

**LINCOLN PARISH
WATERWORKS DISTRICT #3**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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.

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LINCOLN PARISH WATERWORKS DISTRICT #3

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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DON M. MCGEHEE
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INDEPENDENT AUDITOR'S REPORT

Commissioners of the
Lincoln Parish Waterworks District #3
P.O.Box 366
Ruston, Louisiana 71273

I have audited the accompanying financial statements of Lincoln Parish Waterworks District #3, a component unit of the Lincoln Parish Police Jury, as of and for the years ended September 30, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lincoln Parish Waterworks District #3's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I plan and perform the audits 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. I believe that my audits provide a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lincoln Parish Waterworks District #3, as of September 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 4 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln Parish Waterworks District #3's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements.

In accordance with Government Auditing Standards , I have also issued my report dated March 31, 2008, on my consideration of Lincoln Parish Waterworks District #3's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.



Don M. McGehee
Certified Public Accountant
March 31, 2008

REQUIRED SUPPLEMENTAL INFORMATION
Management's Discussion and Analysis

Waterworks District #3
P.O. Box 366
Ruston, Louisiana 71273
Phone: (318) 251-0853

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2007

The discussion and analysis of the performance of the Lincoln Parish Waterworks District #3 provides an overview of the financial activities for the year ended September 30, 2007. It is based upon currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements which begin on page 7.

Basic Financial Statements

The basic financial statements include the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows for the District's enterprise fund, which is the only fund. These statements tell how charges to customers for services were used to finance the District's business-like activities. Expenses primarily covered by these charges include repairs and maintenance, depreciation, salaries and wages, interest expense, and utilities.

One of the most important questions asked about finances is, "Is Lincoln Parish Waterworks District #3 better off or worse off as a result of the year's activities?" The basic financial statements report information about the activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is a method similar to accounting used by most private-sector companies. All revenues and expenses of the current year are reported under this method regardless of when cash is received or disbursed.

These statements report the net assets and the changes in the net assets. You can think of net assets - the difference between assets and liabilities - as one way to measure the financial health, or financial position, of the District. Increases/(decreases) in net assets are one indicator of whether the financial health is improving/(deteriorating). You will need to consider other non-financial factors, however, such as changes in the customer base and the condition of the District's water distribution system, to assess the overall health of the District.

Financial Analysis

As noted above, net assets may serve as a useful indicator of an entity's financial position. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the activities of the District.

Table 1
Total Net Assets

	<u>2007</u>	<u>2006</u>
Current Assets and Other Assets	\$ 413,994	\$ 406,458
Capital Assets	<u>1,204,258</u>	<u>1,260,952</u>
Total Assets	<u>1,618,252</u>	<u>1,667,410</u>
Long-term Debt Outstanding	671,723	698,899
Other Liabilities	<u>94,395</u>	<u>109,540</u>
Total Liabilities	<u>766,118</u>	<u>808,439</u>
Net Assets:		
Investment in Capital Assets, Net of Debt	542,681	572,859
Restricted	121,369	115,592
Unrestricted Net Assets	<u>188,084</u>	<u>170,520</u>
Total Net Assets	<u>\$ 852,134</u>	<u>\$ 858,971</u>

Net assets decreased by 1% (\$6,837) in the current year compared to the prior year. About 22% (\$188,084) of total current year net assets is unrestricted compared to about 20% (\$170,520) in the prior year. Most of unrestricted net assets is composed of cash and certificates of deposit as of September 30, 2007. Unrestricted net assets can be used to finance the day-to-day operations of the District without constraints established by debt covenants.

Table 2
Change in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Charges for Services	\$ 262,038	\$ 256,801
Nonoperating Revenues		
Insurance Proceeds	2,039	0
Interest Income	<u>8,160</u>	<u>7,874</u>
Total Revenues	<u>272,237</u>	<u>264,675</u>
Operating Expenses	238,621	243,067
Nonoperating Expenses		
Interest Expense	<u>40,453</u>	<u>41,054</u>
Total Expenses	<u>279,074</u>	<u>284,121</u>
Decrease in Net Assets	(6,837)	(19,446)
Beginning Net Assets	<u>858,971</u>	<u>878,417</u>
Ending Net Assets	<u>\$ 852,134</u>	<u>\$ 858,971</u>

The District experienced a 3% (\$7,276) increase from the prior year in charges for services. This increase was primarily the result of a \$4,377 increase in water sales. Expenses decreased 2% (\$5,047) due to a variety of changes in various accounts. The increase in revenues combined with the decrease in expenses resulted in a \$12,609 smaller decrease in net assets for the current year (\$6,837) versus the total decrease in net assets in the prior year (\$19,446).

