

**Water Works District No. 3
of Rapides Parish**

Tioga, Louisiana

December 31, 2012

**Water Works District No. 3
of Rapides Parish**

December 31, 2012

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PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Established 1945

Independent Auditor's Report

Board of Commissioners
Water Works District No. 3 of Rapides Parish

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Water Works District No. 3 of Rapides Parish, Tioga, Louisiana, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ROBERT W. DVORAK, C.P.A.

CINDY L. HUMPHRIES, C.P.A.

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PAYNE, MOORE & HERRINGTON, LLP

Board of Commissioners
Water Works District No. 3 of Rapides Parish

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



PAYNE, MOORE & HERRINGTON, LLP

Board of Commissioners
Water Works District No. 3 of Rapides Parish

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements for each of the four years in the period ended December 31, 2011 (none of which are presented herein), and we expressed unqualified opinions on those basic financial statements. Those audits were conducted for purposes of forming an opinion on the basic financial statements as a whole. The Schedule of Historical Income and Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2008, 2009, 2010, and 2011 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly presented in all material respects in relation to the basic financial statements from which it has been derived.

The schedules included in the other information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Payne, Moore and Herrington, LLP

Certified Public Accountants
Alexandria, Louisiana
January 23, 2013

Required Supplementary Information

Management's Discussion and Analysis

**Water Works District No. 3 of Rapides Parish
Tioga, Louisiana**

Management's Discussion and Analysis

As management of the Water Works District No. 3 of Rapides Parish (the District) in Tioga, Louisiana, we are pleased to provide this narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2012. The District's financial information and performance is analyzed and discussed within the context of the accompanying financial statements and disclosures.

Financial Highlights

- The District's net position increased by \$285,792 in 2012.
- The District's operating revenues were \$3,804,221 which were more than total operating expenditures of \$3,612,407, resulting in an operating income of \$191,814.
- Total nonoperating loss, net of nonoperating expenditures, was \$130,829.
- Total net position of \$20,437,849 are made up of the following:
 1. Net investment in Capital assets of \$15,954,508 include property and equipment, net of accumulated depreciation
 2. Restricted assets of \$1,818,200
 3. Unrestricted assets of \$2,665,141
- In late summer 2005, the District issued \$4.6 million in revenue bonds to fund new construction projects. All remaining bond funds were expended in 2010.

Overview of the Financial Statements

This discussion and analysis document serves as an introduction to the District's basic financial statements. These statements include the financial statements and notes to those statements, as well as, additional information to supplement the basic financial statements. Comparative data is also presented.

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and provides a useful tool to determine improving or deteriorating financial positions.

The Statement of Revenues, Expenses, and Changes in Net Fund Position presents information showing how the District's assets changed as a result of its current year operations. All changes in net position are reported when the underlying transactions occur, regardless of when actual cash flows are affected. As a result, transactions are included in this statement that will not affect cash until future periods.

The Statement of Cash Flows presents information showing how the District's cash changed as a result of current year operations. The statement of cash flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

**Water Works District No. 3 of Rapides Parish
Tioga, Louisiana**

Management's Discussion and Analysis

Financial Analysis

The District's net position at calendar year end was \$20,437,849. The following exhibit provides a summary of the District's net position:

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$ 5,071,263	\$ 4,707,535
Capital assets	<u>19,821,331</u>	<u>20,067,351</u>
Total assets	24,892,594	24,774,886
Liabilities:		
Current liabilities	599,745	642,827
Long-term liabilities	<u>3,855,000</u>	<u>3,980,000</u>
Total liabilities	4,454,745	4,622,827
Net position:		
Net investment in capital assets	15,954,508	16,022,744
Restricted assets	1,818,200	1,629,052
Unrestricted assets	<u>2,665,141</u>	<u>2,500,263</u>
Total net position	\$ 20,437,849	\$ 20,152,059

As of December 31, 2012, net position was restricted for debt service of \$461,285 and reserve for contingencies of \$1,356,915.

