

**LIVINGSTON PARISH
WARD TWO WATER DISTRICT
DENHAM SPRINGS, LOUISIANA**

Basic Financial Statements
and Independent Auditor's Reports

As of and for the Year Ended December 31, 2005
With Supplemental Information Schedules

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

Release Date 8/2/06

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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

**Board Members of
Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

I have audited the accompanying basic financial statements of the **Livingston Parish Ward Two Water District**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of **Livingston Parish Ward Two Water District's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

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

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the **Livingston Parish Ward Two Water District**, as of December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 05, 2006 on my consideration of the **Livingston Parish Ward Two Water District's** internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Livingston Parish Ward Two Water District's** basic financial statements. The accompanying supplementary information, such as the Management's Discussion and Analysis and the other supplemental information, as listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements of **Livingston Parish Ward Two Water District**, but are required by the Governmental Standards Board and the United States Department of Agriculture, respectively. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and I express no opinion on it.

Leroy J. Chustz
Certified Public Accountant
June 5, 2006
LJC/JSC/jlc

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

MANAGEMENT'S DISCUSSION AND ANALYSIS 12-31-2005

This section of the Livingston Parish Ward Two Water District's annual financial report presents our discussion and analysis of the District's financial performance during this fiscal year. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the additional information stated on attached financial summaries

OVERVIEW OF FINANCIAL STATEMENTS:

The following narrative illustrates the minimum requirements as established by Governmental Accounting Standards Board Statement 34 as it pertains to the Livingston Parish Ward Two Water District.

1. ****MANAGEMENT DISCUSSION and ANALYSIS****
 2. ****BASIC FINANCIAL STATEMENTS****
 3. ****REQUIRED SUPPLEMENTARY INFORMATION****
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BASIC FINANCIAL STATEMENTS:

This annual report consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the operations of Ward Two Water District of Livingston Parish as a whole and present a longer-term view of the current District 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 Activities report the District's net assets and changes in them. The net difference between the assets and liabilities measures the health of the District's finances. Increases or decreases are noted as a measurement for your evaluation of the financial position of the District.

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

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FINANCIAL HIGHLIGHTS:

1- District had cash and investments of \$305,790 on 12-31-2005 representing a decrease of \$ 1,551,638 from the prior year end. The decrease results from the use of 2004 bond issuance funds for ongoing construction expansion projects in 2005.

2- District had accounts receivable of \$234,566 on 12-31-2005 representing an increase of \$ 55,799 from prior year end (reflective of increase in customers).

3- District had inventory of \$404,478 on 12-31-2005 representing an increase of \$52,527 from prior year end. Customer additions continue to require more supplies for proper support of connecting into the water system.

4- District had restricted assets of \$2,251,286 on 12-31-2005 representing an increase of \$6,890 from prior year end.

5- District had construction in progress of \$4,524,104 on 12-31-2005 representing an increase of \$1,945,907 from prior year end. The major portion of the construction projects include water line installations expansion phases that are scheduled to be completed in the first six months of 2006.

6- District had land, plant facilities and equipment net of accumulated depreciation of \$16,880,742 on 12-31-2005 representing an increase of \$1,370,753 from prior year end. Depreciation expense totaled \$640,379 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation.

7- District had capital purchases and asset improvements placed in service of \$2,011,132 during period ended 12-31-2005. A set of water wells and an elevated tank were placed into service during 2005. Several of major line installations will be placed into service in the first six months of 2006.

8- District had water service sales, tap fee revenues, and sewer maintenance fees of \$3,735,738 along with \$260,328 of non operating income on 12-31-2005

9-District had net income from all operations of \$517,412 on 12-31-2005

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

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Financial Analysis of the Entity:

STATEMENT OF NET ASSETS:

	2005	2004
Current and other assets	\$ 1,294,587	\$ 2,680,764
Cash assets restricted	2,251,286	2,244,396
Capital Assets (Net)	21,404,846	18,088,186
Bond Issuance (Net)	337,875	352,253
Total Assets	\$ 25,288,594	\$ 23,365,599
Current liabilities	\$ 739,144	\$ 666,728
Other liabilities	710,623	750,550
Long Term debt payable	17,202,931	16,090,165
Total Liabilities	\$ 18,652,698	\$ 17,507,444
Net Assets:		
Reserved Retained Earnings	916,222	1,155,074
Unreserved Earnings	5,719,673	4,703,081
Total Net Assets	6,635,895	5,858,155

Net assets of the District increased by \$777,740 from the previous year resulting from operating and non-operating revenues exceeding expenses for 12-31-2005.

