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WATER WORKS DISTRICT NO. 3 OF RAPIDES PARISH

TIOGA, LOUISIANA

DECEMBER 31, 2005

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

Release Date 7/26/06

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

December 31, 2005

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PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Established 1946

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the business-type activities of Water Works District No. 3 (District) of Rapides Parish, Tioga, Louisiana, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Water Works District No. 3 of Rapides Parish as of December 31, 2005, and the change in financial position and 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 our report dated June 2, 2006, on our consideration of Water Works District No. 3 of Rapides Parish's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis presented on pages 3 through 7, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MARVIN A. JUNEAU, C.P.A. ROBERT L. LITTON, C.P.A. MICHAEL A. JUNEAU, C.P.A.
H. FRED RANDOW, C.P.A. ROBERT W. DVORAK, C.P.A. JAMES N. BALLARD, C.P.A.
ERNEST F. SASSER, C.P.A. REBECCA B. MORRIS, C.P.A. CINDY L. HUMPHRIES, C.P.A.
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PAYNE, MOORE & HERRINGTON, LLP

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

Our audit was performed for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The supplemental information as listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Water Works District No. 3 of Rapides Parish. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to such basic financial statements taken as a whole.

Payne, Moore & Herrington, LLP
Certified Public Accountants

June 2, 2006

Required Supplemental Information
Management's Discussion and Analysis

**Rapides Parish Waterworks District #3
Tioga, Louisiana**

Management's Discussion and Analysis

As management of the Rapides Parish Waterworks District #3 in Tioga, Louisiana (the District), we are pleased to provide this narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2005. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures.

Financial Highlights

- The District's net assets increased by \$832,001 over 2004.
- The District's operating revenues were \$3,619,921, which exceeded total operating expenditures of \$3,169,071, resulting in an operating income of \$450,850.
- Total non-operating income, net of expenditures, was \$79,067.
- Total net assets of \$13,651,569 are made up of the following:
 1. Capital assets, net of related debt, of \$10,838,058 include property and equipment, net of accumulated depreciation.
 2. Restricted net assets of \$445,309.
 3. Unrestricted net assets, \$2,368,202.
- The District may choose to adjust its water rates charged to customers each year to coincide with the annual consumer price index adjustment to fund the additional cost of normal inflation.
- In late summer, 2005, the District issued \$4.6 million in revenue bonds to fund new construction projects including the following:
 1. 16" trunk main water line from Esler Field to U.S. Hwy. 165
 2. One million gallon ground storage tank at Esler Field
 3. Raise and rehabilitate the Kingsville elevated tank
 4. Filtered and settled solids containment system and dewatering and disposal system.
 5. Rehabilitate existing reservoirs at the treatment plant

Overview of the Financial Statements

This discussion and analysis document serves as an introduction to the District's basic financial statements. These statements not only include the financial statements and notes to those statements, but also additional information to supplement the basic financial statements. Comparative data is also presented.

Basic Financial Statements

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

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

**Rapides Parish Waterworks District #3
Tioga, Louisiana**

Management's Discussion and Analysis

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

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

Financial Analysis

The District's net assets at fiscal year-end were \$13,651,569. The following exhibit provides a summary of the District's net assets:

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 7,665,138	\$ 3,754,474
Capital assets	<u>11,405,580</u>	<u>9,675,713</u>
Total Assets	19,070,718	13,430,187
Liabilities:		
Current liabilities	819,149	610,619
Long-term liabilities	<u>4,600,000</u>	<u>-</u>
Total Liabilities	5,419,149	610,619
Net Assets:		
Investment in capital assets, net of debt	10,838,058	9,675,713
Restricted assets	445,309	-
Unrestricted assets	<u>2,368,202</u>	<u>3,143,855</u>
Total Net Assets	<u>\$ 13,651,569</u>	<u>\$ 12,819,568</u>

As of December 31, 2005, restricted assets included debt service (\$379,864) and reserve for contingencies (\$65,445).