The following represents a summary of the District's changes in net position:

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 3,804,221	\$ 4,016,537
Nonoperating revenues	<u>39,136</u>	<u>76,457</u>
Total revenues	3,843,357	4,092,994
Depreciation and amortization expense	834,481	875,377
Other operating expenses	2,777,926	2,885,340
Interest expense	167,580	173,684
Other nonoperating expenses	<u>2,385</u>	<u>2,385</u>
Total expenses	<u>3,782,372</u>	<u>3,936,786</u>
Income (loss) before Capital Contributions	60,985	156,208
Contributions in aid of construction	224,807	588,003
Beginning Net Position	<u>20,152,057</u>	<u>19,407,484</u>
Ending Net Position	\$ 20,437,849	\$ 20,152,059

**Water Works District No. 3 of Rapides Parish
Tioga, Louisiana**

Management's Discussion and Analysis

The 2012 operating budget for total revenues was \$4,148,500 and for expenses was \$3,168,650 (excluding depreciation and capital additions), generating an estimated net income, before depreciation and capital additions, of \$979,850. Actual amounts varied from budget by 8% for water revenue. Expenses came in under budget by 7%. The following exhibit displays these amounts:

	Actual	Budget
Water sales income	\$ 3,649,653	\$ 3,970,000
Other income	418,511	178,500
Expenses (excluding depreciation and capital additions)	2,947,891	3,168,650

Contributions in aid of construction for 2012 were \$224,807. The District has completed two capital projects which were being funded by the State of Louisiana Capital Outlay. Total funds received for these projects from the State of Louisiana during the year represent 60% of the total capital contributions for 2012. These funds received in 2012 were for the following projects:

Treatment of Wells 8 & 9	\$	35,006
Pump Station at Esler Field		99,356

The following exhibit represents a summary of the changes in cash and cash equivalents for 2012:

Operating income	\$	191,814
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation		834,481
Bad debt expense		7,442
Changes in operating assets and liabilities		16,627
Total cash provided by operations		1,050,364
Cash used by capital and related financing activities		(746,502)
Cash provided by investing activities		35,422
Net increase (decrease) in cash and cash equivalents		339,284
Cash and cash equivalents, Beginning of year		2,340,151
Cash and cash equivalents, End of year	\$	2,679,435

Capital Assets and Debt Administration

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2012, was \$19,821,331. The following provides a summary by asset type at December 31, 2012 and 2011.

	2012	2011
Nondepreciable assets:		
Construction in progress	\$ 186,227	\$ 3,818,598
Land	370,369	370,369
Depreciable assets:		
Plant and equipment	10,913,218	7,457,196
Buildings and improvements	242,367	265,538

**Water Works District No. 3 of Rapides Parish
Tioga, Louisiana**

Management's Discussion and Analysis

	<u>2012</u>	<u>2011</u>
Vehicles	334,777	294,948
Furniture, fixtures, and equipment	23,924	21,037
Infrastructure	<u>7,750,449</u>	<u>7,839,665</u>
Total capital assets (net)	\$ 19,821,331	\$ 20,067,351

The change in capital assets before depreciation expense was \$588,461. Total depreciation expense for 2012 was \$834,481 resulting in a net decrease of \$246,020. Part of the decrease to construction in progress totaling \$3,878,419 is attributed to the completed work on the 20" Trunk Main and Pump Station through Esler Field. These projects were completed at the end of 2012 and moved to Plant and Equipment.

Long-Term Debt

At December 31, 2012, the District had long-term debt of \$3,855,000 due to the issuance of revenue bonds in August 2005. Of this balance, \$130,000 is due within the next year. Principal payments made in 2012 totaled \$125,000. No additional debt was issued during the year.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report, the information it contains, or if you would like to request additional information, contact the District's office, Mr. Jimmy R. French, General Manager at (318) 640-1379.

Basic Financial Statements

Water Works District No. 3 of Rapides Parish
Statement of Net Position
December 31, 2012