Capital Assets and Debt Administration

Capital Assets

At the end of 2007, the District had \$2,278,721 invested in land, water wells, storage tanks, elevated water tanks, water lines, buildings, and office equipment. For the upcoming year, there are no plans to purchase additional equipment nor are there any plans to issue debt to finance a future project. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Debt

The District had \$671,722 in bonds and notes outstanding at September 30, 2007, which was a 4% (\$27,177) decrease from the prior year. This decrease was a result of regularly scheduled principal payments being made on outstanding debt. More detailed information about the District's long-term debt is presented in the notes to the financial statements.

Contacting the District's Management

This financial report is designed to provide citizens and taxpayers with a general overview of the finances of the Lincoln Parish Waterworks District #3 and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lincoln Parish Waterworks District #3 at P.O. Box 366, Ruston, LA 71273. The phone number for the District's office is (318) 251-0853.

BASIC FINANCIAL STATEMENTS

LINCOLN PARISH WATERWORKS DISTRICT #3

STATEMENTS OF NET ASSETS AS OF SEPTEMBER 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 79,947	\$ 85,940
Investments	88,831	85,997
Accounts Receivable	34,348	29,971
Due from Other Government Units	1,050	1,800
Interest Receivable	4,174	4,042
Prepaid Expenses	5,122	5,183
TOTAL CURRENT ASSETS	213,472	212,933
NONCURRENT ASSETS		
Restricted Assets		
Cash and Cash Equivalents	91,060	86,532
Investments	99,317	96,078
Total Restricted Assets	190,377	182,610
Deposit for Permit	0	110
Bond Fees, Net of Accumulated Amortization of \$6,837 and \$6,175	10,145	10,805
Capital Assets		
Land	19,585	19,585
Plant and Equipment	2,259,136	2,255,936
Less Accumulated Depreciation	(1,074,463)	(1,014,569)
Capital Assets, Net	1,204,258	1,260,952
TOTAL NONCURRENT ASSETS	1,404,780	1,454,477
TOTAL ASSETS	1,618,252	1,667,410
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	12,897	18,933
Accrued Payroll	437	428
Due to Other Government Units	7,887	19,119
Accrued Liabilities	1,166	1,042
Deferred Revenue	3,000	3,000
Accrued Interest Payable	4,411	3,516
Current Maturities of Long-Term Debt	27,031	26,114
TOTAL CURRENT LIABILITIES	56,829	72,152
NONCURRENT LIABILITIES		
Water Customers' Deposits	53,962	52,972
Sewer Customers' Deposits	10,635	10,530
Long-Term Debt	644,692	672,785
TOTAL NONCURRENT LIABILITIES	709,289	736,287
TOTAL LIABILITIES	766,118	808,439
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	542,681	572,859
RESTRICTED		
Restricted for Repairs and Maintenance	73,054	69,717
Restricted for Debt Service	48,315	45,875
UNRESTRICTED	188,084	170,520
TOTAL NET ASSETS	\$ 852,134	\$ 858,971

See accompanying notes to financial statements.