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

	<u>2005</u>	<u>2004</u>
Operating Revenues	\$ 3,619,921	\$ 3,041,766
Non-operating Revenues	<u>167,934</u>	<u>70,665</u>
Total Revenues	3,787,855	3,112,431

**Rapides Parish Waterworks District #3
Tioga, Louisiana**

Management's Discussion and Analysis

Depreciation Expense	621,604	666,178
Other Operating Expenses	2,547,467	2,301,570
Interest Expense	86,298	-
Other Non-operating Expenses	<u>2,569</u>	<u>-</u>
Total Expenses	<u>3,257,938</u>	<u>2,967,748</u>
Income (Loss) before Capital Contributions	529,917	144,683
Capital Contributions	302,084	288,080
Beginning Net Assets	<u>12,819,568</u>	<u>12,386,805</u>
Ending Net Assets	<u>\$ 13,651,569</u>	<u>\$ 12,819,568</u>

The 2005 Operating Budget for total revenue was \$3,717,500; for expenses was \$2,687,370 (excluding depreciation); generating an estimated net income, before depreciation, of \$1,030,130. Actual amounts varied from budget by 2% for expenses, and 1% for revenue. The following exhibit displays these amounts:

	<u>Actual</u>	<u>Budget</u>
Water Sales Income	\$ 3,480,770	\$ 3,446,000
Other Income	307,085	271,500
Expenses (excluding depreciation)	2,636,334	2,687,370

Capital contributions for 2005 were \$302,084. The District is in the process of installing a 12" water main along La. Hwy 623. The District is being reimbursed from the State of La. for 80% of the cost of this project. In 2005 this reimbursement constituted 88% of the total capital contributions.

The following exhibit shows a summary of the changes in cash and cash equivalents for 2005:

Operating Income	\$ 450,850
Adjustments to-reconcile net operating income to net cash provided by operating activities:	
Depreciation	621,604
Bad debt expense	3,485
Changes in operating assets and liabilities	<u>(68,341)</u>
Total cash provided by operations	1,007,598
Cash provided by Capital Financing	2,624,406
Cash used by Investing Activities	<u>(2,331,521)</u>
Net Increase in cash and cash equivalents	1,300,483
Cash and cash equivalents, Beginning of Year	<u>717,094</u>
Cash and cash equivalents, End of Year	<u>\$ 2,017,577</u>

**Rapides Parish Waterworks District #3
Tioga, Louisiana**

Management's Discussion and Analysis

Capital Assets and Debt Administration

The District's investment in capital assets, net of accumulated depreciation as of December 31, 2005, was \$11,405,580. The following provides a summary of activity during the year.

	<u>2005</u>	<u>2004</u>
Non-depreciable Assets		
Land	\$ 234,384	\$ 234,384
Construction in progress	1,860,770	-
Depreciable Assets:		
Infrastructure	6,797,711	6,705,873
Buildings	430,349	460,402
Furniture, fixtures and equipment	29,672	48,915
Plant and equipment	1,952,978	2,089,442
Vehicles	<u>99,716</u>	<u>136,697</u>
Total Capital Assets (Net)	<u>\$ 11,405,580</u>	<u>\$ 9,675,713</u>

Additions to capital assets for 2005 were \$2,353,046; total depreciation expense was \$621,604; 2005 loss on sale of capital assets totaled \$1,575; for a net change in 2005 of \$1,729,867. Construction in progress, which made up 79% of the total increase in capital assets, included filter work at the treatment plant, 6" water line on Hwy. 623, the drilling of new test wells, and the engineering costs associated with each of these projects.

Long-Term Debt

At December 31, 2005, the District had long-term debt of \$4,600,000 due to the issuance of Water Revenue Bonds in August 2005.

Contacting the District's Financial Management

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

Basic Financial Statements

Water Works District No. 3 of Rapides Parish
Statement of Net Assets
December 31, 2005

