

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Annual Financial Statements

As of and for the Years Ended December 31, 2010 and 2009
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 9/7/11

Minda B. Raybourn

Certified Public Accountant

Limited Liability Company

820 11TH AVENUE

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Varnado Waterworks District
Annual Financial Statements
As of and for the Year Ended December 31, 2010
With Supplemental Information Schedules

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Minda B. Raybourn

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MEMBER
A.I.C.P.A.

MEMBER
L.C.P.A.

Board of Commissioners
Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

I have audited the accompanying financial statements of the business-type activities of the Varnado Waterworks District, a component unit of the Washington Parish Government, as of December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Commissioners. My responsibility is to express an opinion on these financial statements based on my audit.

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

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Varnado Waterworks District. The information has been subjected to the auditing procedures applied in the examination of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

(continued)

Minda B. Raybourn

*Certified Public Accountant
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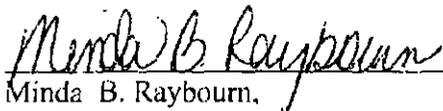
MEMBER
A.I.C.P.A.

MEMBER
L.C.P.A.

In my opinion, the financial statements and supplemental information referred to in the above paragraphs, presents fairly, in all material respects, the financial position of the business-type activities of the Varnado Waterworks District of Washington Parish, Louisiana, as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended 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 26, 2011, on my consideration of the Varnado Waterworks District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.


Minda B. Raybourn,
Certified Public Accountants

June 26, 2011

Management's Discussion and Analysis

Varnado Waterworks District

Management's Discussion and Analysis As of and for the Years Ended December 31, 2010 and 2009

Introduction

The Varnado Waterworks District (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), and related standards.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements in this report.

Financial Highlights

At December 31, 2010, total assets were \$7,103,882, and exceeded liabilities in the amount of \$3,170,256 (i.e., net assets). Of the total net assets, \$930,494 was unrestricted and available to support short-term operations, with a \$1,891,007 balance invested in capital assets, net of related debt and \$348,755 in restricted net assets for capital assets and debt service.

For the year ended December 31, 2010, user fee revenues (water sales) increased to \$588,216 as compared to \$578,386 for the fiscal year ending December 31, 2009 after rate increases went into effect.

The District's operating expenses, other than depreciation and amortization expense, decreased by less than one percent or \$2,445 from the prior fiscal year. Salaries decreased by \$15,345 and insurance costs by \$5,328, these decreases were offset by increases for employee benefits, professional fees, and repairs and maintenance totaling approximately \$24,848.

Total long term debt decreased \$68,863 from the payments on long term debt. No new long term debt was issued for the fiscal year ending December 31, 2010.

Varnado Waterworks District

Management's Discussion and Analysis As of and for the Years Ended December 31, 2010 and 2009

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Varnado Waterworks District's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule and key information schedules on operation of the District.

Financial Analysis

The purpose of financial analysis is to help determine whether Varnado Waterworks District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, is presented below in a condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

**Condensed Balance Sheet
2010 and 2009**

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 1,375,987	\$ 1,405,379	\$ (29,392)	-2%
Capital Assets	<u>5,727,895</u>	<u>5,850,664</u>	<u>(122,769)</u>	-2%
Total Assets	<u><u>7,103,882</u></u>	<u><u>7,256,043</u></u>	<u><u>(152,161)</u></u>	-2%
Liabilities:				
Long-Term Debt Outstanding	3,834,473	3,903,336	(68,863)	-2%
Other Liabilities	<u>99,153</u>	<u>88,264</u>	<u>10,889</u>	12%
Total Liabilities	<u><u>3,933,626</u></u>	<u><u>3,991,600</u></u>	<u><u>(57,974)</u></u>	-1%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,891,007	1,944,816	(53,809)	-3%
Restricted for Capital Activity and Debt Service	348,755	346,945	1,810	1%
Unrestricted	<u>930,494</u>	<u>972,682</u>	<u>(42,188)</u>	-4%
Total Net Assets	<u><u>\$ 3,170,256</u></u>	<u><u>\$ 3,264,443</u></u>	<u><u>\$ (94,187)</u></u>	-3%

The major component inside the change in "Current and Other Assets" is the decrease in unrestricted cash held of approximately \$20,000. The Money Market accounts collectively decreased approximately \$29,000 as part of this unrestricted cash decrease. Investments decreased approximately \$13,000.