Exhibit A

Assets		
Cash and cash equivalents		\$ 2,090,745
Accounts receivable		
Water sales	329,269	
Other	98,030	427,299
Interest receivable		1,249
Inventories		164,552
Prepaid expenses		106,796
Restricted assets		
Restricted cash and cash equivalents	588,690	
Restricted certificates of deposit	1,650,000	2,238,690
Bond issuance cost, net of amortization		41,932
Capital assets, net of depreciation		
Nondepreciable		
Construction in progress	186,227	
Land and improvements	370,369	
Depreciable		
Plant and equipment	10,913,219	
Buildings and improvements	242,367	
Vehicles	334,777	
Furniture, fixtures, and equipment	23,924	
Infrastructure	7,750,448	19,821,331
Total Assets		<u>24,892,594</u>
Liabilities		
Accounts payable		39,303
Contracts payable		11,823
Accrued expenses		50,065
Short-term compensated absences		9,758
Bond interest payable		68,306
Restricted liabilities, payable from restricted assets		
Customers' meter deposits		420,490
Long-term liabilities		
Due within one year	130,000	
Due in more than one year	3,725,000	3,855,000
Total Liabilities		<u>4,454,745</u>
Net Position		
Net investment in capital assets		15,954,508
Restricted for		
Debt service	461,285	
Contingencies	1,356,915	1,818,200
Unrestricted		2,665,141
Net Position		<u>\$ 20,437,849</u>

The accompanying notes are an integral part of the financial statements.

Water Works District No. 3 of Rapides Parish
Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended December 31, 2012

Exhibit B

Operating Revenues	
Water sales	\$ 3,649,653
Delinquent surcharges	54,338
Connection fees	29,355
Other operating revenues	70,875
Total Operating Revenues	3,804,221
 Operating Expenses	
Administration	811,826
Purification	791,069
Distribution	760,005
Meter	114,984
Production	44,585
Wells	255,457
Depreciation	834,481
Total Operating Expenses	3,612,407
Operating Income	191,814
 Nonoperating Revenues (Expenses)	
Interest income	35,266
Gain (loss) on disposition of capital assets	3,870
Amortization of bond issuance cost	(2,385)
Interest expense	(167,580)
Total Nonoperating Revenues (Expenses)	(130,829)
 Change in Net Position Before Capital Contributions	 60,985
 Contributions in Aid of Construction	 224,807
 Change in Net Position	 285,792
 Total Net Position - Beginning of Year	 20,152,057
 Total Net Position - End of Year	 \$ 20,437,849

The accompanying notes are an integral part of the financial statements.

**Water Works District No. 3 of Rapides Parish
Statement of Cash Flows
Year Ended December 31, 2012**

**Exhibit C
Continued**

Cash Flows from Operating Activities	
Receipts from customers	\$ 3,825,691
Payments to suppliers for goods and services	(1,242,750)
Payments to employees for services and benefit costs	(1,532,577)
Net Cash Provided by (Used in) Operating Activities	<u>1,050,364</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition, construction, and disposal of capital assets	(641,246)
Contributions in aid of construction	180,455
Principal payments on bonds	(125,000)
Interest paid on bonds	(170,184)
Meter deposits received	73,088
Meter deposits refunded	(67,485)
Proceeds from sale of capital assets	3,870
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(746,502)</u>
Cash Flows from Investing Activities	
Interest received on interest-bearing deposits	35,422
Proceeds from maturities of investments	400,000
Purchase of investments	(400,000)
Net Cash Provided by (Used in) Investing Activities	<u>35,422</u>
Net Increase (Decrease) in Cash and Cash Equivalents	339,284
Cash and Cash Equivalents, Beginning of Year	<u>2,340,151</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,679,435</u></u>
Classified As:	
Current assets	\$ 2,090,745
Restricted assets	588,690
Total	<u><u>\$ 2,679,435</u></u>

The accompanying notes are an integral part of the financial statements.

**Water Works District No. 3 of Rapides Parish
Statement of Cash Flows
Year Ended December 31, 2012**

**Exhibit C
Concluded**

Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:

Operating income	\$	191,814
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation		834,481
Bad debt expense		7,442
Changes in assets and liabilities:		
Accounts receivable		21,470
Inventories		(6,477)
Prepaid expenses		(5,069)
Accounts payable		1,347
Accrued expenses		4,394
Short-term compensated absences		962
Total Adjustments		858,550
Net Cash Provided by (Used in) Operating Activities	\$	1,050,364

The accompanying notes are an integral part of the financial statements.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the Water Works District No. 3 of Rapides Parish (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and more significant of the District's accounting policies are described below.