LINCOLN PARISH WATERWORKS DISTRICT #3

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
CHARGES FOR SERVICES		
Water Sales	\$ 229,255	\$ 224,878
New Installations	7,210	9,755
Penalties	10,598	9,118
Collection Fees	5,585	3,780
Sewage Collection Fee	6,150	5,400
Reconnection Fees	2,600	3,175
Miscellaneous Income	640	695
TOTAL OPERATING REVENUES	262,038	256,801
OPERATING EXPENSES		
Accounting	7,525	12,575
Amortization	660	660
Bad Debts	1,113	4,644
Commissioners' Fees	1,620	2,025
Depreciation	59,894	61,680
Installations	5,900	6,325
Insurance	6,715	6,474
Meter Maintenance	6,038	5,278
Meter Reading	7,680	6,840
Miscellaneous Expenses	492	532
Office Supplies	6,749	7,279
Repairs and Maintenance	30,564	23,281
Safe Water Administration Fee	2,239	2,174
Salaries and Wages	39,920	38,049
System Supplies	5,211	4,730
Taxes-Payroll	3,603	3,639
Training and Travel	40	20
Utilities	52,658	56,862
TOTAL OPERATING EXPENSES	238,621	243,067
OPERATING INCOME	23,417	13,734
NON-OPERATING REVENUE (EXPENSES)		
Interest Income	8,160	7,874
Insurance Proceeds for Lightening Damage	2,039	0
Interest Expense	(40,453)	(41,054)
TOTAL NON-OPERATING EXPENSES	(30,254)	(33,180)
NET LOSS	(6,837)	(19,446)
NET ASSETS-BEGINNING	858,971	878,417
NET ASSETS-ENDING	\$ 852,134	\$ 858,971

See accompanying notes to financial statements.

LINCOLN PARISH WATERWORKS DISTRICT #3

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 250,313	\$ 268,928
Cash Payments for Goods and Services	(143,887)	(137,616)
Cash Payments to Employees	<u>(39,911)</u>	<u>(38,040)</u>
Net Cash Provided by Operating Activities	<u>66,515</u>	<u>93,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(6,073)	(5,878)
Interest Received	<u>8,028</u>	<u>7,746</u>
Net Cash Provided by Investing Activities	<u>1,955</u>	<u>1,868</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(27,177)	(25,161)
Interest Paid	(39,558)	(41,560)
Purchase of Fixed Assets	<u>(3,200)</u>	<u>(952)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(69,935)</u>	<u>(67,673)</u>
NET INCREASE (DECREASE) IN CASH	(1,465)	27,467
CASH AT BEGINNING OF YEAR	<u>172,472</u>	<u>145,005</u>
CASH AT END OF YEAR	\$ <u>171,007</u>	\$ <u>172,472</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 23,417	\$ 13,734
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	60,554	62,340
Changes in Assets and Liabilities Which Required or Provided Cash:		
(Increase) Decrease in Accounts Receivable	(4,377)	(1,911)
(Increase) Decrease in Due from Police Jury	750	(450)
(Increase) Decrease in Prepaid Expenses	62	847
(Increase) Decrease in Deposit for Permit	110	0
Increase (Decrease) in Accounts Payable	(6,036)	4,365
Increase (Decrease) in Accrued Payroll	8	8
Increase (Decrease) in Customers' Deposits	1,095	5,990
Increase (Decrease) in Due to Police Jury	(11,231)	8,498
Increase (Decrease) in Accrued Liabilities	124	(149)
Increase (Decrease) in Deferred Revenue	<u>0</u>	<u>0</u>
Total Adjustments	<u>41,059</u>	<u>79,538</u>
Net Cash Provided by Operating Activities	\$ <u>64,476</u>	\$ <u>93,272</u>

See accompanying notes to financial statements.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

The Lincoln Parish Waterworks District #3 was organized by the Lincoln Parish Police Jury for the purpose of constructing a waterworks system and providing such service to the residents in Waterworks District #3, Lincoln Parish.

The accompanying basic financial statements of the Lincoln Parish Waterworks District #3 are prepared in accordance with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its enterprise fund, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

For financial reporting purposes, in conformity with GASB Statement No. 14, the Lincoln Parish Waterworks District #3 is a component unit of the Lincoln Parish Police Jury. For the purpose of this financial report, this component unit serves as the nucleus for its own financial reporting entity and issues separate financial statements.

B. BASIS OF PRESENTATION

The accounts of the Lincoln Parish Waterworks District #3 are organized on the basis of a proprietary fund, of which there exists only an enterprise fund. Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. MEASUREMENT FOCUS

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Proprietary funds utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

D. BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Basis of accounting refers to when transactions are recorded in the financial statements regardless of the measurement focus applied. The financial records of the Lincoln Parish Waterworks District #3 are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales of services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The District's net assets are reported in three parts--invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities when both restricted and unrestricted resources are available.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. CASH AND INVESTMENTS

Cash and cash equivalents consist of cash on hand, demand deposits, interest-bearing demand deposits, and short-term time deposits with original maturities of three months or less from the date of acquisition.