Capital Assets decreased by approximately two percent since the increases to the water system of \$141,899, including construction in progress of \$55,550, were below current year depreciation of \$238,904.

Total long term debt decreased \$68,863 due to principal payments. Other liabilities increased from the prior fiscal year by \$10,889, with the largest increase including a \$6,624 increase in customer deposits payable. It was also noted that contractor payables were cleared at fiscal year end, but the check for \$153,586 issued to the contractor was still outstanding pending settlement of construction-related liabilities for the Pine Addition.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2010 and 2009**

	<u>Year ended December 31, 2010</u>	<u>Year ended December 31, 2009</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 701,063	\$ 700,774	\$ 289	0.04%
Nonoperating Revenues	24,999	32,996	(7,997)	-24%
Total Revenues	<u>726,062</u>	<u>733,770</u>	<u>(7,708)</u>	-1%
Expenses:				
Depreciation and Amortization Expense	240,534	251,920	(11,386)	-5%
Other Operating Expense	484,321	486,766	(2,445)	-1%
Nonoperating Expense	169,394	172,687	(3,293)	-2%
Total Expenses	<u>894,249</u>	<u>911,373</u>	<u>(17,124)</u>	-2%
Income (Loss) Before Contributions	(168,187)	(177,603)	9,416	5%
Capital Contributions	74,000	27,200	46,800	172%
Changes in Net Assets	(94,187)	(150,403)	56,216	-37%
Beginning Net Assets	3,264,443	3,414,846	(150,403)	-4%
Ending Net Assets	<u>\$ 3,170,256</u>	<u>\$ 3,264,443</u>	<u>\$ (94,187)</u>	-3%

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Varnado Waterworks District is being conservatively managed.

Total operating revenues (including water sales and revenues related to providing water and related services to customers) increased by less than one percent, with the largest increase coming from water sales generating approximately a \$9,830 net increase. Non-operating Revenues decreased by approximately \$8,000 reflecting primarily a drop in interest revenue of approximately \$20,000.

Total operating expenses, other than depreciation and amortization expense, decreased by less than one percent or \$2,445 from the prior fiscal year. Although repairs increased by \$9,775 and employee benefits by \$7,528, these increases were offset by decreases for salaries of \$15,345, insurance of \$5,328 and maintenance supplies of \$8,270. Nonoperating expenses decreased by approximately two percent for the reduction in interest expense paid as a result of the bonds related to the Pine Expansion.

The USDA Rural Development grant funds recorded of \$883,000 in 2007, \$173,000 in 2008, \$27,200 in 2009 and \$74,000 in 2010, which were the final funds expected to be received for projects related to the Pine Expansion and customer payments for line extensions. The total grant over the four year period was for \$1,156,000.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

Budgetary Highlights

Varnado Waterworks District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

Budget vs. Actual - Fiscal Year ended December 31, 2010

	<u>Budget Year ended December 31, 2010</u>	<u>Actual Year ended December 31, 2010</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Operating Revenues	\$ 703,500	\$ 701,063	\$ (2,437)
Nonoperating Revenues	11,200	24,999	13,799
Total Revenues	<u>714,700</u>	<u>726,062</u>	<u>11,362</u>
Expenses:			
Depreciation and Amortization Expense	238,000	240,534	(2,534)
Other Operating Expense	483,850	484,321	(471)
Nonoperating Expense	<u>167,500</u>	<u>169,394</u>	<u>(1,894)</u>
Total Expenses	<u>889,350</u>	<u>894,249</u>	<u>(4,899)</u>
Income (Loss) Before Contributions	(174,650)	(168,187)	6,463
Capital Contributions	-	74,000	74,000
Changes in Net Assets	<u>\$ (174,650)</u>	<u>\$ (94,187)</u>	<u>\$ 80,463</u>

Operating revenues and expenses were within two percent of budgeted amounts for the year.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Increase (Decrease)</u>
Customers			
Residential	1,601	1,588	13
Commercial	18	18	-
Schools	5	5	-
Prison	1	1	-
Total Customers	<u>1,625</u>	<u>1,612</u>	<u>13</u>

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2010 and 2009.

