

**WATERWORKS DISTRICT NO. 2
OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2010**

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

Release Date

8/31/11

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
BOARD OF COMMISSIONERS
DECEMBER 31, 2010

| <u>Commissioners</u> | <u>Office</u> | <u>Year Elected</u> | <u>Term</u> |
|---|----------------|---------------------|-------------|
| Clyde H. Masson 1527 Hwy 491, Cloutierville, La 71456 318/379-0126 | President | 2009 | 4 yrs. |
| John N. Rachal P. O. Box 33, Flora, La 71428 318/352-4731 | Vice-President | 2009 | 4 yrs. |
| John T. Batten, Jr. 4645 Hwy 494, Natchez, La 71456 318/352-6328 | Sec./Treasurer | 2009 | 4 yrs. |
| Ted Duggan 4463 Highway 494, Bermuda, La 71456 318/352-8636 | | 2009 | 2 yrs. |
| Donald D. Forest 252 Hwy 119, Natchez, La 71456 318/352-7412 | | 2009 | 2 yrs. |
| Henderson Howard, Jr. P. O. Box 236, Natchez, La 71456 318/357-3158 | | 2009 | 2 yrs. |
| Emile Metoyer 2353 Bermuda Road, Bermuda, La 71456 318/379-2407 | | 2009 | 4 yrs. |
| E. C. Roge 1894 Highway 119, Natchez, La 71456 318/352-9912 | | 2009 | 3 yrs. |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHEE PARISH
NATCHEZ, LOUISIANA
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DECEMBER 31, 2010

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WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

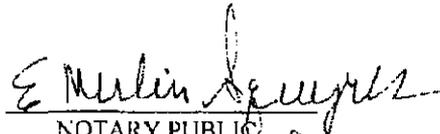
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Leslie Dunn, Manager of the Waterworks District No. 2 of Natchitoches Parish, who, duly sworn, deposes and says, that the financial statements herewith given presents fairly the financial position of Waterworks District No. 2 of Natchitoches Parish, at December 31, 2010 and the results of operations for the year then ended in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.


Manager

Sworn to and subscribed before me, this 15th day of June, 2011.


NOTARY PUBLIC
E. Merlin Spuyas, D# 033119

HINES, SHEFFIELD & SQUYRES, L.L.C.

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

FRANK S. HINES, CPA
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 2010, as listed in the table of contents. These basic financial statements are the responsibility of management of the Waterworks District No. 2 of Natchitoches Parish. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 2 of Natchitoches Parish as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated June 15, 2011, on our consideration of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting and on our 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 our 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks District No. 2 of Natchitoches Parish's financial statements as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The management's discussion and analysis section has 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.

The financial information for the year ended December 31, 2009, which is included for comparative purposes was taken from the financial report for that year in which we expressed an unqualified opinion dated May 7, 2010, on the basic financial statements of the Waterworks District No. 2 of Natchitoches Parish.

Hines, Sheffield & Squyres
Natchitoches, Louisiana
June 15, 2011

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

The Management's Discussion and Analysis of Waterworks District No. 2 of Natchitoches Parish's financial performance presents a narrative overview and analysis of Waterworks District No. 2 of Natchitoches Parish's financial activities for the year ended December 31, 2010. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the Waterworks District No. 2 of Natchitoches Parish's financial statements, which begin on page 9.