Under state law, the Lincoln Parish Waterworks District #3 may invest funds in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities. Also, 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 agent bank in a holding or custodial bank that is mutually acceptable to both parties. Investments are reported at cost, which approximates market.

F. RESTRICTED ASSETS

Certain resources that are set aside for the repayment of the Revenue Bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Under the terms of the Waterworks Revenue Bond agreements, January 15, 1992, and May 24, 2001, all of the income and revenues earned from the operation of the waterworks system and payment of all reasonable and necessary expenses of operating and maintaining the system shall be administered in the following order of priority:

- (a) Money sufficient to pay the principal and interest due in an annual installment shall be set aside and accumulated on a monthly basis in an amount equal to 1/12 of the annual installment into the Sinking Fund.
- (b) An amount equal to five percent (5%) of the amount to be paid into the Sinking Fund must be deposited into the Waterworks Reserve Fund, until there is on deposit an amount equal to \$72,882.
- (c) An amount equal to five percent (5%) of the amount to be paid into the Sinking Fund must be deposited into the Waterworks Depreciation Fund.

G. ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management uses the direct write-off method for bad debts by charging-off balances (that are still outstanding after management has used reasonable collection efforts) directly through expenses.

H. VACATION AND SICK LEAVE

Vacation and sick leave are noncumulative. There are no accumulated and vested benefits relating to vacation and sick leave that require accrual or disclosure at year end.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. All capital assets, other than land, are depreciated. Depreciation is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using either the straight-line method or the declining balance method. The estimated useful lives are as follows:

Buildings	10-39 years
Land Improvements	15 years
Water Lines and Well	20-50 years
Equipment	5-15 years

Interest incurred during the construction of a fixed asset is capitalized in the cost of the asset constructed, net of interest earned on the invested proceeds over the same period.

J. USE OF 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 disclosure 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.

K. COMPARATIVE DATA

Comparative amounts for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

NOTE 2 - CASH AND INVESTMENTS

At September 30, 2007, the District has cash and restricted cash (book balances) totaling \$171,006 and investments and restricted investments (book balances) totaling \$188,148 as follows:

	<u>Cash</u>	<u>Investments</u>
Cash on Hand	\$ 100	\$ 0
Interest Bearing Demand Deposits	51,970	0
Time Deposits	<u>118,937</u>	<u>188,148</u>
Total	<u>\$ 171,007</u>	<u>\$ 188,148</u>

The District maintains its cash accounts in various banks. Each bank provides up to \$100,000 of Federal Deposit Insurance Corporation (FDIC) coverage. At September 30, 2007, the District has \$371,270 in deposits (collected bank balances). These deposits are secured from risk by \$232,505 of federal deposit insurance and \$138,765 of pledged securities held by custodial banks in the name of the fiscal agent banks. The pledged securities meet the deposit collateralization requirements of LSA-R.S. 39:1229, which require 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. However, the deposits are considered uncollateralized under the provisions of GASB Statement 3.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 3 - RESTRICTED ASSETS

Certain assets of the Lincoln Parish Waterworks District #3 have been restricted for debt service, customer deposits, and repairs and maintenance of the water system. These assets consist of cash and investments restricted at September 30, as follows:

	2007	2006
Debt Service - Sinking Fund	\$ 11,120	\$ 11,122
Debt Service - Reserve Fund	41,606	38,269
Repairs and Maintenance	73,054	69,717
Customer Deposits	64,597	63,502
Total Restricted Assets	\$ 190,377	\$ 182,610

NOTE 4 - CAPITAL ASSETS

The following is a summary of capital assets activity for the years ending September 30, 2007:

	Beginning Balance 10/01/06	Additions	Deletions	Ending Balance 09/30/07
Capital Assets				
Land	\$ 19,585	\$ 0	\$ 0	\$ 19,585
Land Improvements	6,060	0	0	6,060
Buildings	103,593	0	0	103,593
Water System and Equipment	2,146,283	3,200	0	2,149,483
Total Capital Assets	2,275,521	3,200	0	2,278,721
Less Accumulated Depreciation for:				
Land Improvements	1,717	404	0	2,121
Buildings	35,244	2,605	0	37,849
Water System and Equipment	977,608	56,885	0	1,034,493
Total Accumulated Depreciation	1,014,569	59,894	0	1,074,463
Capital Assets, Net	\$ 1,260,952	\$ (56,694)	\$ 0	\$ 1,204,258