General Revenue Information:

The District receives no ad-valorem taxes or sales taxes, but rather is a customer-user based system whereby customers of the District pay service fees on water usage by previously established water rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly water bill which is reserved. The District has experienced extreme growth in the past six year period with a forecast of continued accelerated growth in 2006. The customer base has grown from an approximate 7000 customers in 1998 to a billable customer count exceeding 14,000 by the close of 12-31-2005. A southern expansion is now in progress and will be completed in phases during 2006-2007, (increasing customers further).

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana
Statement of Activities**

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	2005	2004
Water Service Sales-operations	\$ 3,735,738	\$ 3,188,103
Non operating revenues	260,328	203,075
	-----	-----
Subtotal Revenues	3,996,066	3,391,178
District Expenses direct	(1,211,381)	(1,134,253)
District Expenses general	(2,006,945)	(1,949,719)
Beginning Net Assets	5,858,155	5,550,948
Changes in net assets	\$ 777,740	\$ 307,207
Ending Net Assets	<u>6,635,895</u>	<u>5,858,155</u>

District total revenues increased by \$547,635 and non operating revenues increased by \$57,253 respectively from the previous year. The total cost of operations increased by \$ 134,354 from the previous year due to the following:
(A) increased depreciation and amortization resulting from assets being placed into service in 2005

(B) increased engineering and right of way professional fees for many renovation projects accomplished to improve selected water system infrastructure sites

(C) increased supplies in proportion to the customer count increasing
General operations expenses increased by \$57,226 composed from majority of additional staff being added in 2005 to maintenance new and existing systems.

Capital Assets:

District invested in a major improvement project in the southern area of the District during 2005. The southern expansion project will increase customer base substantially during 2006-2007 from southern areas of the District. A final portion of the 2004 bond issuance funds was used to complete some of additional capital improvements in 2005. The new expansion in the southern area will be funded by the DWRL program which began in 2005, and will be completed in phases by early 2006 and on into 2007.

Livingston Parish Ward Two Water District
Denham Springs, Louisiana
Statement of Activities (Continued)

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Summary: The District committed to continue to advance improvements to the District's infrastructure by funding improvement projects which will attempt to keep pace with the customer demands of Ward Two. District cash balances were converted into the construction of water wells and elevated tanks during 2005 and will continue through 2006 with the completion of new lines in selected demand areas.

Capital Assets:

	2005	2004
1.LAND	\$ 322,672	\$ 322,672
<hr style="border-top: 1px dashed black;"/>		
Systems, equipment, assets	21,449,657	19,475,095
(Additions in 2005 \$2,011,132)		
(Accum. Depreciation expense)	(4,891,587)	(4,287,774)
<hr style="border-top: 1px dashed black;"/>		
2.NET EQUIP- SYSTEMS	\$ 16,558,070	15,187,317
<hr style="border-top: 1px solid black;"/>		
3.CONSTRUCTION IN PROGRESS	\$ 4,524,104	2,578,197
(Southern expansion projects)		
In progress for 2005-6		
4.COST OF ISSUANCE	359,442	352,253
(2004 amortization expense)	(21,567)	(7,189)
Total Capital Assets Net	\$ 21,742,721	\$ 18,433,250

DEBT:

District has a total outstanding debt of \$17,742,931 as of 12-31-2005. A prior year bond issuance has provided the resources for new wells, line installation, and elevated tanks. The completion of this selected expansion has resulted in additional customers. During 2005, an additional loan from DWRL for a large southern expansion of the District is providing additional funds for new lines and selected wells which will grow the customer base even greater.