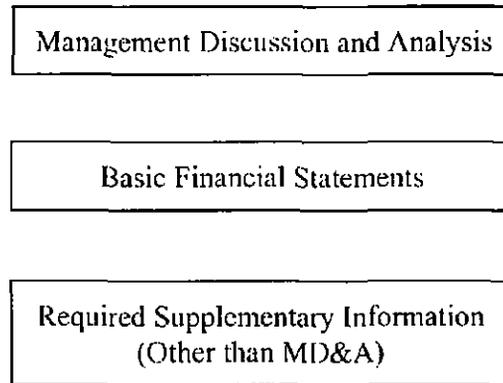
FINANCIAL HIGHLIGHTS

- 1) The Waterworks District No. 2 of Natchitoches Parish had cash and cash equivalents and investments of \$1,112,751 at December 31, 2010 which represents an increase of \$120,914 from prior year end.
- 2) The Waterworks District No. 2 of Natchitoches Parish had accounts receivable of \$630,696 at December 31, 2010 which represents a decrease of \$570,182 from prior year end.
- 3) The Waterworks District No. 2 of Natchitoches Parish had accounts payable and accruals of \$282,616 at December 31, 2010 which represents a decrease of \$487,434 from prior year end.
- 4) The Waterworks District No. 2 of Natchitoches Parish had total operating revenues of \$1,021,636 for the year ended December 31, 2010 which represents an increase of \$317,560 from prior year.
- 5) The Waterworks District No. 2 of Natchitoches Parish had charges for services revenues of \$963,780 for the year ended December 31, 2010 which represents an increase of \$302,205 from prior year.
- 6) The Waterworks District No. 2 of Natchitoches Parish had total operating expenses of \$912,021 for the year ended December 31, 2010 which represents an increase of \$324,550 from prior year.
- 7) The Waterworks District No. 2 of Natchitoches Parish had salaries and board per diem of \$236,492 for the year ended December 31, 2010 which represents an increase of \$43,095 from prior year.
- 8) The Waterworks District No. 2 of Natchitoches Parish had interest expense of \$116,578 for the year ended December 31, 2010 which represents an increase of \$30,733 from prior year.
- 9) The Waterworks District No. 2 of Natchitoches Parish had a net change in net assets of \$417,796 for the year ended December 31, 2010 which represents an increase of \$349,161 from prior year.
- 10) The Waterworks District No. 2 of Natchitoches Parish had capital asset purchases of \$992,527 for the year ended December 31, 2010 which represents a decrease of \$2,762,994 from prior year.
- 11) The Waterworks District No. 2 of Natchitoches Parish had long-term debt principal payments of \$808,488 for the year ended December 31, 2010 which represents an increase of \$744,603 from prior year.
- 12) The Waterworks District No. 2 of Natchitoches Parish had long-term debt proceeds of \$1,049,555 for the year December 31, 2010 which represents a decrease of \$2,877,810 from prior year.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

This annual report consist of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets and Cash Flows (on pages 9, 10 and 11) provide information about the activities of Waterworks District No. 2 of Natchitoches Parish as a whole and present a longer-term view of the District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the District's net assets and changes in them. You can think of the District's net assets, the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets
As of Year End

| | 2010 | 2009 |
|---|--------------|--------------|
| Current and other assets | \$ 1,756,820 | \$ 2,204,945 |
| Capital assets, net | 6,945,008 | 6,320,678 |
| Total Assets | \$ 8,701,828 | \$ 8,525,623 |
| Accounts payable, accruals and other liabilities | \$ 394,965 | \$ 877,623 |
| Long-term debt and leases | 6,131,612 | 5,890,545 |
| Total Liabilities | 6,526,577 | 6,768,168 |
| Net assets | | |
| Investment in capital assets, net of related debt | 813,396 | 430,133 |
| Restricted | 121,593 | 97,545 |
| Unrestricted | 1,240,262 | 1,229,777 |
| Total Net Assets | 2,175,251 | 1,757,455 |
| Total Liabilities and Net Assets | \$ 8,701,828 | \$ 8,525,623 |

Net assets of the Waterworks District No. 2 of Natchitoches Parish's increased by \$417,796 or 23.77% from the previous fiscal year. The increase is the result of operating and other revenues exceeding operating and nonoperating expenses during the fiscal year ended 2010 (See table below).

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

| | 2010 | 2009 |
|----------------------------------|--------------|------------|
| Operating Revenues | \$ 1,021,636 | \$ 704,076 |
| Operating Expenses | 912,021 | 587,471 |
| Operating Income | 109,615 | 116,605 |
| Nonoperating Revenues/(Expenses) | (82,719) | (47,970) |
| Capital Contributions | 390,900 | 0 |
| Change in net assets | \$ 417,796 | \$ 68,635 |

The Waterworks District No. 2 of Natchitoches Parish's total operating revenues increased by \$317,560 or 45.10% from the previous year. The total operating expenses increased by \$324,550 or 55.25% from the previous year.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, Waterworks District No. 2 of Natchitoches Parish had \$6,945,008, net of depreciation, invested in a broad range of capital assets (See table below). This amount represents a net increase (including additions and deductions) of \$624,330 or 9.88% from the previous year.