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 50,847	\$ 51,252	\$ (405)
31-60 Days Past Due	16,442	15,399	1,043
61-90 Days Past Due	4,018	3,560	458
Over 90 Days Past Due	2,000	1,105	895
Subtotal	<u>73,307</u>	<u>71,316</u>	<u>1,991</u>
Allowance for Uncollectible Accounts	<u>(1,968)</u>	<u>(1,968)</u>	<u>-</u>
Net Accounts Receivable	<u>\$ 71,339</u>	<u>\$ 69,348</u>	<u>\$ 1,991</u>

The above presentation is before consideration of accrued billings and the allowance for uncollectible accounts at fiscal year end.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2010, Varnado Waterworks District had \$5,727,895 (net of accumulated depreciation) recorded in capital assets. This includes the water systems and improvements, the office building and storage for the water system equipment, land, and other equipment used to operate the water system. The changes in capital assets are presented in the table below.

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Capital Assets				
Land	\$ 105,512	\$ 75,512	\$ 30,000	40%
Construction in Progress	-	25,764	(25,764)	100%
Buildings	148,154	148,154	-	0%
Equipment	179,321	148,736	30,585	21%
Vehicles	58,384	58,384	-	0%
Utility System	<u>8,421,213</u>	<u>8,339,899</u>	<u>81,314</u>	1%
Subtotal	8,912,584	8,796,449	116,135	1%
Less: Accumulated Depreciation	<u>(3,184,689)</u>	<u>(2,945,785)</u>	<u>238,904</u>	8%
Net Capital Assets	\$ <u>5,727,895</u>	\$ <u>5,850,664</u>	\$ <u>(122,769)</u>	-2%

The major increases were additional items to the Pine Project added to construction in progress for \$55,550, which when combined with prior year construction in progress of \$25,764 created an addition to the utility system of \$81,314. There was also a land addition on Mitch Road for \$30,000 and the Scada Unit totaling \$29,620.

Varnado Waterworks District

**Management's Discussion and Analysis
As of and for the Years Ended December 31, 2010 and 2009**

Long-Term Debt

The primary source of long-term financing for Varnado Waterworks District is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS). Interim financing, pending completion of construction, is generally financed by private financial institutions, or through low-interest programs of the Louisiana Public Facilities Authority. Interest rates for long-term debt financed through RUS and a private lending institution at December 31, 2010, range from 4.125% to 5.875%, with initial payment terms for bonds generally at 40 years.

Bonds financed for Varnado Waterworks District include a specific requirement to maintain "Net Revenues" at 120% of the level required to fund annual debt service requirements. As noted in the last paragraph of *Footnote 8 - Flow of Funds, Restrictions on Use*, the District exceeded the "Net Revenues" requirement. Total long-term debt for the current and prior fiscal year is as follows:

	December 31, 2010	December 31, 2009
Total Long-Term Debt	\$ <u>3,834,473</u>	\$ <u>3,903,336</u>

Future Economic Plans

The District continually evaluates the needs of its customers and considers projects that will improve the water supply and provide additional service to customers. The approach of the board is to maintain a rate structure that is reasonable but that provides for optimum operation of the District.

Requests for Information

The financial report is designed to provide an overview of Varnado Waterworks District's finances and demonstrate the District's accountability. If you have questions regarding this report or need additional information, contact the District at 26070 Highway 21, Angie, LA 70426. The phone number for the District is (985) 735-1669.

