</u>	<u>126</u>
Net Cash Flows From Investment Activities	<u>1,652</u>	<u>126</u>
 Net Change in Cash and Cash Equivalents	<u>25,052</u>	<u>12,123</u>
Cash and Cash Equivalents - Beginning of Year	<u>80,647</u>	<u>68,524</u>
Cash and Cash Equivalents - End of Year	<u>\$ 105,699</u>	<u>\$ 80,647</u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash	55,821	36,384
Restricted Cash	<u>49,878</u>	<u>44,263</u>
Cash and Cash Equivalents - End of Year	<u>\$ 105,699</u>	<u>\$ 80,647</u>

(Continued)

See accompanying notes and accountant's report.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

Statement C

**Statement of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004
Reconciliation of Operating Income to Net Cash Flows		
From Operating Activities		
Operating Income (Loss)	\$ 29,643	\$ 18,791
Adjustments to Reconcile Operating Income to Net Cash		
Flows From Operating Activities:		
Depreciation Expense	40,080	40,080
Changes in Assets and Liabilities:		
Decrease (Increase) in Customer Receivables	-3,299	-758
Decrease (Increase) in Prepaid Insurance	-129	101
Increase (Decrease) in Accounts Payable	755	95
Increase (Decrease) in Meter Deposit Payable	640	926
Increase (Decrease) in Other Payables	136	-2,763
Net Cash Flows From Operating Activities	\$ 67,826	\$ 56,472

(Concluded)

See accompanying notes and accountant's report.

**Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2005**

Introduction

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a 5-member governing board of commissioners appointed by the Washington Parish Council.

Mount Hermon Water District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 2005, serves 321 water customers. The District contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

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 Mount Hermon Water District is considered a component unit of Washington Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of

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providing services on a continuing basis be financed or recovered primarily through user charges.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term *measurement focus* denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

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, primarily the provision of water to rural areas of Washington Parish. 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.

B. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost.
- The District has investments in one investment pool. The investment pool is LAMP, and the fair value of the position in the pool is the same as the value of the pool shares.
- There is no involuntary participation in an external investment pool.

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At December 31, 2005, Mount Hermon Water District had no investments.

D. Inventories

Purchases of various operating supplies are regarded as expenses at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	15 - 30 years
Equipment & Furniture	5 - 10 years
Water System	20 - 40 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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 is included as part of the capitalized value of the assets constructed.

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H. Compensated Absences

At December 31, 2005, the District did not have employees that accumulate or vest benefits.

I. Long-term Liabilities

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

K. Use of Estimates

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

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2. Cash and Cash Equivalents

At December 31, 2005, the District had cash and cash equivalents (book balances) totaling \$105,699 as follows:

	December 31, 2005
Demand Deposits	\$ 30,279
LAMP	75,420
Total Cash and Cash Equivalents	\$ 105,699

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2005 the District had \$28,316 in collected bank balances, protected by \$28,316 of federal deposit insurance.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

3. Investments

In accordance with GASB Codification Section I50.165, the investment in LAMP at December 31, 2005, is not categorized in the three risk categories provided by GASB Codification Section I50.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Therefore, LAMP is considered a cash equivalent.

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4. Receivables

The following is a summary of receivables at December 31, 2005:

Current	\$	6,776
		<u>1823</u>
Total	\$	<u><u>8,599</u></u>

All customer receivables are reported at gross value and are periodically reduced by the portion that is expected to be uncollectible. The board of commissioners of the Mount Hermon Water District reviews past due accounts and authorizes the write-off of uncollectible amounts directly against the accounts receivable account. At fiscal year-end, the District had not established an allowance for uncollectible accounts, since the amount of uncollectible accounts at December 31, 2005, was determined to be immaterial.

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following close of the fiscal year. At December 31, 2005, Mount Hermon Water District recorded accrued billings of \$5,361.

5. Restricted Assets

Restricted assets were applicable to the following at December 31, 2005:

		December 31, 2005
LAMP-Reserve	\$	26,855
LAMP-Depreciation and Contingency		<u>23,023</u>
Total Restricted Assets	\$	<u><u>49,878</u></u>

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6. Fixed Assets

A summary of fixed assets at December 31, 2005, follows:

	Balance December 31, 2004	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2005
Land	\$ 3,890	-	\$ -	\$ 3,890
Water Distributions System	1,603,212	-	-	1,603,212
Total Capital Assets	1,607,102	-	-	1,607,102
Less: Accumulated Depreciation	(313,284)	(40,080)	-	(353,364)
Net Capital Assets	<u>\$ 1,293,818</u>	<u>\$ (40,080)</u>	<u>\$ -</u>	<u>\$ 1,253,738</u>

The water system, financed under the United States Department of Agriculture, Rural Utilities Service Loan/Grant program, became operational in March of 1997. Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 40 years. All assets are depreciated by the straight-line method. Total depreciation expense of \$40,080 was recorded for the fiscal year ending December 31, 2005.