Reporting Entity

Upon the presentation of a petition by property owners to the Louisiana Legislature, the Rapides Parish Police Jury was made responsible for creating a water district to utilize certain water facilities at Camp Livingston, which had been abandoned. As a result, the District was created by an ordinance of the Rapides Parish Police Jury on February 8, 1949. The District provides water to residential, commercial, governmental, public recreational area, industrial, and non-profit water system customers primarily in Ward 10 of Rapides Parish.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Generally, component units are legally separate organizations for which the elected officials or appointed board members of the primary government are financially accountable. Some of the criteria considered under "legally separate organization" are the capacity for the organization to have its own name, the right for the organization to sue and be sued in its own name without recourse to the primary government, and the right to buy, sell, lease, and mortgage property in its own name. Some of the criteria used to consider "financially accountable" include appointment of a voting majority of the organization's governing body, ability for primary government to impose its will on the organization, whether the organization has the potential to provide specific financial benefits to, or improve specific financial burdens on the primary government, and fiscal dependence of the organization. Based upon the application of these criteria, only the operating activities of the District are included in these financial statements.

The District operates autonomously from the other state or local governments, as a special purpose government that is fiscally independent. Fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, set rates or charges, and issue bonded debt. Therefore, the District reports as an independent reporting entity. This report includes all funds, which are controlled by or dependent upon the District.

Fund Accounting

A fund is a separate accounting entity with a self-balancing set of accounts. The District only has one fund, which is classified as a proprietary fund. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Where goods or services are provided to outside parties, such as customers receiving water, the proprietary fund is considered an enterprise fund.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

Basis of Accounting

Proprietary funds account for operations that are primarily financed by user charges. All proprietary funds are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus. The economic resource focus is concerned with determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned, and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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

Cash and Cash Equivalents and Certificates of Deposit

Cash includes amounts on hand, in demand deposits, interest-bearing demand deposits, and time deposits. For the purpose of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less from date of acquisition, to be cash equivalents, which includes certificates of deposit.

Investments of the District consist of certificates of deposit with maturities greater than three months, valued at cost, which equals fair value.

Accounts Receivable

Bad debts arising from customers' water receivables are recognized by the direct charge-off method, whereby uncollectible accounts are written off upon delinquency as they are considered uncollectible. Minimum losses are sustained since the customer's meter deposit is applied to any unpaid balance. In the opinion of management, at December 31, 2012, all receivables were collectible, and an allowance for doubtful accounts was not considered necessary.

Inventories

Inventories consist of treatment chemicals, pipe, fittings, and other construction materials that are stated at the lower of average cost or market, primarily on a first-in, first-out basis.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid expenses.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

Restricted Assets

Certain proceeds are classified as restricted assets on the statement of net position because applicable laws and regulations limit their use. Restricted assets of the proprietary fund include:

- 1) Meter funds (Meter Funds) are used to account for customers' meter deposits received from and returned to customers.
- 2) Capital Projects funds (Capital Project Funds) are used to account for bond proceeds to be expended for construction, improvements, and extensions to the waterworks system and as otherwise provided in the bond resolution.
- 3) Utility Revenue Bond and Interest Sinking funds (Sinking Funds) are used to account for debt service funds, as required by the water revenue bond documents. Transfers are made monthly from the water district operating account, under a formula provided in the bond covenants.
- 4) Water Revenue Bond Reserve funds (Bond Reserve Funds) are used to account for funds reserved solely for the purpose of paying principal and interest on bonds, as required by the water revenue bond resolution. This restricted asset was funded in full from proceeds of the bond issue.
- 5) Water Depreciation and Contingency funds (Contingency Funds) are used to care for additions, improvements, renewals, replacements, and emergency repairs necessary to properly operate the water system, as required by the water revenue bond resolution. Transfers are made monthly from the water district operating account, under a formula provided in the bond covenants.

Capital Assets

Capital assets are stated at cost when purchased and at fair market value when donated to the District. Costs that extend the useful lives of capital assets beyond their initial estimated useful lives or improve their efficiency or capacity are capitalized, whereas costs for repairs and maintenance are expensed.

Depreciation is computed using the straight-line method over the useful lives of capitalized assets.

Public domain ("infrastructure") capital assets consisting of water mains 2" to 20" in size, water meters, connections, and hydrants are capitalized.

The valuation basis for capital assets is historical cost, or when historical cost is not available, estimated historical cost. The District has adopted a minimum capitalization threshold for any individual item of \$1,500. There is no set threshold in which infrastructure capital assets are capitalized.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the current period.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

Compensated Absences

Vacation not used by the end of the year is carried over to the next year. Employees can accumulate a maximum of forty hours that may be carried forward and taken in subsequent periods.