Financial Statements

**Varnado Waterworks District
Balance Sheet
As of December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 577,388	\$ 597,496
Investments	233,751	250,086
Receivables, Net	83,365	82,750
Total Current Assets	<u>894,504</u>	<u>930,332</u>
Restricted Assets:		
Restricted Cash and Cash Equivalents	254,782	249,725
Restricted Investments	161,392	158,015
Total Restricted Assets	<u>416,174</u>	<u>407,740</u>
Property, Plant, and Equipment		
Land	105,512	75,512
Construction in Progress	-	25,764
Property, Plant and Equipment, Net	5,622,383	5,749,388
Total Property, Plant, and Equipment	<u>5,727,895</u>	<u>5,850,664</u>
Other Assets		
Bond Issue Costs, Net	59,081	60,711
Prepaid Insurance	6,228	6,596
	<u>65,309</u>	<u>67,307</u>
Total Assets	<u>7,103,882</u>	<u>7,256,043</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	9,428	5,439
Other Accrued Payables	19,891	19,518
Total Current Liabilities (Payable From Current Assets)	<u>29,319</u>	<u>24,957</u>
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits	42,421	35,797
Connection Fees - Pine Addition	24,998	24,998
Revenue Bonds Payable	74,463	70,933
Accrued Interest on Bonds Payable	2,415	2,512
Total Current Liabilities (Payable From Restricted Assets)	<u>144,297</u>	<u>134,240</u>
Long Term Liabilities:		
Bonds Payable	3,760,010	3,832,403
Total Long Term Liabilities	<u>3,760,010</u>	<u>3,832,403</u>
Total Liabilities	<u>3,933,626</u>	<u>3,991,600</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,891,007	1,944,816
Restricted for:		
Capital Projects and Debt Service	348,755	346,945
Unrestricted	930,494	972,682
Total Net Assets	<u>\$ 3,170,256</u>	<u>\$ 3,264,443</u>

See accompanying notes and accountant's report.

Statement B

Varnado Waterworks District
Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Water Sales	\$ 588,216	\$ 578,386
Installations	7,275	12,310
Penalties	17,929	17,546
Billing Fees	81,995	88,417
Reconnect Fees	4,500	4,115
Other	1,148	-
Total Operating Revenues	701,063	700,774
Operating Expenses		
Amortization	1,630	408
Conventions & Seminars	2,258	2,766
Depreciation	238,904	251,512
Director's Fees	3,360	4,380
Employee Benefits	19,157	11,629
Insurance	36,183	41,511
Contract - Meter Specialist	15,083	16,175
Mowing	6,840	5,985
Office Expense	11,837	12,533
Other	2,716	3,345
Payroll Taxes	15,247	16,350
Permits	5,312	5,243
Professional Fees	23,670	16,125
Repairs and Maintenance	46,680	36,905
Salaries and Wages	190,735	206,080
Supplies - Maintenance	26,877	35,147
Telephone	8,020	8,732
Travel	1,447	1,238
Uniforms	4,403	4,193
Utilities	55,020	48,987
Vehicle Expenses		
Fuel	7,844	7,832
Truck	1,632	1,610
Total Operating Expenses	724,855	738,686
Operating Income (Loss)	(23,792)	(37,912)
Nonoperating Revenues (Expenses)		
Unrealized Gain (Loss) on Investments	6,343	(5,497)
Interest Income	18,556	38,493
Interest Expense	(169,394)	(172,687)
Other Income	100	-
Total Nonoperating Revenues (Expenses)	(144,395)	(139,691)
Income (Loss) Before Contributions	(168,187)	(177,603)
Contributions		
Capital Contributions	74,000	27,200
Change in Net Assets	(94,187)	(150,403)
Total Net Assets, Beginning	3,264,443	3,414,846
Total Net Assets, Ending	\$ 3,170,256	\$ 3,264,443

See accompanying notes and accountant's report.

Varnado Waterworks District
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 615,580	\$ 614,902
Received for Customer Deposits and Connection Fees	6,624	8,400
Other Receipts	84,868	87,488
Payments for Operations	(254,452)	(247,774)
Payments to Employees	(225,139)	(234,059)
Net Cash Provided by Operating Activities	<u>227,481</u>	<u>228,957</u>
Cash Flows From Noncapital Financing Activities		
Other Receipts	<u>100</u>	<u>-</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>100</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities		
Capital Contributions Received	74,000	181,200
(Payments for) Capital Acquisitions	(116,134)	(251,173)
Principal Proceeds from (Repayments for) Long Term Debt	(68,863)	(65,588)
Interest Payments for Long Term Debt	(169,491)	(172,767)
Net Cash (Used) by Capital and Related Financing Activities	<u>(280,488)</u>	<u>(308,328)</u>
Cash Flows From Investing Activities		
Receipt of Interest	18,556	38,493
Proceeds from sale (Payments) for Investments	<u>19,301</u>	<u>(722)</u>
Net Cash Provided by Investing Activities	<u>37,857</u>	<u>37,771</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	(15,050)	(41,600)
Cash and Cash Equivalents, Beginning of Year	847,221	888,821
Cash and Cash Equivalents, End of Year	<u>\$ 832,170</u>	<u>\$ 847,221</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents, Unrestricted	\$ 577,388	\$ 597,496
Cash and Cash Equivalents, Restricted	<u>254,782</u>	<u>249,725</u>
Total Cash and Cash Equivalents	<u>\$ 832,170</u>	<u>\$ 847,221</u>