Capital Assets at Year End
(Net of Depreciation)

| | 2010 | 2009 |
|-------------------------------------|--------------|--------------|
| Land | \$ 18,721 | \$ 18,721 |
| Buildings and building improvements | 352,256 | 26,603 |
| Distribution system | 6,497,240 | 1,973,605 |
| Automobiles | 29,057 | 18,555 |
| Machinery and equipment | 47,734 | 37,852 |
| Construction in progress | 0 | 4,245,342 |
| Total | \$ 6,945,008 | \$ 6,320,678 |

This year's major additions included:

| | | |
|------------------------------------|----|---------|
| Building and Building Improvements | \$ | 337,066 |
| Distribution system | \$ | 606,697 |
| Automobiles | \$ | 24,724 |
| Machinery and Equipment | \$ | 24,040 |

This year's major retirements included:

None.

Debt

Waterworks District No. 2 of Natchitoches Parish had \$6,131,612 in long-term debt and leases outstanding at year end compared to \$5,890,545 at the previous year end, an increase of \$241,067 or 4.09% as shown in the table below.

Outstanding Debt at Year End

| | 2010 | 2009 |
|--------------------|--------------|--------------|
| Revenue bonds | \$ 6,131,612 | \$ 5,287,824 |
| Note payable - DHH | 0 | 602,721 |
| Totals | \$ 6,131,612 | \$ 5,890,545 |

New debt during the year included:

| | | |
|----------------------|----|-----------|
| Revenue Bonds - 2010 | \$ | 1,003,000 |
|----------------------|----|-----------|

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S RATES AND FEES

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

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

The Waterworks District No. 2 of Natchitoches Parish does not expect any significant changes in next year's results as compared to the current year.

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

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

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 177,210 | \$ 111,918 |
| Investments | 813,948 | 782,374 |
| Accounts receivable | 630,696 | 1,200,878 |
| Prepaid expenses | <u>12,328</u> | <u>11,185</u> |
| Total Current Assets | 1,634,182 | 2,106,355 |
| Noncurrent Assets | | |
| Restricted assets | 121,593 | 97,545 |
| Capital assets, net | 6,945,008 | 6,320,678 |
| Deposits | <u>1,045</u> | <u>1,045</u> |
| Total Assets | <u>\$ 8,701,828</u> | <u>\$ 8,525,623</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Current portion of long-term debt | \$ 176,347 | \$ 761,689 |
| Accounts payable and accruals | <u>282,616</u> | <u>770,050</u> |
| Total Current Liabilities | 458,963 | 1,531,739 |
| Noncurrent Liabilities | | |
| Long-term debt, net of current portion | 5,955,265 | 5,128,856 |
| Customer deposits | <u>112,349</u> | <u>107,573</u> |
| Total Liabilities | 6,526,577 | 6,768,168 |
| NET ASSETS | | |
| Investment in capital assets, net of related debt | 813,396 | 430,133 |
| Restricted | 121,593 | 97,545 |
| Unrestricted | <u>1,240,262</u> | <u>1,229,777</u> |
| Total Net Assets | <u>2,175,251</u> | <u>1,757,455</u> |
| Total Liabilities and Net Assets | <u>\$ 8,701,828</u> | <u>\$ 8,525,623</u> |

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 963,780 | \$ 661,575 |
| Connection and other fees | 29,250 | 40,943 |
| Miscellaneous | <u>28,606</u> | <u>1,558</u> |
| Total Operating Revenues | 1,021,636 | 704,076 |
| OPERATING EXPENSES | | |
| Advertising | 171 | 272 |
| Bad debt expense | 3,623 | 583 |
| Depreciation | 368,197 | 164,186 |
| Employee benefits | 40,777 | 36,698 |
| Fuel | 17,648 | 13,434 |
| Insurance | 42,043 | 39,783 |
| Legal and accounting | 11,449 | 10,949 |
| Office supplies and other expenses | 22,144 | 18,024 |
| Payroll taxes | 17,775 | 14,434 |
| Repairs and maintenance | 57,086 | 2,912 |
| Salaries and board per diem | 236,492 | 193,397 |
| Supplies | 28,111 | 48,074 |
| Telephone | 7,885 | 5,515 |
| Utilities | <u>58,620</u> | <u>39,210</u> |
| Total Operating Expenses | <u>912,021</u> | <u>587,471</u> |
| Operating Income | 109,615 | 116,605 |
| Nonoperating Revenues/(Expenses) | | |
| Interest income | 33,859 | 37,875 |
| Interest expense | <u>(116,578)</u> | <u>(85,845)</u> |
| Total Nonoperating Revenues/(Expenses) | <u>(82,719)</u> | <u>(47,970)</u> |
| Income/(Loss) Before Capital Contributions | 26,896 | 68,635 |
| Capital Contributions | <u>390,900</u> | <u>0</u> |
| Change in Net Assets | 417,796 | 68,635 |
| Net Assets, Beginning of year | <u>1,757,455</u> | <u>1,688,820</u> |
| Net Assets, End of year | <u>\$ 2,175,251</u> | <u>\$ 1,757,455</u> |