Exhibit A

Assets		
Cash and cash equivalents		\$ 1,220,157
Investments		1,050,639
Accounts receivable		
Water sales	332,217	
Other	<u>2,024</u>	334,241
Interest receivable		23,689
Inventories		167,103
Prepaid expenses		94,903
Restricted assets:		
Restricted cash and cash equivalents	797,420	
Restricted investments	<u>3,918,361</u>	4,715,781
Bond issuance cost, net of amortization		58,625
Capital assets, net of depreciation		
Nondepreciable		
Construction in progress	1,860,770	
Land and improvements	234,384	
Depreciable		
Plant and equipment	1,952,978	
Buildings and improvements	430,349	
Vehicles	99,716	
Furniture, fixtures, and equipment	29,672	
Infrastructure	<u>6,797,711</u>	<u>11,405,580</u>
Total Assets		19,070,718
Liabilities		
Accounts payable		215,195
Contracts payable		119,345
Accrued expenses		25,772
Short-term compensated absences		6,575
Bond interest payable		86,298
Restricted liabilities, payable from restricted assets		
Customers' meter deposits		365,964
Long-term liabilities		
Due within one year	90,000	
Due in more than one year	<u>4,510,000</u>	<u>4,600,000</u>
Total Liabilities		5,419,149
Net Assets		
Invested in capital assets, net of related debt		10,838,058
Restricted for		
Debt service	379,864	
Contingencies	<u>65,445</u>	445,309
Unrestricted		<u>2,368,202</u>
Total Net Assets		\$ 13,651,569

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

Water Works District No. 3 of Rapides Parish
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2005

Exhibit B

Operating Revenues

Water sales	\$ 3,480,770
Delinquent surcharges	48,623
Connection fees	32,815
Other operating revenues	57,713
Total Operating Revenues	3,619,921

Operating Expenses

Administration	677,661
Purification	769,393
Distribution	577,826
Meter	120,313
Production	236,341
Wells	165,933
Depreciation	621,604
Total Operating Expenses	3,169,071
Operating Income	450,850

Nonoperating Revenues (Expenses)

Interest and investment income	167,934
Gain (loss) on disposition of capital assets	(1,575)
Amortization of bond issuance cost	(994)
Interest expense	(86,298)
Total Nonoperating Revenues (Expenses)	79,067

Change in Net Assets Before Capital Contributions 529,917

Capital Contributions in Aid of Construction 302,084

Change in Net Assets 832,001

Total Net Assets - Beginning of Year 12,819,568

Total Net Assets - End of Year \$ 13,651,569

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

**Water Works District No. 3 of Rapides Parish
Statement of Cash Flows
for the Year Ended December 31, 2005**

**Exhibit C
Continued**

Cash Provided from Operating Activities	
Receipts from customers	\$ 3,574,224
Payments to suppliers for goods and services	(1,223,797)
Payments to employees for services and benefit costs	(1,342,829)
Net Cash Provided from Operating Activities	<u>1,007,598</u>
Cash Used by Capital and Related Financing Activities	
Proceeds from sale of revenue bonds	4,600,000
Acquisition and construction of capital assets	(2,233,701)
Contributions in aid of construction	302,084
Accrued interest on bonds	5,766
Bond issuance costs	(59,619)
Net proceeds from meter deposits	9,876
Net Cash Provided by Capital and Related Financing Activities	<u>2,624,406</u>
Cash Provided from Investing Activities	
Interest received on interest-bearing deposits	138,479
Proceeds from maturities of investments	2,499,000
Purchase of investments	(4,969,000)
Net Cash Used by Investing Activities	<u>(2,331,521)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,300,483
Cash and Cash Equivalents, Beginning of Year	717,094
<u>Cash and Cash Equivalents, End of Year</u>	<u>\$ 2,017,577</u>
Classified As:	
Current assets	\$ 1,220,157
Restricted assets	797,420
<u>Total</u>	<u>\$ 2,017,577</u>

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

**Water Works District No. 3 of Rapides Parish
Statement of Cash Flows
for the Year Ended December 31, 2005**

**Exhibit C
Concluded**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating income	\$	450,850
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		621,604
Bad debt expense		3,485
Changes in assets and liabilities:		
Accounts receivable		(45,697)
Inventories		(4,355)
Prepaid expenses		(11,300)
Accounts payable		(11,168)
Accrued expenses		5,547
Short-term compensated absences		(1,368)
Total Adjustments		556,748
<u>Net Cash Provided by Operating Activities</u>	\$	<u>1,007,598</u>

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

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

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

GAAP includes all relevant GASB pronouncements. In the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

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

Reporting Entity

Upon the presentation of a petition by property owners to the Louisiana Legislature, the Rapides Parish Police Jury was made responsible for creating a water district to utilize certain water facilities at Camp Livingston, which had been abandoned. As a result, Water Works District No. 3 of Rapides Parish was created by an ordinance of the Rapides Parish Police Jury on February 8, 1949. The District provides water to many individual, commercial, and municipal customers primarily in Ward 10 of Rapides Parish.