(Continued)

See accompanying notes and accountant's report.

Varnado Waterworks District
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2010 and 2009

	<u>12/31/10</u>	<u>12/31/09</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)		
by Operating Activities		
Operating Income (Loss)	\$ (23,792)	\$ (37,912)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided		
by Operating Activities:		
Depreciation and Amortization	240,534	251,920
(Increase) decrease in Accounts Receivable	(1,991)	(5,192)
(Increase) decrease in Unbilled Receivable	(349)	7,737
(Increase) decrease in Due from Other Governments	1,725	(929)
(Increase) decrease in Prepaid Insurance	368	(299)
Increase (decrease) in Accounts Payable	3,989	1,111
Increase (decrease) in Accrued Expenses	373	4,121
Increase (decrease) in Customer Deposits	6,624	8,400
Net Cash Provided by Operating Activities	\$ 227,481	\$ 228,957

(Concluded)

See accompanying notes and accountant's report.

Varnado Waterworks District
Notes to the Financial Statements
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Introduction

Varnado Waterworks District was established in 1975, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Louisiana Revised Statutes 33:3813, describes and defines the boundaries of the water district, and provides for an 8-member governing board of commissioners appointed by the Washington Parish Council. The District currently serves 1,625 customers as of December 31, 2010. The District's water wells are located approximately five miles north of the Bogalusa, Louisiana city limits. The system lines run north to the Mississippi state line, south to the Bogalusa city limits, east to Pearl River, and approximately five miles west of Military Road. A project, funded by a loan and grant from the USDA Rural Development Office, was completed during 2008, which extended services to an additional 324 customers in the "Pine Area".

Varnado Waterworks District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the Constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

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 Varnado Waterworks District is considered a component unit of the Washington Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Varnado Waterworks District
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Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

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 proprietary funds are user charges for the services provided by the enterprise funds. Operating expenses for enterprise funds and internal service 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 non-operating revenues and expenses.

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

B. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- The District has investments in one investment pool. The investment pool is Louisiana Asset Management Pool (LAMP), and the fair value of the position in the pool is the same as the value of the pool shares.
- There is no involuntary participation in an external investment pool.

Varnado Waterworks District
Notes to the Financial Statements
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D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 - 30 Years
Equipment and Furniture	5 - 7 Years
Utility System	20 - 30 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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 is included as part of the capitalized value of the assets constructed.

Varnado Waterworks District
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H. Compensated Absences

The District has the following policy related to vacation and sick leave:

Employees receive two weeks of paid vacation after being employed for one to five years, increasing up to six weeks of vacation for employees with 21 years or more service. Employees are not allowed to carry over vacation from one year to the next.

Employees accrue a half a day per month of employment for sick leave up to a maximum of 45 days.

In accordance with GASB-16, *Accounting for Compensated Absences*, no liability has been accrued for unused employee sick leave.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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K. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

L. 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 District, which are either unusual in nature or infrequent in occurrence.

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

Varnado Waterworks District
Notes to the Financial Statements
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2. Cash and Cash Equivalents

At December 31, 2010 and 2009, the District has cash and cash equivalents (book balances) totaling, as follows:

	December 31, 2010	December 31, 2009
Demand Deposits	\$ 54,624	\$ 105,831
Time & Savings Accounts	390,719	455,079
Money Market Accounts	229,158	128,915
Louisiana Asset Management Pool	157,669	157,396
	\$ 832,170	\$ 847,221

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 or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2010, the District has \$607,138 in deposits (collected bank balances), consisting of \$378,717 in demand deposits and \$228,421 in time and savings accounts, including certificates of deposit. The demand deposits are secured from risk by \$250,000 of federal deposit insurance at two separate banks. The District also has access to pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3) in event federal deposit insurance were to be exceeded. The time and savings accounts are located at three different banks and are secured from risk by \$250,000 of federal deposit insurance at each financial institution and also have access to pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

3. Investments

Investments are categorized into these three categories of credit risk:

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

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All investments held by the District fall into category 1 credit risk, defined as “insured or registered, or securities held by the District or its 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 market value, with the estimated fair market value based on quoted market prices.