Contributions in Aid of Construction

The District receives various contributions from customers, developers, and other governments in the ordinary course of business, relating to construction of waterlines and/or installation of taps and fire hydrants.

Long-Term Liabilities

All liabilities, including long-term debt, are included in the Statement of Net Position. Interest expense on long-term debt is recognized as the interest accrues, regardless of when it is due.

Net Position

Net position is reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the management of the District 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents and Certificates of Deposit

At December 31, 2012, the District had cash and cash equivalents (book balances) totaling \$2,664,426, as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Petty cash and change funds	\$ 1,550	\$ -	\$ 1,550
Demand deposits	<u>2,089,195</u>	<u>588,690</u>	<u>2,677,885</u>
	\$ 2,090,745	\$ 588,690	\$ 2,679,435

Certificates of Deposit

The District may invest in United States bonds, treasury notes, or certificates of deposit at state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana, an investment as stipulated in Louisiana Revised Statute 39:1271, or any other federally insured investment.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

At December 31, 2012, the District had certificates of deposit totaling \$1,650,000, as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Book Balance</u>	<u>Market Value</u>
Certificates of deposit	\$ -	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. There were no uncollateralized bank balances at December 31, 2012.

3. Accounts Receivable - Water Sales

Receivables arising from water services provided to customers consist of uncollected billings rendered to customers on monthly cycle billings and estimated services provided to customers between billing cycles. At December 31, 2012, these receivables were as follows:

Uncollected cycle billings	\$ 208,139
Estimated services between cycles	<u>121,130</u>
	\$ 329,269

4. Inventories

Chemicals	\$ 86,407
Materials and supplies	<u>78,145</u>
	\$ 164,552

5. Prepaid Expenses

Prepaid expenses totaling \$106,796 consists of prepaid insurance, service contracts, and permits.

6. Restricted Assets

Restricted asset activity for the year ended December 31, 2012, was as follows:

	<u>Balance 12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Meter Fund	\$ 414,887	\$ 73,088	\$ 67,485	\$ 420,490
Sinking Fund	122,993	294,663	295,184	122,472
Reserve Fund	338,813	-	-	338,813
Contingency Fund	<u>1,167,247</u>	<u>189,668</u>	<u>-</u>	<u>1,356,915</u>
	\$ 2,043,940	\$ 557,419	\$ 362,669	\$ 2,238,690

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

7. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Balance 12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Capital assets, nondepreciable				
Construction in progress	\$ 3,818,598	\$ 287,125	\$3,919,496	\$ 186,227
Land and improvements	<u>370,369</u>	<u>-</u>	<u>-</u>	<u>370,369</u>
Total capital assets, nondepreciable	4,188,967	287,125	3,919,496	556,596
Other capital assets				
Plant and equipment	14,594,122	3,885,337	-	18,479,459
Buildings and improvements	946,844	6,426	-	953,270
Vehicles	771,679	91,800	33,545	829,934
Furniture, fixtures, and equipment	208,028	9,871	-	217,899
Infrastructure	<u>13,609,833</u>	<u>227,398</u>	<u>-</u>	<u>13,837,231</u>
Total other capital assets	30,130,506	4,220,832	33,545	34,317,793
Less				
Accumulated depreciation				
Plant and equipment	7,136,926	429,314	-	7,566,240
Buildings and improvements	681,306	29,597	-	710,903
Vehicles	476,731	51,971	33,545	495,157
Furniture, fixtures, and equipment	186,991	6,984	-	193,975
Infrastructure	<u>5,770,168</u>	<u>316,615</u>	<u>-</u>	<u>6,086,783</u>
Total accumulated depreciation	<u>14,252,122</u>	<u>834,481</u>	<u>33,545</u>	<u>15,053,058</u>
Other capital assets, net	<u>15,878,384</u>	<u>3,386,351</u>	<u>-</u>	<u>19,264,735</u>
Net Capital Assets	<u>\$ 20,067,351</u>	<u>\$ 3,673,476</u>	<u>\$3,919,496</u>	<u>\$ 19,821,331</u>

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Plant and equipment	2-25 years
Buildings and improvements	10-40 years
Vehicles	2-10 years
Furniture, fixtures, and equipment	3-15 years
Infrastructure	5-50 years