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

The Water Works District No. 3 of Rapides Parish operates autonomously from the other state or local governments, as a special purpose government that is fiscally independent. Fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, set rates or charges, and issue bonded debt. Therefore, the District reports as an independent reporting entity. This report includes all funds, which are controlled by or dependent upon the Water Works District No. 3 of Rapides Parish.

Water Works District No. 3 of Rapides Parish
December 31, 2005

Notes to Basic Financial Statements

Fund Accounting

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

Basis of Accounting

Proprietary funds follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Proprietary funds account for operations that are primarily financed by user charges. All proprietary funds are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus. The economic resource focus is concerned with determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned, and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

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

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

Implementation of GASB Statement No. 40

The Water Works District No. 3 of Rapides Parish has implemented the disclosure provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including repurchase Agreements), and Reverse Repurchase Agreements*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. Implementation of this statement provides financial statement users information about deposit and investment risks that could affect the government's ability to provide services and meet its obligations as they become due.

Cash and Cash Equivalents and Investments

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

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

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

Accounts Receivable

Bad debts arising from customers' water receivables are recognized by the direct charge-off method, whereby uncollectible accounts are written off upon delinquency as they are considered uncollectible. Minimum losses are sustained since the customer's meter deposit is applied to any unpaid balance. In the opinion of management, at December 31, 2005, all receivables were collectible and an allowance for doubtful accounts was not considered necessary.

Inventories

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

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid expenses.

Restricted Assets

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

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

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

Capital Assets

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

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

Interest costs on debt used to finance the construction of assets are not capitalized.

Public domain ("infrastructure") capital assets consisting of water mains 2" to 20" in size, approximately 6,000 water meters and connections and hydrants are capitalized.

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

Compensated Absences

Vacation not used by the end of the year is carried over to the next year. Employees can accumulate a maximum of forty hours that may be carried forward and taken in subsequent periods. Vacation leave that is expected to be liquidated with expendable available financial resources is recognized as a liability in the financial statements.

Capital Contributions in Aid of Construction

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

Long-Term Liabilities

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

Net Assets

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

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the management of the Water Works District No. 3 of Rapides Parish to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

At December 31, 2005, the District had cash and cash equivalents (book balances) totaling \$2,017,577, as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Petty cash and change funds	\$ 1,350	\$ -	\$ 1,350
Demand deposits	1,218,807	797,420	2,016,227
	\$ 1,220,157	\$ 797,420	\$ 2,017,577

Investments

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

At December 31, 2005, the District had investments totaling \$ 4,969,000, as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Book Balance</u>	<u>Market Value</u>
Certificates of Deposit	\$ 1,050,639	\$ 3,918,361	\$ 4,969,000	\$ 4,969,000

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$600,000 of the Water Works District No. 3 of Rapides Parish total bank balances of \$ 6,985,227 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 400,000
Uninsured and collateral held by pledging bank, not in the District's name	200,000
	\$ 600,000

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

2. Accounts Receivable - Water Sales

Receivables arising from water services provided to customers consist of uncollected billings rendered to customers on monthly cycle billings and estimated services provided to customers between billing cycles. At December 31, 2005, these receivables were as follows:

Uncollected cycle billings	\$ 227,608
Estimated services between cycles	<u>104,609</u>
	\$ 332,217

3. Inventories

At December 31, 2005, inventories included:

Chemicals	\$ 64,129
Materials and supplies	<u>102,974</u>
	\$ 167,103

4. Prepaid Expenses

Prepaid expenses amount of \$94,903 consists of prepaid insurance, service contracts, and permits.

5. Restricted Assets

Restricted asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05
Meter Fund	\$ 356,088	\$ 77,454	\$ 67,578	\$ 365,964
Capital Projects Fund	-	4,664,819	846,609	3,818,210
Sinking Fund	-	127,349	-	127,349
Reserve Fund	-	338,813	-	338,813
Contingency Fund	-	<u>65,445</u>	-	<u>65,445</u>
	<u>\$ 356,088</u>	<u>\$ 5,273,880</u>	<u>\$ 914,187</u>	<u>\$ 4,715,781</u>

6. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05
Business Type Activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 1,860,770	\$ -	\$ 1,860,770
Land and improvements	<u>234,384</u>	<u>-</u>	<u>-</u>	<u>234,384</u>
Total capital assets not being depreciated	<u>234,384</u>	<u>1,860,770</u>	<u>-</u>	<u>2,095,154</u>

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

	<u>Balance 12/31/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/05</u>
Other capital assets				
Plant and equipment	6,741,868	113,551	143,857	6,711,562
Buildings and improvements	912,672	8,352	-	921,024
Vehicles	543,154	-	63,306	479,848
Furniture, fixtures, and equipment	314,057	17,048	157,933	173,172
Infrastructure	<u>10,389,768</u>	<u>353,325</u>	<u>-</u>	<u>10,743,093</u>
Total other capital assets	18,901,519	492,276	365,096	19,028,699
Less				
Accumulated depreciation				
Plant and equipment	4,652,426	248,686	142,528	4,758,584
Buildings and improvements	452,270	38,405	-	490,675
Vehicles	406,457	36,980	63,305	380,132
Furniture, fixtures, and equipment	265,142	36,046	157,688	143,500
Infrastructure	<u>3,683,895</u>	<u>261,487</u>	<u>-</u>	<u>3,945,382</u>
Total accumulated depreciation	<u>9,460,190</u>	<u>621,604</u>	<u>363,521</u>	<u>9,718,273</u>
Other capital assets, net	9,441,329	(129,328)	1,575	9,310,426
Net Capital Assets	<u>\$ 9,675,713</u>	<u>\$ 1,731,442</u>	<u>\$ 1,575</u>	<u>\$ 11,405,580</u>

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

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

Total depreciation expense for the year ended December 31, 2005, was \$ 621,604.

7. Long-Term Liabilities

On August 1, 2005, the Water Works District No. 3 of Rapides Parish issued Water Revenue Bonds, Series 2005, in the amount of \$4,600,000. The interest rates on the water revenue bonds range from 4.125% - 7.000% for a maturity period of 2006 - 2030. Total proceeds of \$4,605,766 included accrued interest, resulting in a net interest cost of 4.272%.

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

The bond proceeds will be expended as follows:

- a. Accrued interest will be deposited into the debt service fund account, to be applied towards the first interest payment on the bonds.
- b. Payment of the issuance costs for the water revenue bonds, in the amount of \$59,619.
- c. To fund a reserve fund account in the amount of \$338,813 as provided for in the Security Provisions and Protective Covenants of the issue.
- d. To fund five capital acquisition and construction projects:
 1. Install a trunk main from Esler Field to U.S. Highway 165.
 2. Install a one million gallon ground storage tank at Esler Field.
 3. Raise and rehabilitate the Kingsville elevated tank.
 4. Construction of filtered and settled solids containment system and dewatering and disposal system.
 5. Rehabilitate existing reservoirs at the treatment plant.

All principal and interest requirements are funded in accordance with the terms of the Security Provisions and Protective Covenants of the Official Statement for the issue. The balance accumulated in the bond sinking account at December 31, 2005 was \$127,349. Also as prescribed by these covenants, a Water Depreciation and Contingency Fund account was established to care for additions and improvements, renewals, replacements and emergency repairs necessary to properly operate the Water System.

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

<u>Year Ending December 31,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2006	\$ 90,000	\$ 207,565	\$ 297,565
2007	95,000	201,265	296,265
2008	100,000	194,615	294,615
2009	105,000	187,865	292,865
2010	110,000	181,959	291,959
2011-2015	660,000	818,169	1,478,169
2016-2020	855,000	649,094	1,504,094
2021-2025	1,120,000	452,331	1,572,331
2026-2030	1,465,000	192,400	1,657,400
	<u>\$ 4,600,000</u>	<u>\$ 3,085,263</u>	<u>\$ 7,685,263</u>

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

8. Net Assets

Restricted Net Assets

In accordance with the terms of the security provisions and protective covenants for the Water Revenue Bonds issued on August 1, 2005, the Water Works District No. 3 of Rapides Parish has restricted the following net assets for debt service at December 31, 2005:

Bond reserve	\$ 338,813
Debt service (\$127,349 less accrued interest of \$86,298)	<u>41,051</u>
	\$ 379,864

Also to comply with the revenue bond covenants, the District has restricted \$65,445 of net assets for contingencies.