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

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CONTACTING Livingston Parish Ward Two Water District's Management:

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to show that the Livingston Parish Ward Two Water District's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Manager, Preston Killcrease , Post Office Box 637 Denham Springs, La 70727.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

1. Proprietary Fund Financial Statements:
 - Enterprise funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

Livingston Parish Ward 2 Water District
Proprietary Fund - Enterprise Fund
Statement of Net Assets
As of December 31, 2005

Assets

Current Assets:

Cash and Cash Equivalents	\$ 305,790
Accounts Receivable, Net	234,566
Unbilled Water Sales	217,540
Prepaid Insurance	111,145
Inventory	<u>404,078</u>
Total Current Assets	<u>1,273,119</u>

Restricted Assets:

Cash and Cash Equivalents	<u>2,251,286</u>
Total Restricted Assets	<u>2,251,286</u>

Property, Plant, and Equipment

Land	322,672
Water System, Equipment & Property (Net)	16,558,070
Construction in Progress	<u>4,524,104</u>
Net Property, Plant, and Equipment (Net)	<u>21,404,846</u>

Intangible Assets

Bond Issuance costs (Net)	<u>337,875</u>
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Other Assets

Deposits	<u>21,468</u>
Total Assets	<u>25,288,594</u>

Liabilities

Current Liabilities (Payable From Current Assets):

Accounts Payable	79,278
Taxes Payable	1,775
Accrued salaries and leave	11,268
Loan Payable	21,000
Accrued interest payable	1,381
Customer Deposits	<u>624,441</u>
Total Current Liabilities (Payable From Current Assets)	<u>739,144</u>

Current Liabilities (Payable From Restricted Assets):

Accrued interest payable	170,623
Bonds payable	<u>540,000</u>
Total Current Liabilities (Payable From Restricted Assets)	<u>710,623</u>

Long-Term Liabilities:

Bonds payable	<u>17,202,931</u>
Total Long-Term Liabilities	<u>17,202,931</u>
Total Liabilities	<u>18,652,698</u>

Net Assets

Reserved Net Assets for revenue bond retirement & system repairs and improvements	916,222
Investment in Capital Assets - Net of related debt	4,201,915
Unrestricted Net Assets	<u>1,517,758</u>
Total Net Assets	<u>\$ 6,635,895</u>

The accompanying notes are an integral part of this financial statement

Livingston Parish Ward 2 Water District
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds - Enterprise Funds
For the Year Ended December 31, 2005

Operating Revenues	
Water Sales	\$ 3,464,121
Water tap fees	235,170
Sewer Maintenance fees and charges	<u>36,446</u>
Total Operating Revenues	<u>3,735,738</u>
Operating Expenses	
Direct Expenses	
Depreciation	640,379
Amortization	14,378
Electricity	175,458
Equipment operation & maintenance	112,249
Systems maintenance	147,557
Meter reading	105,456
Small tools and supplies	<u>15,903</u>
Total Direct Expenses	<u>1,211,381</u>
General & Administrative Expenses	
Salaries & benefits	720,074
Payroll taxes and group insurance	129,699
Insurance	143,052
Interest	737,969
Office expense	73,494
Professional fees	176,960
Telephone	18,624
Per diem	6,900
Miscellaneous	<u>172</u>
Total General & Administrative Expenses	<u>2,006,944</u>
Total Operating Expenses	<u>3,218,326</u>
Net Operating Income (Loss)	<u>517,412</u>
Nonoperating Revenue	
Special Services	79,670
Forfeited discounts	70,591
Interest	79,203
Miscellaneous	21,738
Department of Health & Hospitals service fee	4,066
Gain on sale of capital assets	<u>5,060</u>
Total Nonoperating Revenues (Expenses)	<u>260,328</u>
Net Income (Loss)	<u>777,740</u>
Net Assets at Beginning of Year	<u>5,858,155</u>
Net Assets at End of Year	<u>\$ 6,635,895</u>

The accompanying notes are an integral part of this financial statement

Livingston Parish Ward 2 Water District
Statement of Cash Flows
Proprietary Funds - Enterprise Funds
For the Year Ended As of December 31, 2005