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 974,095 | \$ 710,379 |
| Cash payments to suppliers for goods and services | (358,048) | (167,899) |
| Cash payments to employees and board members for services | (230,029) | (193,278) |
| Other operating revenues/(expenses) | <u>28,606</u> | <u>1,558</u> |
| Net Cash From Operating Activities | 414,624 | 350,760 |
| Cash Flows From Capital and Related Financing Activities | | |
| Capital Contributions | 390,900 | 0 |
| Proceeds from revenue bonds | 1,596,092 | 2,784,938 |
| Principal payments on revenue bonds | (159,212) | (38,885) |
| Principal payments on certificate of indebtedness | 0 | (25,000) |
| Proceeds from note payable | 46,555 | 0 |
| Principal payments on notes payable | (649,276) | 0 |
| Acquisition/construction of capital assets | (1,502,681) | (3,063,000) |
| Interest paid | <u>(82,321)</u> | <u>(86,221)</u> |
| Net Cash From Capital and Related Financing Activities | (359,943) | (428,168) |
| Cash Flows From Investing Activities | | |
| Interest income | <u>34,659</u> | <u>39,152</u> |
| Cash Flows From Investing Activities | <u>34,659</u> | <u>39,152</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 89,340 | (38,256) |
| Cash and Cash Equivalents, Beginning of year | <u>209,463</u> | <u>247,719</u> |
| Cash and Cash Equivalents, End of year | <u>\$ 298,803</u> | <u>\$ 209,463</u> |
| Reconciliation of Operating Income to Net Cash From Operating Activities | | |
| Operating income | \$ 109,615 | \$ 116,605 |
| Adjustments to reconcile operating income to net cash from operating activities | | |
| Depreciation expense | 368,197 | 164,186 |
| Bad debt expense | 3,623 | 583 |
| (Increase)/decrease in operating assets | | |
| Accounts receivable | (23,710) | 2,629 |
| Prepaid expenses | (1,143) | (146) |
| Increase/(decrease) in operating liabilities | | |
| Accounts payable and accruals | (46,734) | 61,671 |
| Customer deposits | <u>4,776</u> | <u>5,232</u> |
| Net Cash Flows From Operating Activities | <u>\$ 414,624</u> | <u>\$ 350,760</u> |

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

Revenue Recognition

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

Expense Recognition

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

B. Cash and Cash Equivalents

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

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

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

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Receivables

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

D. Bad Debts

Uncollectible accounts receivable are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. At December 31, 2010, \$0 were considered to be uncollectible.

E. Capital Assets

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

F. Compensated Absences

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

G. Estimates

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

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

A. Deposits with Financial Institutions

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

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

A. Deposits with Financial Institutions (Continued)

Deposits in bank accounts are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The deposits at December 31, 2010 were secured as follows:

| | Cash | Certificates of Deposit | Total |
|---|------------|----------------------------|--------------|
| Deposits in bank accounts per balance sheet | \$ 298,403 | \$ 789,000 | \$ 1,087,403 |
| | Cash | Certificates of Deposit | Total |
| Bank Balances (Category 3 Only, If Any) | | | |
| a. Uninsured and uncollateralized | \$ 0 | \$ 0 | \$ 0 |
| b. Uninsured and uncollateralized with securities held by the pledging institution | 0 | 0 | 0 |
| c. Uninsured and uncollateralized with securities held by the pledging institution's trust department or agent but not in the entity's name | 0 | 0 | 0 |
| Total Category 3 Bank Balances | \$ 0 | \$ 0 | \$ 0 |
| Total Bank Balances (All Categories Including Category 3 Reported Above) | \$ 306,546 | \$ 789,000 | \$ 1,095,546 |