7. Long-Term Liabilities

The following is a summary of the long-term liability transactions during the year:

Description	Long-Term Liabilities Beginning of Year	Additions	Deletions	Long-Term Liabilities End of Year	Due Within One Year
1996 Water Revenue Bonds	\$ 693,216	\$ -	\$ (8,410)	\$ 684,806	\$ 10,422
Total	<u>\$ 693,216</u>	<u>\$ -</u>	<u>\$ (8,410)</u>	<u>\$ 684,806</u>	<u>\$ 10,422</u>

Bonds Payable at December 31, 2005, are comprised of the following current and long-term amounts:

	Current Amount 12/31/05	Long-Term Amount 12/31/05	Total Principal Balance 12/31/05
1996 Revenue Bonds: \$754,000 utility bonds, dated 2/08/96; due in monthly installments of \$3,702 through Feb. 6, 2036; interest at 5.0%	<u>\$ 10,422</u>	<u>\$ 674,384</u>	<u>\$ 684,806</u>

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The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest payments of \$655,348 are as follows:

<u>Year Ending December 31,</u>	<u>1996 RUS Water Revenue Bonds \$754,000</u>
2006	\$ 44,425
2007	44,425
2008	44,425
2009	44,425
2010	44,425
2011-2015	222,125
2016-2020	222,125
2021-2025	222,125
2026-2030	222,125
2031-2035	222,125
2036	7,404
	<u>\$ 1,340,154</u>

8. Flow of Funds, Restrictions on Use

As of December 31, 2005, Mount Hermon Water District, had one Rural Utilities Service (RUS) Revenue Bond. The total bond amount of \$754,000 was issued February 8, 1996, at an interest rate of 5.0%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2005, the bond debt coverage factor was 1.67%, which is above the percentage required by the bond covenant of 1.20%, as compared to 1.31% for the fiscal year ending December 31, 2004.

- b) The establishment and maintenance of a "Water Bond and Interest Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

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The actual creation of a sinking fund was not required since the District pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 2005, Mount Hermon Water District had made the required monthly installments.

- c) The establishment of the "Water Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20th of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 2005, per the RUS Letter of Conditions, was a total of \$185 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1996 Revenue Bonds became revenue producing during March, 1997.

The District made all of the required deposits to the Reserve Fund, maintaining a balance of \$26,855, at December 31, 2005.

- d) The establishment and maintenance of the "Water Depreciation and Contingency Fund" (the Contingency Fund) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20th of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

The District made all of the required deposits to the Depreciation and Contingency Fund, maintaining a balance of \$23,023, at December 31, 2005.

- e) The District, in the original bond resolution also obligated itself to abide by the following covenants:
1. The District will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
 2. A penalty of 10% will be charged on all delinquent accounts, and interest at a reasonable rate as established by the District, as well as payment of a reasonable reconnect charge for the resumption of services.
 3. The District agrees to maintain the System in first class repair and working order and condition.
 4. The District will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.

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5. The District will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.
6. The District will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the District may dispose of property that in its judgement is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
7. The District will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefor.
8. That, to the extent permitted by law, the District will not grant a franchise to any utility for operation within the boundaries of the District.
9. In operation of the System, the District will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.

The current rate schedule, the schedule of insurance coverages (Item # 4) and fidelity bond coverages (Item # 9) are disclosed in the "Supplemental Information" schedules included as a part of this report.

9. Restricted and Designated Net Assets

At December 31, 2005, Mount Hermon Water District recorded \$41,459 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants. Restricted Net Assets are recorded net of any liability relating to those assets, although for the fiscal year ending December 31, 2005, liabilities were not recorded relating to Restricted Net Assets. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

10. Water System Management

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

SUPPLEMENTAL INFORMATION

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Schedule 1

**Budgetary Comparison Schedule
For the Year Ended December 31, 2005
With Comparative Amounts for the Fiscal Year Ended December 31, 2004**

	2005 <u>Budget</u>	2005 <u>Actual</u>	Variance- Favorable (Unfavorable)	2004 <u>Actual</u>
Operating Revenues				
Water Sales	\$ 100,000	\$ 113,803	\$ 13,803	\$ 101,745
Installation Fees	4,000	4,744	744	4,535
Penalties	2,400	3,356	956	2,298
Miscellaneous Revenue	300	308	8	444
Total Operating Revenues	<u>106,700</u>	<u>122,211</u>	<u>15,511</u>	<u>109,022</u>
Operating Expenses				
Accounting	3,600	3,300	300	3,300
Bad Debt	600	260	340	887
Depreciation Expense	40,000	40,080	-80	40,080
Insurance	2,900	2,791	109	3,727
Maintenance Supplies	250	-	250	2,250
Mileage	4,500	4,500	-	-
Miscellaneous	320	76	244	-
Office Expense	-	44	-44	-
Operations and Maintenance - Contract	34,000	34,699	-699	33,714
Per diem - Board Members	-	-	-	1,500
Repairs and Maintenance	400	2,114	-1,714	391
Truck Expense	120	-	120	-
Utilities	5,000	4,704	296	4,387
Total Operating Expense	<u>91,690</u>	<u>92,568</u>	<u>-878</u>	<u>90,236</u>
Operating Income (Loss)	<u>15,010</u>	<u>29,643</u>	<u>14,633</u>	<u>18,786</u>