Cash Flows From Operating Activities	
Cash received from customers and others	\$ 3,660,022
Cash payments to suppliers for goods and services	-1,469,917
Cash payments to employees for services	-849,773
Other operating revenues (expenses)	<u>255,268</u>
Net Cash Provided (Used) by Operating Activities	<u>1,595,600</u>
Cash Flows From Capital and Related Financing Activities	
Cash payments to creditors	-573,448
Cash received from loan proceeds	<u>1,652,214</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>1,078,766</u>
Cash Flows From Investing Activities	
Proceeds from the sale of capital assets	5,060
Cash payments for the aquisition of capital assets	<u>-3,957,039</u>
Net Cash Provided (Used) by Investing Activities	<u>-3,951,979</u>
Net Increase (Decrease) in Cash	-1,277,613
Cash, Beginning of Year	<u>1,583,404</u>
Cash, End of Year	<u>\$ 305,791</u>

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

Net Income (loss)	\$ 772,680
Adjustments to reconcile operating income (loss) to net cash	
Depreciation	640,379
(Increase) decrease in Accounts Receivable	(55,798)
(Increase) decrease in Prepaid Expenses	(16,123)
(Increase) decrease in unbilled water sales	(19,918)
(Increase) decrease in inventory	(52,527)
(Increase) decrease in investments	274,024
(Increase) decrease in restricted cash	(6,890)
(Increase) decrease in deposits	(21,093)
(Increase) decrease in bond issuance costs	14,378
Increase (decrease) in accounts payable	20,859
Increase (decrease) in accrued liabilities	(4,327)
Increase (decrease) in customer deposits	49,957
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,595,600</u>

The accompanying notes are an integral part of this financial statement

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

INTRODUCTION

Ward Two Water District, Denham Springs, Louisiana, was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on August 23, 1975, pursuant to the provisions of R.S. 33:3811, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the district is to provide water to customers within the boundaries of the district. The District is composed of five board members who are appointed by the Parish Council of Livingston. Board members are compensated for meeting attendance at the rate of \$100.00 per meeting. The District serves approximately one third of the Parish of Livingston. The areas of service are in the western portion of the parish, north of Florida Boulevard and a small area south of Florida Boulevard between Denham Springs and Walker. The District serves approximately 49,808 people with twenty eight employees. As of March 31, 2005 there were 12,452 metered customers, three hundred and six miles of water main lines within a service area of 81,291 acres.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Ward Two Water District is considered a component unit of Livingston Parish Government. As a component unit, the accompanying financial statements are included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the Ward Two Water District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, fees and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meetings the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. All individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements. Ward Two Water District has no governmental funds and only one proprietary fund.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Ward Two Water District reports the following proprietary funds:

Water Revenue Operating Fund - Accounts for financial resources of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance *for their business-type activities and enterprise funds*, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 District's primary sources of revenues are user charges and fees charged for connecting to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

The entity's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the Ward Two Water District's investment policy allow the entity to invest in collateralized certificates of deposits, government back securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

D. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible. The District periodically evaluates the collectability of delinquent accounts. The District's experience has been that accounts write offs have been very low due to the necessity of water and the customer deposit which is required for all customers.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

E. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

F. Restricted Assets

The District is required to maintain the following reserves as a condition of the loans made to the Water District and/or bond covenants.

2002 DEQ Loan

1. Debt Service Fund

The requirement is establishment of fund "into which will be deposited monthly from the revenue account accumulations for the payment of principal and interest due on the bonds" as the payment of principal and interest are required semiannually.

2. Debt Service Reserve

The requirement is the establishment of a fund "into which will be deposited an amount equal to one years payments of principal and interest."

2004 Revenue Bonds

1. Bond Sinking Fund

On or before the 20th day of each month there shall be transferred from the Revenue Fund to the Sinking Fund, a sum equal to one-sixth (1/6) of the interest falling due on the next interest payment date a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sum, if any, as may be required to pay said principal and interest as the same respectively become due. Monies in the sinking fund constitute trust funds and shall be used solely and are hereby expressly, exclusively pledged for the purpose of paying the principal of, interest on and Administrative Fee, if any, with respect to the Bonds and the Outstanding Parity Bonds promptly when due.