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS

Lincoln Parish Waterworks District #3 entered into a cooperative agreement with the Lincoln Parish Police Jury on November 14, 1995. This agreement established a \$200 per month fee to be paid to the District for billing of sewer fees for Eastern Hills/Blueberry Hills Subdivisions beginning January 1, 1996. This monthly fee was increased to \$450 per month beginning January, 2005, and then to \$525 beginning December, 2006. The Police Jury owed the District the following at September 30, according to this agreement:

	2007	2006
Due from Lincoln Parish Police Jury	\$ 1,050	\$ 1,800

NOTE 6 - BOND FEES

The Lincoln Parish Waterworks District #3 capitalized \$11,321 in bond issue costs paid to the Louisiana Public Facilities Authority (LPFA) in 1992, related to the bonds issued that year. These costs are being amortized over 40 years. In 2001 the District capitalized \$5,660 in bond issue costs related to the bonds issued that year. These costs are being amortized over 15 years.

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 6 - BOND FEES (CONTINUED)

The following is a summary of the unamortized bond issue cost for the years ending September 30, 2007 and 2006:

	2007	2006
LPFA Bond Fees	\$ 11,321	\$ 11,321
2001 Bond Fees	5,660	5,660
Less: Accumulated Amortization	(6,836)	(6,176)
Net Bond Fees	\$ 10,145	\$ 10,805

NOTE 7 - DUE TO OTHER GOVERNMENTAL UNITS

Lincoln Parish Waterworks District #3 collects sewer fees for the Lincoln Parish Police Jury, per a cooperative agreement with the Police Jury. The District remits collections to the Police Jury monthly. At September 30, the District recognized certain sewer fees from customers in accounts receivable and recognized the related payable to the Police Jury, as follows:

	2007	2006
Due to Lincoln Parish Police Jury	\$ 7,887	\$ 19,119

NOTE 8 - LONG-TERM DEBT

The following is a summary of long-term debt activity of the Lincoln Parish Waterworks District #3 for the periods ended as indicated:

	Bonds Payable
Balance at September 30, 2006	\$ 698,899
Debt Retired	(27,176)
Balance at September 30, 2007	671,723
Less Current Maturities	(27,031)
Long-Term Debt at September 30, 2007	\$ 644,692

Long-Term debt payable is comprised of the following individual debt instruments:

Revenue Bonds

\$568,000 Waterworks Revenue Bonds, dated January 15, 1992, due in annual installments of \$36,823 on August 26th of each year through 2031; interest at 5.75%; secured by revenues earned by the District from the operation of the waterworks system. \$ 471,723

\$250,000 Waterworks Revenue Bonds, Series 2001, dated May 24, 2001, due in annual principal installments of \$10,962 - \$27,803 and semi-annual interest payments of \$803 - \$6,962 through August 26, 2016; interest at an effective rate of approximately 5.56% through August 26, 2006, and 5.95% thereafter until maturity; secured by revenues earned by the District from the operation of the waterworks system. 200,000

Total Long-Term Debt 671,723

Less Current Maturities (27,031)

Long-Term Debt, Net of Current Maturities \$ 644,692

LINCOLN PARISH WATERWORKS DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity for all debt outstanding as of September 30, 2007, is as follows:

	Bonds-1992		Bonds-2001		Total
	Principal	Interest	Principal	Interest	
2008	\$ 9,031	\$ 27,793	\$ 18,000	\$ 11,900	\$ 66,724
2009	10,219	26,605	19,000	10,829	66,653
2010	10,806	26,017	20,000	9,698	66,521
2011	11,428	25,396	21,000	8,508	66,332
2012	12,085	24,739	22,000	7,259	66,083
2013-2017	71,681	112,436	100,000	15,292	299,409
2018-2022	94,799	89,318	0	0	184,117
2023-2027	125,373	58,743	0	0	184,116
2028-2031	126,301	18,454	0	0	144,755
Totals	<u>\$ 471,723</u>	<u>\$ 409,501</u>	<u>\$ 200,000</u>	<u>\$ 63,486</u>	<u>\$ 1,144,710</u>

NOTE 9 - RESTRICTED NET ASSETS

The District's bond and note covenants require certain reservations of its net assets for repairs and maintenance and debt service.