Total depreciation expense for the year ended December 31, 2012, was \$834,481.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

8. Long-Term Liabilities

Long-term liabilities consist of amounts due incident to the issuance of Water Revenue Bonds, Series 2005, totaling \$4,600,000. The interest rates on the water revenue bonds range from 4.125% - 7.000% with a maturity period of 2006–2030. All principal and interest requirements are funded in accordance with the terms of the Security Provisions and Protective Covenants of the Official Statement for the issue. The balance accumulated in the bond sinking account at December 31, 2012, was \$122,472. Also as prescribed by these covenants, a Water Depreciation and Contingency Fund account was established to care for additions and improvements, renewals, replacements, and emergency repairs necessary to properly operate the water system.

The following changes occurred in bonds and certificates payable during the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds, Series 2005	\$ 3,980,000	\$ -	\$ (125,000)	\$ 3,855,000	\$ 130,000

The annual requirements to amortize outstanding bonds and certificates of indebtedness are as follows:

<u>Year Ending December 31,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2013	\$ 130,000	\$ 163,934	\$ 293,934
2014	140,000	157,434	297,434
2015	145,000	150,434	295,434
2016	155,000	143,184	298,184
2017	160,000	136,790	296,790
2018-2022	950,000	576,700	1,526,700
2023-2027	1,250,000	357,184	1,607,184
2028-2030	<u>925,000</u>	<u>79,967</u>	<u>1,004,967</u>
	\$ 3,855,000	\$ 1,765,627	\$ 5,620,627

9. Net Position

Restricted Net Position

In accordance with the terms of the security provisions and protective covenants for the Water Revenue Bonds issued on August 1, 2005, the District has restricted the following net position for debt service at December 31, 2012:

Bond reserve	\$ 338,813
Debt service	<u>122,472</u>
	\$ 461,285

Also to comply with the revenue bond covenants, the District has restricted \$1,356,915 of net position for contingencies.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

Unrestricted Net Position

The change in unrestricted net position is as follows:

Balance, December 31, 2012	\$ 2,665,141
Less: Balance, December 31, 2011	<u>2,500,263</u>
Increase (Decrease)	\$ 164,878

10. Pension Plan

Employees of the District are not covered under a State of Louisiana PERS plan. They are members of the social security system.

11. Deferred Compensation Plan

The District has a tax deferred compensation plan under section 457 of the Internal Revenue Code. This plan is administered by a third party administrator. Under the terms of that plan, the District matches a limited portion of the employees' contribution. The District made contributions totaling \$25,585 for the year ended December 31, 2012.

12. Commitments and Contingencies

Construction Contracts

The District has planned construction or renovation of various capital assets as follows:

Project Name	Project Authorization	Expended to Date	Contract Liability	Remaining Authorization
12" Main at Camp Beauregard	\$ 5,000	\$ 4,370	\$ -	\$ 630
Color Removal Wells #2 and #7	2,100,000	5,153	-	2,094,847
Filtered and Settled Solids Containment System and Dewatering and Disposal System	820,000	18,729	-	801,271
Test Wells at Pinecrest	125,000	118,707	-	6,293
Replacement of 10" Line at Esler Field	10,000	9,000	-	1,000
Wells 8 and 9 Treatment	29,000	14,708	11,823	2,469
Rehabilitation of Existing Reservoirs	<u>1,775,200</u>	<u>8,623</u>	-	<u>1,766,577</u>
	<u>\$ 4,864,200</u>	<u>\$ 179,290</u>	<u>\$ 11,823</u>	<u>\$ 4,673,087</u>

No further financing is required to complete these authorized projects.

Leases of Computer Equipment and Copiers

On January 1, 2010, the District entered into a lease agreement for computer software and hardware. This lease is for a period of thirty-six months. The lease requires monthly payments of \$113. Total lease payments made during the current year under this agreement were \$1,458.

**Water Works District No. 3 of Rapides Parish
December 31, 2012**

Notes to Basic Financial Statements

On December 13, 2011, the District entered into an additional lease agreement for computer hardware for a period of thirty-six months for a monthly payment of \$573. At the end of the lease they have the option to purchase at the fair market value. Total lease payments made during the current year under this agreement were \$7,320.