2. Reserve Fund

On or before the 20th day of each month there shall be transferred from the Revenue Fund to the Reserve Fund a sum at least equal to 25% of the amount required to be paid into the Sinking Fund for each month. Payments into the Reserve fund shall continue until such time as there has been accumulated therein a sum equal to the Reserve requirement. Monies in the Reserve fund shall retained solely for the purpose of paying of principal and interest on the Bonds payable from the Sinking fund as to which the bond would otherwise be default. The Reserve and the DEQ Reserve were fully funded from the 2004 Bond proceeds in the amount of \$1,230,896.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

3. Renewal and Replacement Fund

The Renewal and Replacement Fund is established pursuant to the 2000 Bond Resolution authorizing the Outstanding Parity Bonds, to pay for extensions, additions, improvements, renewals and replacements necessary to properly operate the System by transferring from the Revenue Fund to the Renewal and Replacement Fund monthly on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the Gross Revenues of the System for the proceeding month, provided that such sum is available after provisions is made for the payments required under paragraphs (a), (b), and © above. Such payments to the Renewal and Replacement Fund shall continue until such time as there has been accumulated in said Fund the sum of \$500,000 (the "Renewal and Replacement Fund Requirement"), whereupon such payments may cease and need be resumed thereafter only if the total amount of money on deposit in said fund is reduced below the Renewal and Replacement Fund Requirement, in which event such payments shall be resumed and continue until said Renewal and Replacement is again accumulated. In addition to caring for extensions, additions, improvements, renewals and replacements necessary to properly operate the System, the money in the Renewal and Replacement Fund may also be used to pay the principal of and the interest on the Bonds and the Outstanding Parity Bonds, for the payment of which there is not sufficient money in the Sinking Fund and Reserve Fund and any Parity Obligations issued hereafter in the manner provided by the Bond Resolution for the payment of which there is not sufficient money in the Sinking fund and Reserve Fund described in paragraphs (b) and © above, but the money in said Renewal and Replacement Fund shall not be use3d for the making of improvements and extensions to the System (other than emergency repairs or replacements) or for the payment of principal of or interest on the Bonds or the Outstanding Parity Bonds if the use of said money will leave in the said Renewal and Replacement Fund for the making of emergency repairs or replacements less than the sum of 10% of the Renewal and Replacement Fund Requirement.

G. Capital Assets

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense included during the current fiscal year. Of this amount, no interest was included as part of the cost of capital assets under construction in connection with construction projects.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure assets	N/A
Land improvements	40
Buildings and building improvements	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

H. Compensated Absences

The Livingston Parish Ward Two Water District provides various forms of compensated leave benefits to its employees. An employee can earn sick leave and vacation leave based upon the number of hours worked each pay period and years of continuous employment. At termination or retirement only unused vacation time can be paid to the employee. As a result, only the amount of unused vacation time is accrued in the Livingston Parish Ward Two Water District basic financial statements.

The Ward Two Water District's recognition and measurement criteria for compensated absences follows:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Only the portion that employees can be paid for is reported on the government-wide financial statements

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Fund Equity

In the government wide financial statements equity is reported as net assets and is segregated into three components. Those components are: amounts invested in capital assets (net of related debt), amounts restricted and unrestricted net assets.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the Ward Two Water District, which are either unusual in nature or infrequent in occurrence.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the

LIVINGSTON PARISH WARD TWO WATER DISTRICT

Denham Springs, Louisiana

Notes to the Financial Statements

For the Year Ended December 31, 2005

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Information

Livingston Ward Two Water District uses the following budget practices:

- The District's secretary/treasurer prepares a proposed budget and submits to the Board of Directors no later than fifteen days prior to the beginning of each fiscal year.
- A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
- A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
- After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is being adopted.
- All budgetary appropriations lapse at the end of each fiscal year.
- Budgets for the funds are presented on the modified accrual basis of accounting. All budgetary amounts presented reflect the original amended budget (which have been adjusted for legally authorized revisions of the annual budget during the year).

3. CASH AND CASH EQUIVALENTS

At December 31, 2005, the District has cash and cash equivalents (book balances) as follows:

December 31, 2005

Cash on Hand	\$ 1,981
Demand Deposits	<u>303,809</u>
Total	<u>\$ 305,790</u>

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

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

December 31, 2005

Bank balances	\$ <u>491,067</u>
Federal deposit insurance	106,533
Pledged securities	<u>384,534</u>
 Total insurance and securities	 <u>491,067</u>
 Unsecured deposits at 12/31/05	 <u><u>\$ 0</u></u>

Deposits are collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.