Unrestricted Net Assets

The change in unrestricted net assets primarily relates to the acquisition of capital assets during the year, using unrestricted funds of the District.

Balance, December 31, 2005	\$ 2,368,202
Less: Balance, December 31, 2004	<u>3,143,855</u>
Increase (Decrease)	\$ (775,653)

9. Pension Plan

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

10. Deferred Compensation Plan

The District has a tax deferred compensation plan under section 457 of the Internal Revenue Code. Under the terms of that plan, the District matches a limited portion of the employees' contribution. The District made contributions totaling \$13,188 for the year ended December 31, 2005.

11. Commitments and Contingencies

Arbitrage Interest

Management has calculated that no arbitrage interest was due as of December 31, 2005, on recent tax-exempt bond issues. The liability stated simply, is the interest earned from the investment of unspent bond proceeds that is in excess of the amount of earnings that would have been obtained had the investment rate been equal to the yield on the bonds. The rebate calculation is a cumulative calculation performed until all proceeds have been expended. In the event that a contingent liability for arbitrage interest did exist and was not eliminated over time, the District would be liable for remittance of any rebate amount to the federal government.

**Water Works District No. 3 of Rapides Parish
December 31, 2005**

Notes to Basic Financial Statements

Construction Contracts

The Water Works District No. 3 of Rapides Parish has entered into contracts for construction or renovation of various capital assets as follows:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Retainage Liability</u>	<u>Remaining Contract</u>
Test Wells at Esler Field	\$ 290,798	\$ 256,826	\$ 26,436	\$ 7,536
Filter work at Treatment Plant	1,182,654	870,762	45,008	266,884
12" Line on Hwy 623	383,653	298,611	28,919	56,123
Million Gallon Ground Storage Tank	680,896	448,178	18,983	213,735
	<u>\$ 2,538,001</u>	<u>\$ 1,874,377</u>	<u>\$ 119,346</u>	<u>\$ 544,278</u>

12. Notes to Statement of Cash Flows

There were no material noncash capital, noncapital, or financing activities or investing activities that affected recognized assets or liabilities during the year.

No income taxes were paid during the year.

Supplemental Information

**Water Works District No. 3 of Rapides Parish
Schedule of Revenues, Expenses, and Changes in
Net Assets - Budget and Actual
for the Year Ended December 31, 2005**

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Water sales	\$ 3,446,000	\$ 3,480,770	\$ 34,770
Delinquent surcharges	42,500	48,623	6,123
Connection fees	35,000	32,815	(2,185)
Contributed capital improvements	30,000	302,084	272,084
Interest	151,500	167,934	16,434
Other	42,500	57,713	15,213
Totals	3,747,500	4,089,939	342,439
Expenses (Schedule 2)	4,963,370	4,870,035	93,335
Revenues Over Expenses	\$ (1,215,870)	\$ (780,096)	\$ 435,774

(1) The District's budget included \$1,250,000 from prior retained earnings. This appropriation of prior retained earnings resulted in a budget surplus of \$34,130.

Reconciliation of Change in Net Assets

Revenues Over Expenses	\$ (780,096)
Plus:	
Capital additions	2,233,701
Less:	
Depreciation	621,604
<u>Change in Net Assets (Exhibit B)</u>	\$ 832,001

See independent auditor's report.

**Water Works District No. 3 of Rapides Parish
 Schedule of Expenses - Budget and Actual
 for the Year Ended December 31, 2005**

Schedule 2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenses by Department			
Administration	\$ 734,050	\$ 677,661	\$ 56,389
Purification	763,150	769,393	(6,243)
Distribution	576,550	577,826	(1,276)
Meter	120,520	120,313	207
Production	237,200	236,341	859
Wells	165,900	165,933	(33)
Interest expense	90,000	86,298	3,702
Loss on disposition of capital assets	-	1,575	(1,575)
Amortization of bond issuance costs	-	994	(994)
Capital additions	2,276,000	2,233,701	42,299
<u>Totals</u>	<u>\$ 4,963,370</u>	<u>\$ 4,870,035</u>	<u>\$ 93,335</u>

See independent auditor's report.