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

| Banking Institution | Amount |
|---------------------------|--------------|
| Exchange Bank | \$ 23,890 |
| Sabine State Bank | 282,656 |
| BB&T Financial | 50,000 |
| BMW Bank of North America | 135,000 |
| Capmark Bank | 60,000 |
| Evabank | 45,000 |
| Firstbank Highland Park | 45,000 |
| GE Capital | 50,000 |
| GE Money Bank | 129,000 |
| Montgomery Bank & Trust | 45,000 |
| Sallie Mae Bank | 50,000 |
| Washington Mutual Bank | 180,000 |
| Total | \$ 1,095,546 |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

B. Investments

Waterworks District No. 2 of Natchitoches Parish maintains investment accounts as authorized by the Louisiana Revised Statutes. Under state law, the District may invest in obligations of the U. S. Treasury and U. S. Agencies, or certificates of deposit. Investments are carried at fair market value as of the balance sheet date.

Investments can be classified according to the level of risk to the entity. Investments made by Waterworks District No. 2 of Natchitoches Parish as of December 31, 2010 are summarized below by the category of risk.

- Category 1 Insured or registered in the entity's name, or security held by the entity or its agent in the entity's name.
- Category 2 Uninsured or registered with securities held by the counterparty's trust department or agent in the entity's name.
- Category 3 Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

| <u>Type of Investments</u> | <u>Amount Reported in Risk</u> <u>Category 3. If Any</u> | | <u>Total Reported</u> <u>Amount - All</u> <u>Categories</u> <u>(Including</u> <u>Category 3)</u> | <u>Total Fair</u> <u>Value - All</u> <u>Categories</u> <u>(Including</u> <u>Category 3)</u> |
|----------------------------|---|---|--|---|
| | <u>Held By</u> <u>Counterparty</u> | <u>Held By</u> <u>Counterparty's</u> <u>Trust Dept. Or</u> <u>Agent Not In</u> <u>Entity's Name</u> | | |
| Money market accounts | \$ 0 | \$ 0 | \$ 24,948 | \$ 24,948 |
| Total | \$ 0 | \$ 0 | \$ 24,948 | \$ 24,948 |

NOTE 3 RESTRICTED ASSETS

At December 31, 2010, Waterworks District No. 2 of Natchitoches Parish had the following restricted assets:

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 121,593 |
| Total | <u>\$ 121,593</u> |

NOTE 4 ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at December 31, 2010:

| <u>Class of Receivable</u> | |
|----------------------------|-------------------|
| Charges for services | \$ 76,228 |
| Revenue bonds | 549,335 |
| Interest | <u>5,133</u> |
| Total | <u>\$ 630,696</u> |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 5 CAPITAL ASSETS

A summary of Waterworks District No. 2 of Natchitoches Parish's capital assets at December 31, 2010 follows:

| | Balance December 31, 2009 | Additions | Retirements | Balance December 31, 2010 |
|---|---------------------------------|---------------------|-----------------------|---------------------------------|
| Capital Assets, not being depreciated | | | | |
| Land | \$ 18,721 | \$ 0 | \$ 0 | \$ 18,721 |
| Construction in progress | <u>4,245,342</u> | <u>0</u> | <u>(4,245,342)</u> | <u>0</u> |
| Total Capital Assets, not being depreciated | 4,264,063 | 0 | (4,245,342) | 18,721 |
| Capital Assets, being depreciated | | | | |
| Buildings and Building Improvements | 58,079 | 337,066 | 0 | 395,145 |
| Less accumulated depreciation | <u>(31,476)</u> | <u>(11,413)</u> | <u>0</u> | <u>(42,889)</u> |
| Total Buildings and Building Improvements | 26,603 | 325,653 | 0 | 352,256 |
| Distribution System | 3,422,673 | 4,852,039 | 0 | 8,274,712 |
| Less accumulated depreciation | <u>(1,449,068)</u> | <u>(328,404)</u> | <u>0</u> | <u>(1,777,472)</u> |
| Total Distribution System | 1,973,605 | 4,523,635 | 0 | 6,497,240 |
| Automobiles | 88,250 | 24,724 | 0 | 112,974 |
| Less accumulated depreciation | <u>(69,695)</u> | <u>(14,222)</u> | <u>0</u> | <u>(83,917)</u> |
| Total Automobiles | 18,555 | 10,502 | 0 | 29,057 |
| Machinery and Equipment | 55,382 | 24,040 | 0 | 79,422 |
| Less accumulated depreciation | <u>(17,530)</u> | <u>(14,158)</u> | <u>0</u> | <u>(31,688)</u> |
| Total Machinery and Equipment | <u>37,852</u> | <u>9,882</u> | <u>0</u> | <u>47,734</u> |
| Total Capital Assets, being depreciated | <u>2,056,615</u> | <u>4,869,672</u> | <u>0</u> | <u>6,926,287</u> |
| Total Capital Assets, net | <u>\$ 6,320,678</u> | <u>\$ 4,869,672</u> | <u>\$ (4,245,342)</u> | <u>\$ 6,945,008</u> |