4. INVESTMENTS - RESTRICTED ASSETS

Investments consist of Certificates of Deposit in various financial Institutions.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or it's agent in the District's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counter party, or by it's trust department or agent, but not in the District's name.

All investments held by the District fall into category 1 credit risk, defined as: insured or registered, or securities held by the District or it's agent in the District's name. In accordance with GASB-31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, all investments are carried at fair value, with the estimate of fair value based on quoted market prices.

5. ACCOUNTS RECEIVABLE

Customer accounts receivable are as follows:

December 31, 2005	
Accounts Receivable (gross)	\$ 233,889
Insufficient funds checks receivable	3,506
Less: Allowance for uncollectible accounts	<u>(2,829)</u>
Accounts Receivable (net)	<u><u>\$ 234,566</u></u>

LIVINGSTON PARISH WARD TWO WATER DISTRICT

Denham Springs, Louisiana

Notes to the Financial Statements

For the Year Ended December 31, 2005

6. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in capital assets.

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05
Land	\$ 322,672			\$ 322,672
Capital Assets Being Depreciated:				
Buildings	258,834			258,834
System Improvements	18,026,134	\$ 1,971,006		19,997,140
Equipment	896,445	40,126	\$ (9,955)	926,616
Furniture and fixtures	15,593			15,593
Vehicles	278,088		(26,615)	251,473
Total Capital Assets Being Depreciated	<u>19,475,094</u>	<u>2,011,132</u>	<u>(36,570)</u>	<u>21,449,656</u>
Less Accumulated Depreciation For:				
Buildings	(89,098)	(6,472)		(95,570)
System Improvements	(3,225,119)	(503,487)		(3,728,606)
Equipment	(615,348)	(90,321)	9,955	(695,714)
Furniture and fixtures	(13,099)	(437)		(13,536)
Vehicles	(219,910)	(39,662)	26,615	(232,957)
Other	(125,201)			(125,201)
Total Accumulated Depreciation	<u>(4,287,775)</u>	<u>(640,379)</u>	<u>36,570</u>	<u>(4,891,584)</u>
Capital Assets Being Depreciated, Net	<u>\$ 15,187,319</u>	<u>\$ 1,370,753</u>	<u>\$ 0</u>	<u>\$ 16,558,072</u>

7. LONG-TERM DEBT

The following is a summary of loan transactions of the Water District for the years ending December 31, 2005 :

	DEQ LOAN	2004 REVENUE BONDS	2005 DHM BONDS	GENERAL OBLIGATION BONDS	TOTAL
Bonds payable at January 1, 2005	\$ 8,380,000	\$ 8,250,000	\$ 0	\$ 358,000	\$ 16,988,000
Bonds Issued			1,652,514		1,652,514
Bonds Retired	(330,000)	(245,000)		(20,000)	(595,000)
Bonds payable at December 31,	<u>\$ 8,050,000</u>	<u>\$ 8,005,000</u>	<u>\$ 1,652,514</u>	<u>\$ 338,000</u>	<u>\$ 18,045,514</u>
Advance refunding difference					<u>\$ (281,583)</u>
Net Bonds Payable December 31, 2005					<u>\$ 17,763,931</u>

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

Repayment is to be made as follows:

A. \$650,000 General Obligation Bonds of 1977

Interest on the bonds is payable semiannually on June 1st in the amounts varying from \$25,350 to \$22,625 through the year 2017 and are issued as fully registered certificated bonds.

B. \$9,000,000 DEQ Loan

The District borrowed \$9,000,000 from the Louisiana Department of Environmental Quality. The interim phase was concluded December 31, 2002. At that time, the loan was converted to permanent financing and the repayment term will be 20 years at 3.95% interest.

C. \$8,250,000 Waterworks System Revenue Bonds of 2004

The District issued \$8,250,000 of revenue bonds. Interest is payable April 1 and October 1, each year. Interest rates of the bonds range from 3.00% to 5.125%. Principal payments are due April 1, 2005 through 2029. Principal payments range from \$200,000 to \$540,000.