Future minimum lease payments required as of December 31, 2012, under the terms of this lease are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 6,876
2014	6,876

On March 15, 2010, the District entered into an operating lease agreement for a digital copier. The lease is for a period of thirty-six months and requires minimum monthly lease payments of \$412 per month and provides the option to purchase the copier at fair market value at the end of the lease period. Total lease payments made during the current year under this agreement were \$4,939.

Future minimum lease payments required as of December 31, 2012, under the terms of this lease are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 823

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks of loss are covered by a comprehensive commercial insurance policy and workers compensation insurance. Claims resulting from these risks have historically not exceeded insurance coverage.

At year end, the District is a party to three lawsuits which it is vigorously defending. These suits seek damages of material amounts. While the litigation cannot be predicted with any certainty, in the opinion of management, based on advice of legal counsel, the final outcome of such litigations will not have a material adverse effect on the District's financial position.

Contingent Liability

The District entered into agreements with the Louisiana Department of Transportation and Development (LDOTD) for utility relocation assistance funding in 1986 with the understanding that these funds were not to be repaid. In 2010, the District received a request for payment of these funds. The District has not made any payments and is currently in negotiations with the LDOTD regarding this funding.

13. Notes to Statement of Cash Flows

There were no material noncash capital, noncapital, financing, or investing activities that affected recognized assets or liabilities during the year. Interest in the amount of \$167,580 was paid in 2012.

Supplementary Information

**Water Works District No. 3 of Rapides Parish
Schedule of Historical Income and Expenses
Last Five Fiscal Years**

Schedule 1

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Revenues					
Water sales income	\$ 3,383,854	\$ 3,534,768	\$ 3,551,293	\$ 3,855,659	\$ 3,649,653
Other income	123,050	186,013	172,434	160,878	154,568
Total Operating Revenues	<u>3,506,904</u>	<u>3,720,781</u>	<u>3,723,727</u>	<u>4,016,537</u>	<u>3,804,221</u>
Operating Expenses					
Administration	751,892	747,664	783,035	780,281	811,826
Purification	794,164	768,081	741,622	783,429	791,069
Distribution	728,574	741,176	743,604	786,369	760,005
Meter	127,265	111,749	102,825	110,233	114,984
Production	148,894	114,900	94,928	111,735	44,585
Wells	252,240	260,695	262,494	313,293	255,457
Total Operating Expenses	<u>2,803,029</u>	<u>2,744,265</u>	<u>2,728,508</u>	<u>2,885,340</u>	<u>2,777,926</u>
Net Operating Income (Before Debt Service)	703,875	976,516	995,219	1,131,197	1,026,295
Debt Service Requirements					
Bond interest expense*	191,803	185,404	179,553	173,684	167,580
Bond principal	100,000	105,000	110,000	120,000	125,000
Net Operating Income (Before Depreciation)	<u>\$ 412,072</u>	<u>\$ 686,112</u>	<u>\$ 705,666</u>	<u>\$ 837,513</u>	<u>\$ 733,715</u>

* Includes accrued interest payable at year end.

See independent auditor's report.

Other Information

**Water Works District No. 3 of Rapides Parish
Schedule of Revenues, Expenses, and Changes in
Fund Net Position - Budget and Actual (Non-GAAP Basis)
Year Ended December 31, 2012**

	Budget	Actual	Schedule 2 Variance Favorable (Unfavorable)
Revenues			
Water sales	\$ 3,970,000	\$ 3,649,653	\$ (320,347)
Delinquent surcharges	45,000	54,338	9,338
Connection fees	30,000	29,355	(645)
Contributions in aid of construction	-	224,807	224,807
Interest and investment income	20,000	35,266	15,266
Gain on disposition of capital assets	-	3,870	3,870
Other	83,500	70,875	(12,625)
Totals	4,148,500	4,068,164	(80,336)
Expenses (Schedule 2)	6,013,650	3,536,353	2,477,297
Revenues Over Expenses	\$ (1,865,150)	\$ 531,811	\$ 2,396,961

The District's budget included \$2,200,000 from unrestricted net positions and unexpended bond proceeds. This appropriation resulted in a budget surplus of \$334,800.

Reconciliation of Change in Net Position

Revenues Over Expenses	\$ 531,811
Plus:	
Capital additions	588,462
Less:	
Depreciation	834,481
Change in Net Position (Exhibit B)	\$ 285,792

See independent auditor's report.