NOTE 6 ACCOUNTS PAYABLE AND ACCRUALS

The following is a summary of accounts payable at December 31, 2010:

| <u>Class of Payable</u> | |
|--------------------------|-------------------|
| Vendor | \$ 16,541 |
| Construction in progress | 217,564 |
| Interest | 40,659 |
| Payroll taxes | <u>7,852</u> |
| Total | <u>\$ 282,616</u> |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 7 LONG TERM-DEBT

The following is a summary of debt transactions of Waterworks District No. 2 of Natchitoches Parish for the year ended December 31, 2010:

| | Balance <u>Dec. 31, 2009</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>Dec. 31, 2010</u> | Current <u>Amounts</u> |
|----------------------|---------------------------------|---------------------|-------------------|---------------------------------|---------------------------|
| Revenue Bonds - 1987 | \$ 240,041 | \$ 0 | \$ 9,127 | \$ 230,914 | \$ 9,664 |
| Revenue Bonds - 2004 | 1,547,783 | 0 | 32,085 | 1,515,698 | 33,311 |
| Note payable - 2008 | 602,721 | 46,555 | 649,276 | 0 | 0 |
| Revenue Bonds - 2008 | 3,500,000 | 0 | 118,000 | 3,382,000 | 123,000 |
| Revenue Bonds - 2010 | 0 | 1,003,000 | 0 | 1,003,000 | 10,372 |
| Total | <u>\$ 5,890,545</u> | <u>\$ 1,049,555</u> | <u>\$ 808,488</u> | <u>\$ 6,131,612</u> | <u>\$ 176,347</u> |

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

| | Interest <u>Rate</u> | Maturity <u>Date</u> | Amount <u>Issued</u> | Amount <u>Outstanding</u> |
|----------------------|-------------------------|-------------------------|-------------------------|------------------------------|
| Revenue Bonds - 1987 | 5.75% | 2027 | \$ 350,000 | \$ 230,914 |
| Revenue Bonds - 2004 | 4.50% | 2044 | 1,678,578 | 1,515,698 |
| Revenue Bonds - 2008 | 3.45% | 2029 | 3,500,000 | 3,382,000 |
| Revenue Bonds - 2010 | 4.00% | 2050 | 1,003,000 | 1,003,000 |
| Total | | | <u>\$ 6,531,578</u> | <u>\$ 6,131,612</u> |

The annual requirements to amortize all debt outstanding as of December 31, 2010, including interest payments are as follows:

| <u>Year Ending December 31</u> | Revenue Bonds <u>Principal</u> | Revenue Bonds <u>Interest</u> | <u>Total</u> |
|------------------------------------|--------------------------------------|-------------------------------------|---------------------|
| 2011 | \$ 176,347 | \$ 237,160 | \$ 413,507 |
| 2012 | 183,871 | 230,393 | 414,264 |
| 2013 | 191,513 | 223,333 | 414,846 |
| 2014 | 199,286 | 215,973 | 415,259 |
| 2015 | 207,191 | 208,307 | 415,498 |
| 2016-2020 | 1,175,673 | 914,673 | 2,090,346 |
| 2021-2025 | 1,445,460 | 667,362 | 2,112,822 |
| 2026-2030 | 1,400,164 | 377,180 | 1,777,344 |
| 2031-2035 | 573,349 | 182,343 | 755,692 |
| 2036-2040 | 164,722 | 98,896 | 263,618 |
| 2041-2045 | 186,419 | 65,096 | 251,515 |
| 2046-2050 | 227,617 | 23,897 | 251,514 |
| Total | <u>\$ 6,131,612</u> | <u>\$ 3,444,613</u> | <u>\$ 9,576,225</u> |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 8 LEASES

The Waterworks District No. 2 of Natchitoches Parish was not obligated under any noncancellable capital or operating leases at December 31, 2010.