The following reserve accounts are required as a condition of the above loans or bonds:

COMBINED 2004 REVENUE PARITY BONDS AND 2002 DEQ LOAN

	Sinking Fund	Reserve Fund	Depreciation and Contingency Fund
Required balance	\$ 242,765	\$ 1,270,447	\$ 500,000
Balance at December 31, 2005	242,765	1,270,447	500,000
Over (Under) Funded Amount	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The annual requirements to amortize all long-term debt outstanding, at December 31, 2005, including interest of \$8,575,257, are as follows:

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2005

YEAR ENDED	REVENUE BONDS 2004 PARITY BONDS		GENERAL OBLIGATION BONDS		DEQ LOANS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2006	200,000	364,519	21,000	16,637	340,000	317,975	1,260,131
2007	205,000	358,444	22,000	15,575	355,000	304,545	1,260,564
2008	215,000	351,069	23,000	14,175	370,000	283,215	1,256,459
2009	220,000	342,369	25,000	12,975	385,000	268,304	1,253,648
2010	230,000	333,369	26,000	11,700	400,000	252,800	1,253,869
2011-2015	1,300,000	1,515,559	150,000	37,200	2,240,000	1,010,213	6,252,972
2016-2020	1,605,000	1,200,728	71,000	3,575	2,715,000	522,486	6,117,789
2021-2025	2,020,000	775,722			1,245,000	49,671	4,090,393
2026-2029	2,010,000	212,431					2,222,431
TOTAL	\$ 8,005,000	\$ 5,454,210	\$ 338,000	\$ 111,837	\$ 8,050,000	\$ 3,009,209	\$24,968,256

On April 1, 1995, the District issued \$4,225,000 in Waterworks Revenue Bonds with an average interest rate of 5.8 percent to advance refund \$1,820,000 of outstanding 1989 series bonds with an average interest rate of 8.6 percent. The District purchased United States Government Securities valued at \$2,063,413 and deposited them into an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$1,820,000 of 1989 series bonds. As a result, \$1,820,000 of the 1989 series bonds are considered to be defeased and the liability for the bonds has been removed from the District's books. \$255,000 of 1989 series bonds were not advance refunded and remain on the District's books.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$531,288. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by \$187,382.50 and to obtain economic gain of \$115,344.57.

In 2005 the District approved a loan from the State of Louisiana, Department of Health and Hospitals (DHH). The total loan amount authorized is \$6,000,000. At year end, the loan is in the interim or draw down stage. At the completion of the funded projects, the loan will begin the pay back stage. Future debt requirements in this note do not include the \$6,000,000 loan from DHH. As of December 31, 2005 the amount drawn to date is \$1,652,514.

LIVINGSTON PARISH WARD TWO WATER DISTRICT

Denham Springs, Louisiana

Notes to the Financial Statements

For the Year Ended December 31, 2005

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, damage, or destruction of assets, torts, injuries, natural disasters, and many other unforeseeable events. The District purchases commercial insurance policies and bonds for ant and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds. There has been no significant decreases in insurance coverage from the prior year, and the amount of settlements has not exceeded the insurance coverage for the past three fiscal years.

9. PER DIEM PAID TO BOARD MEMBERS

Board members are appointed by the Livingston Parish Council and serve at the pleasure of the Council. There are no set terms of office. Board members are paid \$100 per diem for each meeting they attend.

2005

<u>BOARD MEMBER</u>	<u>MEETINGS ATTENDED</u>	<u>PER DIEM</u>
Theodore Graham- President 33580 Cane Market Road Walker, Louisiana 70785-4102 (225) 664-9189	15	\$ 1,500
Tyrus Cobb - Vice President 10660 Dunmark Road Denham Springs, LA 70726-1113 (225) 664-9291	16	1,600
Stanley Spillman - Secretary - Treasurer Post Office Box 692 Watson, La 70786 (225) 665-2669	16	1,600
John Easterly 37917 La Hwy. 16 Denham Springs, LA 70726 (225) 664-8923	10	1,000
Melvin Meyers 7637 Curry Davis Drive Denham Springs, LA 70726	12	1,200
Total		<u>\$ 6,900</u>

10. INCOME TAXES

Ward Two Water District is exempt from all federal and state income taxes.