**Water Works District No. 3 of Rapides Parish
Schedule of Per Diem Paid to Board Members
for the Year Ended December 31, 2005**

Schedule 3

	<u>Amount</u>
Byrnes, Mike	\$ 4,221
Grandpierre, Jules	4,003
Hollingsworth, Tommy J.	4,003
Kelly, Thurman	6,814
Lemoine, Bonnie	4,116
Moore, Clyde	3,616
O'Bannon, Eddie	4,003
Prestridge, Les	3,664
Toney, Roger	<u>4,342</u>
<u>Total</u>	<u>\$ 38,782</u>

See independent auditor's report.

Current Water Rate Schedule

Schedule 4

The District currently has the following rate structures:

Residential	
0-3,000 gallons	\$ 13.70/month
All over 3,000 gallon	\$ 3.15/1,000 gallons
Commercial	
0-5,000 gallons	\$ 31.55/month
All over 5,000 gallons	\$ 3.15/1,000 gallons
Governmental	
0-100,000 gallons	\$ 184.25/month
All over 100,000 gallons	\$ 2.20/1,000 gallons
Public Recreation Areas	
0-3,000 gallons	\$ 13.15/month
All over 3,000 gallons	\$ 1.60/1,000 gallons
Industrial	
0-100,000 gallons	\$ 215.80/month
All over 100,000 gallons	\$ 2.20/1,000 gallons
Non-Profit Water System	
0-100,000 gallons	\$ 152.65/month
All over 100,000 gallons	\$ 1.60/1,000 gallons

**Water Works District No. 3 of Rapides Parish
Historical Income and Expenses**

Schedule 5

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating Revenues					
Water sales income	\$ 2,366,747	\$ 2,728,486	\$ 2,814,221	\$ 2,907,549	\$ 3,480,770
Other income	99,387	98,468	104,975	134,217	139,151
Total Operating Revenues	2,466,134	2,826,954	2,919,196	3,041,766	3,619,921
Operating Expenses					
Administration	604,156	605,115	563,077	646,848	677,661
Purification	440,900	430,933	780,626	639,976	769,393
Distribution	533,536	436,389	494,809	522,455	577,826
Meter	125,020	134,363	123,545	108,870	120,313
Production	216,488	170,505	191,122	170,130	236,341
Wells	118,423	58,669	71,947	213,291	165,933
Total Operating Expenses	2,038,523	1,835,974	2,225,126	2,301,570	2,547,467
Net Operating Income					
Before debt service	427,611	990,980	694,070	740,196	1,072,454
Debt Service Requirements:					
	-	-	-	-	-
Net Operating Income					
(Before depreciation)	\$ 427,611	\$ 990,980	\$ 694,070	\$ 740,196	\$ 1,072,454

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

**Report on Internal Control Over
Financial Reporting and on Compliance
and other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***



PAYNE, MOORE & HERRINGTON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Established 1945

**Report on Internal Control Over
Financial Reporting and on Compliance
and other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

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

We have audited the basic financial statements of the business-type activities of Water Works District No. 3 of Rapides Parish, Tioga, Louisiana, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 2, 2006. 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 Water Works District No. 3 of Rapides Parish's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Water Works District No. 3 of Rapides Parish's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-01.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is a material weakness.

MARVIN A. JUNEAU, C.P.A.	ROBERT L. LITTON, C.P.A.	MICHAEL A. JUNEAN, C.P.A.
H. FRED RANDOW, C.P.A.	ROBERT W. DVORAK, C.P.A.	JAMES H. BALLARD, C.P.A.
ERNEST F. SASSER, C.P.A.	REBECCA B. MORRIS, C.P.A.	CINDY L. HOMPRIES, C.P.A.
L. PAUL HOOD, C.P.A.		





PAYNE, MOORE & HERRINGTON, LLP

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

Compliance

As part of obtaining reasonable assurance about whether the Water Works District No. 3 of Rapides Parish's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2005-01.

This report is intended solely for the information and use of management of the Water Works District No. 3 of Rapides Parish and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 21:513, this report is in fact a public document.