NOTE 9 LITIGATION

There was no outstanding litigation against the Waterworks District No. 2 of Natchitoches Parish at December 31, 2010.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE 1

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
DECEMBER 31, 2010

| <u>Members</u> | <u>Meetings</u> | <u>Amount</u> |
|-----------------------|-----------------|-----------------|
| John T. Batten, Jr. | 12 | \$ 720 |
| Ted Duggan | 11 | 660 |
| Donald D. Forest | 12 | 720 |
| Henderson Howard, Jr. | 12 | 720 |
| Clyde Masson | 12 | 720 |
| Emile McToyer | 8 | 480 |
| Norman Rachal | 10 | 600 |
| E. C. Roge | 11 | <u>660</u> |
| Total | | <u>\$ 5,280</u> |

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHE PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION #1

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued. | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a) Material weakness(es) identified? | No |
| | b) Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

- | | | |
|----|--|---------------|
| 1. | Internal control over major program: | |
| | a) Material weakness(es) identified? | No |
| | b) Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 2. | Type of auditors report issued on compliance for major programs. | Unqualified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular OMB A-133? | No |

4. Identification of major programs:

CFDA Number
10.760

Name of Federal Program
Water and Waste Disposal Systems
for Rural Communities

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

SECTION #2

FINANCIAL STATEMENT FINDINGS

None reported.

SECTION #3

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2010

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM NAME</u> | <u>CFDA</u> <u>NUMBER</u> | <u>Expenditures</u> |
|--|------------------------------|----------------------------|
| United States Department of Agriculture | | |
| Direct Assistance | | |
| Passed through Rural Development | | |
| Water and Waste Disposal Systems for Rural Communities * | 10.760 | \$ 390,900 |
| Passed through Louisiana Department of Agriculture and Forestry | | |
| Water and Waste Disposal Systems for Rural Communities * | 10.760 | <u>1,515,698</u> |
| Total United States Department of Agriculture | | 1,906,598 |
| Environmental Protection Agency | | |
| Pass through Louisiana Department of Health and Hospitals, Office of Public Health | | |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | <u>4,615,914</u> |
| Total Environmental Protection Agency | | <u>4,615,914</u> |
| TOTAL FEDERAL AWARDS | | <u>\$ 6,522,512</u> |

Notes to the Schedule of Federal Awards

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

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

* Denotes a major federal award program.

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REPORT ON 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

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

We have audited the accompanying basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting as a basis for designing our auditing procedures 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 Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks District No. 2 of Natchitoches Parish's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

Page #2

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

Hines, Sheffield & Squyres
Natchitoches, Louisiana
June 15, 2011

HINES, SHEFFIELD & SQUYRES, L.L.C.

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

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

Compliance

We have audited the compliance of the Waterworks District No. 2 of Natchitoches Parish with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. The Waterworks District No. 2 of Natchitoches Parish's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Waterworks District No. 2 of Natchitoches Parish's management. Our responsibility is to express an opinion on the Waterworks District No. 2 of Natchitoches Parish's compliance based on our audit.

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

In our opinion, the Waterworks District No. 2 of Natchitoches Parish complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Waterworks District No. 2 of Natchitoches Parish is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Waterworks District No. 2 of Natchitoches Parish's internal control over compliance.

A deficiency in internal control over compliance exist 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Hines, Sheffield & Squyres
Natchitoches, Louisiana
June 15, 2011

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHEES PARISH
NATCHEZ, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

| <u>Ref. No.</u> | <u>Fiscal Year Finding Initially Occurred</u> | <u>Description of Finding</u> | <u>Corrective Action Taken (Yes, No, Partially)</u> | <u>Planned Corrective Action/Partial Corrective Action Taken</u> |
|-----------------|---|-------------------------------|---|--|
|-----------------|---|-------------------------------|---|--|

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

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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