LIVINGSTON PARISH WARD TWO WATER DISTRICT

Denham Springs, Louisiana

Notes to the Financial Statements

For the Year Ended December 31, 2005

11. LITIGATION

There is a personal injury action brought as a class action alleging injury to users of the Ward Two water system resulting from the presence of coliform bacteria in the water. According to legal council, there is a relatively low likelihood of an outcome unfavorable to the Water District.

12. RETIREMENT PLAN

Ward Two Water District does not belong to a retirement system; however, the District contributes to the Social Security System as required by law. The District adopted a self- employed retirement plan (SEP) during 1996. The District contributed \$15,052 into the SEP during 2005. Employees are fully vested when the contribution is made by the District.

13. BOND COST AMORTIZATION

In association with the issuance of the 2004 Revenue Bonds, Ward Two Water District incurred bond issuance cost of \$359,442 . The District will amortize these issuance costs over the 25 year life of the bonds issued using the straight line method. Amortization expense for 2005 was \$14,378.

OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

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

**Board Members of
Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

I have audited the basic financial statements of the **Livingston Parish Ward Two Water District**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2005, and have issued my report thereon dated June 5, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*.

Compliance

As part of obtaining reasonable assurance about whether the **Livingston Parish Ward Two Water District's** basic financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the Louisiana Governmental Audit Guide.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the **Livingston Parish Ward Two Water District's** internal control over financial reporting to determine our auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

This report is intended for the information and use of the **Livingston Parish Ward Two Water District** and its management, the Louisiana Legislative Auditor, the State of Louisiana and is not intended to be, and should not be used by anyone other than these specified parties.

Leroy J. Chustz

Certified Public Accountant, APAC
June 5, 2006

**Livingston Parish Ward Two Water District
Current Year Schedule of Findings
Year Ended December 31, 2005**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Livingston Parish Ward Two Water District.
2. No reportable conditions were disclosed during the audit of the basic financial statements.
3. No instances of noncompliance was disclosed during the audit of the basic financial statements.
4. There were no federal awards received by Ward Two Water District.

B. FINDINGS--FINANCIAL STATEMENTS AUDIT

None

C. COMPLIANCE AND INTERNAL CONTROL FINDINGS

None

D. FINDINGS - FEDERAL PROGRAMS

None

**Livingston Parish Ward Two Water District
Status of Prior Year Findings
For The Year Ended December 31, 2005**

Section I - Internal Control and Compliance Material to the Financial Statements

No Section I findings.

Section II - Internal Control and Compliance Material to Federal Awards

Section II not applicable.

Section III Management Letter

No Section III findings.

OTHER SUPPLEMENTAL INFORMATION
AS REQUIRED BY
THE UNITED STATES DEPARTMENT OF AGRICULTURE

**LIVINGSTON PARISH WARD TWO WATER DISTRICT
 SUPPLEMENTAL INFORMATION AS REQUIRED BY
 THE UNITED STATES DEPARTMENT OF AGRICULTURE
 FOR THE YEAR ENDED DECEMBER 31, 2005**

Water Rates & Tap Fees as of Year End Are as Follows:

WATER FEES

First 2,000 gallons	\$7.13 (Flat Rate)
Next 3,000 gallons	\$2.52 (per thousand)
Next 5,000 gallons	\$2.12 (per thousand)
Over 10,000 gallons	\$1.37 (per thousand)

TAP FEES

3/4" Tap	\$ 305.00
1" Tap	\$ 305.00
1 1/2" Tap	\$ 305.00
2" Tap	\$ 305.00
4" Tap	\$ 400.00

Breakdown of Residential & Nonresidential Users:

Active Customers Billed

Residential Customers	11,990
Nonresidential Customers	<u>1,159</u>
Total	<u>13,149</u>

Accounts Receivable Aging:

0-30 Days	\$ 204,178.00
>30 Days	4,014.00
>60 Days	1,140.00
>90 Days	<u>24,557.00</u>
Accounts Receivable December	<u>\$ 233,889.00</u>