Water Works District No. 3 of Rapides Parish
Schedule of Expenses - Budget and Actual (Non-GAAP Basis)
Year Ended December 31, 2012

Schedule 3

	Budget	Actual	Variance Favorable (Unfavorable)
Expenses by Department			
Administration	\$ 841,000	\$ 811,826	\$ 29,174
Purification	821,850	791,069	30,781
Distribution	742,400	760,005	(17,605)
Meter	129,250	114,984	14,266
Production	73,000	44,585	28,415
Wells	361,150	255,457	105,693
Interest expense	200,000	167,580	32,420
Amortization of bond issuance costs	-	2,385	(2,385)
Capital additions	2,845,000	588,462	2,256,538
Totals	\$ 6,013,650	\$ 3,536,353	\$ 2,477,297

See independent auditor's report.

**Water Works District No. 3 of Rapides Parish
Schedule of Per Diem Paid to Board Members
Year Ended December 31, 2012**

Schedule 4

	Amount
Coody, Oscar	\$ 5,364
Hailey, Otha O.	7,450
Hollingsworth, Tommy J.	7,152
Kelly, Thurman	5,811
Lindsay, Elizabeth Q.	745
Lindsay, Richard W. Jr.	298
Moore, Clyde	7,325
Nugent, Robert	5,513
Pierce, Shelton	7,003
Ramos, Norma Kay	4,917
Sibley, Robert C.	5,960
Total	\$ 57,538

See independent auditor's report.

**Water Works District No. 3 of Rapides Parish
Schedule of Current Water Rates
Year Ended December 31, 2012**

Schedule 5

The District currently has the following rate structures:

Residential	
0-2,000 gallons	\$ 13.00/month
2,000 to 5,000 gallons	\$ 4.20/1,000 gallons
All over 5,000 gallons	\$ 3.60/1,000 gallons
Commercial	
0-5,000 gallons	\$ 22.50/month
All over 5,000 gallons	\$ 3.60/1,000 gallons
Governmental	
0-50,000 gallons	\$ 150.00/month
All over 50,000 gallons	\$ 2.90/1,000 gallons
Public Recreational Areas	
0-3,000 gallons	\$ 15.00/month
All over 3,000 gallons	\$ 3.60/1,000 gallons
Industrial	
0-50,000 gallons	\$ 150.00/month
All over 50,000 gallons	\$ 2.90/1,000 gallons
Non-Profit Water Systems	
0-50,000 gallons	\$ 150.00/month
All over 50,000 gallons	\$ 3.95/1,000 gallons

See independent auditor's report.

**Other Reports Required by
Government Auditing Standards
and *Louisiana Governmental Audit Guide***

**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***



PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS
Established 1945

**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**

Independent Auditor's Report

Board of Commissioners
Water Works District No. 3 of Rapides Parish

We have audited, in accordance with the 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, the financial statements of the business-type activities of Water Works District No. 3 of Rapides Parish, Tioga, Louisiana, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

ROBERT W. DYBRAN, C.P.A. CINDY L. HUMPHRIES, C.P.A.
REBECCA D. MORRIS, C.P.A. DEBORAH R. DUNN, C.P.A.
MICHAEL A. JUNCAN, C.P.A. REBECCA G. NATION, C.P.A.
EVELYN RENFROW, C.P.A.





PAYNE, MOORE & HERRINGTON, LLP

Board of Commissioners
Water Works District No. 3 of Rapides Parish

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under Louisiana Revised Statute 21:513, this report is in fact a public document.

Payne, Moore and Herrington, LLP

Certified Public Accountants
Alexandria, Louisiana
January 23, 2013

Schedule of Findings

**Waterworks District No. 3 of Rapides Parish
Schedule of Findings
Year Ended December 31, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?
Significant deficiencies identified
that are not considered to be
material weaknesses?

_____ Yes

 X No

_____ Yes

 X No

Noncompliance material to financial
statements noted?

_____ Yes

 X No

Management's Corrective Action Plan

Not applicable

*Management's Summary Schedule of Prior
Audit Findings*

Not applicable

*Memorandum of Other Comments and
Recommendations*

Not applicable

Federal Awards

Not applicable

Section II – Financial Statement Findings

None.