OTHER REPORTS AND SCHEDULES

DON M. MCGEHEE
(A Professional Accounting Corporation)

P.O. Box 1344
205 Reynolds Drive, Suite A
Ruston, Louisiana 71273-1344

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

Commissioners of the
Lincoln Parish Waterworks District #3
P.O.Box 366
Ruston, Louisiana 71273

I have audited the financial statements of the Lincoln Parish Waterworks District #3, a component unit of the Lincoln Parish Police Jury, as of and for the year ended September 30, 2007, and have issued my report thereon dated March 31, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Lincoln Parish Waterworks District #3's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the Lincoln Parish Waterworks District #3's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Lincoln Parish Waterworks District #3's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lincoln Parish Waterworks District #3's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Lincoln Parish Waterworks District #3's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as #2007-1 and #2007-2 to be significant deficiencies in internal control over financial reporting.

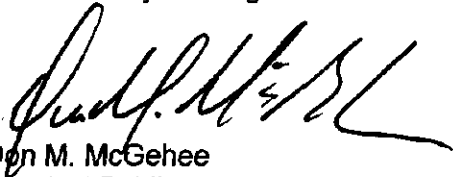
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lincoln Parish Waterworks District #3's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item #2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln Parish Waterworks District #3's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of Lincoln Parish Waterworks District #3, the Legislative Auditor, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Don M. McGehee
Certified Public Accountant
March 31, 2008

LINCOLN PARISH WATERWORKS DISTRICT #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

I have audited the financial statements of the Lincoln Parish Waterworks District #3, as of and for the year ended September 30, 2007, and have issued my report thereon dated March ??, 2008. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. My audit of the financial statements as of September 30, 2007 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Significant Deficiencies Yes No

Compliance

Compliance Material to Financial Statements Yes No

Section II Financial Statement Findings

Finding 2007-1. Separation of Duties. The Lincoln Parish Waterworks District #3 Office has too few personnel involved in the accounting system to have adequate separation of duties for internal control.

Finding 2007-2. Inadequate Controls over Preparation of the Financial Statements. Personnel for the Lincoln Parish Waterworks District #3 do not have sufficient financial expertise to prepare the financial statements without some technical assistance in applying accounting principles that are in conformity with GAAP. However, they can understand the key issues identified, make any required management decisions, and fulfill the competency requirements, so that they can accept responsibility for the financial statements.

Section III Management Letter

No findings.

LINCOLN PARISH WATERWORKS DISTRICT #3

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

SECTION 1 INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENT

Finding 2006-1. Too few personnel involved in the accounting system to have adequate separation of duties for internal control.

Unresolved. See 2007-1.

SECTION II MANAGEMENT LETTER

No findings.

LINCOLN PARISH WATERWORKS DISTRICT #3

MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION 1 INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENT

FINDING

RESPONSE

2007-1. Separation of Duties. Too few personnel involved in the accounting system to have adequate separation of duties for internal control.

The District has an accounting workload that can be easily managed by two employees. The hiring of additional employees to provide enhanced internal control does not appear to be the best use of the District's resources.

2007-1.Preparation of Financial Statements. Personnel do not have sufficient financial expertise to prepare the financial statements without some technical assistance in applying accounting principles that are in conformity with GAAP. Controls could be strengthened providing personnel with additional training.

The District has employees with the ability to record cash receipts and disbursements, prepare adjusting entries, and prepare draft financial statements. However, there are times that they do not have the expertise to apply certain accounting principles. Providing employees with additional education does not appear to be the best use of the District's resources, but the District will encourage the employees to use all technical assistance available.

SECTION II MANAGEMENT LETTER

No findings.

SUPPLEMENTAL INFORMATION

LINCOLN PARISH WATERWORKS DISTRICT #3
SCHEDULE OF PER DIEM PAYMENTS TO COMMISSIONERS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Jack Allen	\$	360
Willard Anderson		360
G.W. Kimble		360
John Adams		240
Randy Snow		60
Ralph McVay		<u>240</u>
Total	\$	<u>1,620</u>