(Continued)
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Schedule 1

**Budgetary Comparison Schedule
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With Comparative Amounts for the Fiscal Year Ended December 31, 2004**

	2005 <u>Budget</u>	2005 <u>Actual</u>	Variance- Favorable (Unfavorable)	2004 <u>Actual</u>
Nonoperating Revenues (Expenses)				
Interest Income	\$ 150	\$ 1,652	\$ 1,502	\$ 126
Recovery of Bad Debts	24	-	-24	5
Interest Expense	-36,250	-34,438	1,812	-34,911
Total Non-Operating Revenues (Expenses)	<u>-36,076</u>	<u>-32,786</u>	<u>3,290</u>	<u>-34,780</u>
Income (Loss) Before Contributions	-21,066	-3,143	17,923	-15,994
Capital Contributions	-	-	-	-50
Change in Net Assets	-21,066	-3,143	17,923	-16,044
Net Assets, Beginning of Year	674,970	674,970	-	691,014
Net Assets, End of Year	<u>\$ 653,904</u>	<u>\$ 671,827</u>	<u>\$ 17,923</u>	<u>\$ 674,970</u>

(Concluded)
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Schedule 2

**Schedule of Compensation Paid to Board Commissioners
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The schedule of compensation paid board commissioners is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

<u>Name</u>	<u>Amount</u>
Bill Estes, President	\$ -
Buddy Holmes, Secretary/Treasurer	-
Avant Vernon, Board Member	-
Gary Fenner	-
Rochelle Brumfield	-
	<u>\$ -</u>

<u>Board of Commissioners</u>	<u>Address</u>	<u>Term of Office</u>
Bill Estes, President	38009 Bennie Morris Rd Mt. Hermon, LA 70450 (985) 877-5933	Expires Dec. 31, 2008
Avant Vernon, Vice President (After Mr. Roberts deceased)	27285 Mt. Pisgah Rd. Mt. Hermon, LA 70450 (985) 877-5824	Expires Dec. 31, 2008
Buddy Holmes, Secretary/Treasurer	35093 Hwy. 38 Mt. Hermon, LA 70450 (985) 877-4691	Expires Dec. 31, 2008
Gary Fenner, Board Member	35483 Dock Butler Rd Mt. Hermon, LA 70450 (985) 877-5058	Expires Dec. 31, 2008
Rochelle Brumfield, Board Member (Elected in October 2005, after Mr. Roberts deceased)	37770 Thomas Cryer Rd Mt. Hermon, LA 70450 (985) 839-6144	Expires Dec. 31, 2008

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Schedule 3

**Schedule of Insurance
For the Year Ended December 31, 2005**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
American Central Insurance Company Policy # CBP9686642	General Aggregate Limit (other than Products / Completed Operations)	\$ 200,000	2/01/06 - 2/01/07
	Products / Completed Operations Aggregate Limit	\$ 200,000	
	Personal and Advertising Injury	\$ 100,000	
	Each Occurrence Limit	\$ 100,000	
	Fire Damage Limit	\$ 100,000	
	Medical Expenses	\$ 5,000	
CNA Surety Policy # 68463190	Public Official Position Schedule Bond:		1/02/06 - 1/02/07
	President	\$ 50,000	
	Secretary-Treasurer	\$ 50,000	
American Central Insurance Company Policy # CBP9686642	Building	\$ 9,400	2/01/06 - 2/01/07
	Personal Property	\$ 79,900	

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Schedule 4

**Schedule of Water Customers
For the Year Ended December 31, 2005**

As of December 31, 2005, Mount Hermon Water District had the following number of customers.

Residential	316
Commercial	<u>5</u>
Total Customers	<u><u>321</u></u>

**Schedule of Water Rates
For the Year Ended December 31, 2005**

At December 31, 2005, Mount Hermon Water District had adopted the following rate schedule.

<u>Category of Service</u>	<u>Rate/mo.</u>
Residential:	
First 3,000 gallons	\$ 15.00
Over 3,000 gallons	\$ 3.25 per 1,000 gallons
Commercial:	
First 20,000 gallons	\$ 30.00
Over 20,000 gallons	\$ 3.25 per 1,000 gallons

See accountant's report.