Payne Moore & Herrington, LLP
Certified Public Accountants

June 2, 2006

Schedule of Findings and Questioned Costs

**Water Works District No. 3 of Rapides Parish
Schedule of Findings and Questioned Costs
Year Ended December 31, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? x yes no

Reportable conditions identified that are not considered to be material weaknesses? yes x no

Noncompliance material to financial statements noted? x yes no

Management's Corrective Action Plan Attached

Management's Summary Schedule of Prior Audit Findings Not required

Memorandum of Other Comments and Recommendations Not applicable

Federal Awards Not applicable

**Rapides Parish Waterworks District No. 3 of Rapides Parish
Schedule of Findings and Questioned Costs
Year Ended December 31, 2005**

Section II – Financial Statement Findings

Finding 2005-01

Deposit Security Compliance

Criteria: Louisiana Revised Statute 33:2929(C) requires that at all times securities shall be pledged by designated depositories (banks) equal to one hundred per cent of the amounts on deposit by a public entity. A depositing authority (District) may grant any bank a period not to exceed ten days from the date of any deposit in which to post the security required under LRS 33:2929(C).

Condition: In August the District received water bond proceeds, and purchased Certificates of Deposits (C.D.) from five area banks to invest the funds. No security was pledged before year-end, by one of the banks, to secure a \$500,000 C.D. purchased on August 24, 2005, and no formal pledge agreement was executed. At a second bank, security was pledged before year-end to secure a \$300,000 C.D. also purchased on August 24, 2005 but a formal pledge agreement was not executed prior to year-end. Management did not effectively monitor security pledges of all District depositories, and these security deficiencies were not timely detected.

Effect: Security required for deposits did not comply with state law under LSR 33:2929. The District was exposed to a custodial credit risk. This is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

Recommendation: We recommend the following:

1. On at least a quarterly basis, management should require each bank that they conduct business with to provide detailed pledged security reports.
2. On the same timetable, the controller should monitor all bank balances and related pledged security reports, and prepare a formal reporting for the general manager of the status of deposit security.
3. When establishing new banking relationships, management should require banks to provide a pledged security report within ten days from the date of new deposits. Monitoring and reporting noted above should be completed for the new bank.
4. Whenever the District has an unusually large deposit, management should require the depository bank(s) to provide a pledged security report within ten days from the date of the deposit. Monitoring and reporting noted above should be completed for each bank the large deposit was made to.

Management's response: See Management's Corrective Action Plan.

Section III - Federal Award Findings and Questioned Costs

No federal awards were received by the Water Works District No. 3 of Rapides Parish during the year ended December 31, 2005.

Water Works District No. 3

BOARD OF COMMISSIONERS
MIKE BYRNES
JULES GRANDPIERRE
TOMMY J. HOLLINGSWORTH
CLYDE MOORE
EDDIE O'BANNON
LES PRESTRIDGE
ROGER TONEY

OF RAPIDES PARISH
P.O. BOX 580 PHONE (318) 640-1379
TIOGA, LOUISIANA 71477
FAX (318) 641-9223

JIMMY R. FRENCH
GENERAL MANAGER

June 12, 2006

Payne, Moore & Herrington, LLP
P. O. Box 13200
Alexandria, LA 71315-3200

Re: Management's Corrective Action Plan

Dear Mr. Litton:

In response to your finding 2005-01 concerning the custodial credit risk, the risk that in the event of a bank failure, the District's deposits may not be returned, the general manager of the Water Works District No. 3 of Rapides Parish states the following:

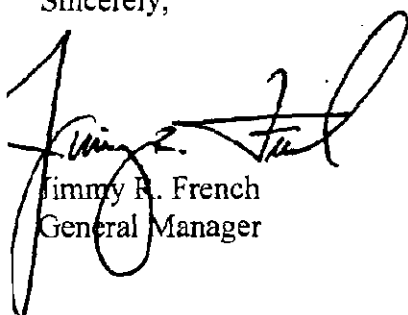
Although at year end, the District was exposed to a custodial credit risk, currently all District's deposits have sufficient collateral.

New safeguards are being implemented to guarantee that this oversight is not repeated in the future. Each banking establishment will be required to submit quarterly the current holdings of securities on behalf of the District. The controller will prepare a formal report to the general manager showing the status of all securities, to be included with the quarterly financial statements.

Should a new banking relationship be established, or if there should be a significant increase in deposited funds, the bank will be required to provide a pledged security report within ten days from the date of the new deposit.

Should you need further information or assistance, please contact the District's management at the number listed above. Thank you for your continued professional service to Water Works District No. 3.

Sincerely,



Jimmy R. French
General Manager