At December 31, 2010, the District’s investment balances were as follows:

	<u>Maturity Date</u>	<u>Carrying Amount</u>	<u>Fair Market Value</u>
Federal Home Loan Mortgage Corporation (FHLMC)	March 15, 2019	\$ 100,756	\$ 100,756
	March 15, 2024	35,172	35,172
	October 15, 2024	<u>43,965</u>	<u>43,965</u>
		<u>179,893</u>	<u>179,893</u>
 Certificates of Deposit	 Various	 215,250	 215,250
	 Total	 <u>\$ 395,143</u>	 <u>\$ 395,143</u>

All investments are stated on the balance sheet (carrying value) at market value. All investments are in the name of the District. Because these investments are in the name of the District and are held by the District or the District’s agent, the investments are considered insured and registered, Category (1), in applying the credit risk of GASB Codification Section 150.164.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

In accordance with GASB Codification Section 150.165, the investment in LAMP at December 31, 2010, is not categorized in the three risk categories provided by GASB Codification Section 150.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest.

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Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Therefore, LAMP is considered a cash equivalent.

4. Receivables

The following is a summary of receivables at December 31, 2010 and 2009:

	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 50,847	\$ 51,252	\$ (405)
31-60 Days Past Due	16,442	15,399	1,043
61-90 Days Past Due	4,018	3,560	458
Over 90 Days Past Due	<u>2,000</u>	<u>1,105</u>	<u>895</u>
Subtotal	73,307	71,316	1,991
Allowance for Uncollectible Accounts	<u>(1,968)</u>	<u>(1,968)</u>	<u>-</u>
Net Accounts Receivable	<u>71,339</u>	<u>69,348</u>	<u>1,991</u>
Accrued Billings	4,463	4,114	349
Due from Other Governments			
Due from Bogue Lusa Waterworks	5,986	7,539	(1,553)
Due from Washington Gas District 1	1,577	1,749	(172)
Total Receivables	<u>\$ 83,365</u>	<u>\$ 82,750</u>	<u>615</u>

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of un-collectibility.

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. At December 31, 2010, accrued billings amounts were \$4,463, and \$4,114 at December 31, 2009.

Varnado Waterworks District
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5. Restricted Assets

The following is a summary of restricted assets at December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Restricted Cash and Cash Equivalents		
Customer Deposits		
Meter Deposits	\$ 2,391	\$ 2,386
Connection Fees Pine Addition	29,467	29,467
Bond Reserve Account	58,357	56,172
Bond Contingency Account	164,567	161,700
Restricted Investments		
Bond Reserve Account	71,730	70,229
Bond Contingency Account	89,662	87,786
Total Restricted Assets	\$ 416,174	\$ 407,740

The total of \$29,467 above for the Pine Addition project consists of funds collected for connection fees. As final settlements are made on the Pine Addition project and all funds are disbursed, accumulated funds for connection fees are to be distributed to various accounts of the District in accordance with USDA instruction.

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2010 is as follows:

	Beginning Balance 12/31/09	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance 12/31/10
Capital Assets Being Depreciated				
Buildings	\$ 148,154	\$ -	\$ -	\$ 148,154
Equipment	148,736	30,585	-	179,321
Utility System	8,339,899	81,314	-	8,421,213
Vehicles	58,384	-	-	58,384
Total Capital Assets Being Depreciated	8,695,173	111,899	-	8,807,072
Less Accumulated Depreciation	(2,945,785)	(238,904)	-	(3,184,689)
Capital Assets Being Depreciated, Net	5,749,388	(127,005)	-	5,622,383
Land	75,512	30,000	-	105,512
Construction in Progress	25,764	55,550	(81,314)	-
Total Capital Assets, Net	\$ 5,850,664	\$ (41,455)	\$ (81,314)	\$ 5,727,895

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Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 20 to 30 years. All assets are depreciated under the straight-line method. Depreciation expense for the fiscal year ending December 31, 2010, totaled \$238,904.

7. Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended December 31, 2010:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Debt					
1998 Water Revenue Bond	\$ 572,227	\$ -	\$ (29,947)	\$ 542,280	\$ 31,751
2007 Water Revenue Bond	3,331,109	-	(38,916)	3,292,193	42,712
Total Long-Term Debt	<u>\$ 3,903,336</u>	<u>\$ -</u>	<u>\$ (68,863)</u>	<u>\$ 3,834,473</u>	<u>\$ 74,463</u>

Bonds Payable as of December 31, 2010 are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Revenue Bond \$ 925,000		
Water Revenue Bonds - RUS 91-04 sold to Rural Utility Service		
Dated 3/29/1988 due in monthly installments of principal and interest of		
\$ 5,230 through 3/29/2028 interest at 5.875%	\$ 542,280	\$ 572,227
Revenue Bond \$ 651,000		
Water Revenue Bonds - RUS 91-07 sold to Rural Utility Service		
Dated 3/29/2007 due in monthly installments of principal and interest of		
\$ 2,806 through 5/1/2047 interest at 4.125%	631,287	638,749
Revenue Bond \$ 2,744,000		
Water Revenue Bonds - RUS 91-08 sold to Rural Utility Service		
Dated 3/29/2007 due in monthly installments of principal and interest of		
\$ 11,827 through 5/1/2047 interest at 4.125%	2,660,906	2,692,360
	<u>\$ 3,834,473</u>	<u>\$ 3,903,336</u>

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The annual requirements to amortize all debt outstanding as of December 31, 2010, including interest payments of \$3,642,843 are as follows:

Year Ending 12/31/10	1988 Water Revenue Bonds \$ 925,000	2007 Water Revenue Bonds \$ 651,000	2007 Water Revenue Bonds \$ 2,744,000	Total
2011	\$ 62,765	\$ 33,672	\$ 141,924	\$ 238,361
2012	62,765	33,672	141,924	238,361
2013	62,765	33,672	141,924	238,361
2014	62,765	33,672	141,924	238,361
2015	62,765	33,672	141,924	238,361
2016 to 2020	313,825	168,360	709,620	1,191,805
2021 to 2025	313,825	168,360	709,620	1,191,805
2026 to 2030	141,220	168,360	709,620	1,019,200
2031 to 2035	-	168,360	709,620	877,980
2036 to 2040	-	168,360	709,620	877,980
2041 to 2045	-	168,360	709,620	877,980
2046 to 2047	-	47,702	201,059	248,761
	<u>\$ 1,082,695</u>	<u>\$ 1,226,222</u>	<u>\$ 5,168,399</u>	<u>\$ 7,477,316</u>

8. Flow of Funds, Restrictions on Use

As of December 31, 2010 the bond restrictions applying to Varnado Waterworks District are described as follows:

The voters of the District approved the issuance of \$395,000, \$76,000, and \$925,000 of the utility revenue bonds in elections held January, 1977, November 13, 1978, and April 13, 1988. The \$76,000 issue, used to construct Phase II, was also sold to RUS, and was fully refunded in a prior fiscal year. Permanent financing for the \$395,000 issue, used to finance Phase I of the District's waterworks system, was obtained on November 16, 1977 from the United States Department of Agriculture, Rural Utilities Service (RUS), and the issue was fully refunded in the fiscal year ending December 31, 2007. The remaining prior issue of \$925,000, used to construct Phase III of the water system, was also sold to RUS on March 29, 1988, and remains in effect at December 31, 2010.

During the fiscal year ending December 31, 2009, construction was completed for the Pine Area system improvements. Interim financing totaling \$3,395,000 was obtained to finance the system improvements, with permanent financing to be provided by the USDA Rural Development Office. Interim financing was paid off March 29, 2007 by USDA Rural Development financing with a refunding totaling \$3,547,775. The payment of \$3,547,775 consisted of payoff of principal totaling \$3,395,000 plus \$152,775 accumulated interest, capitalized as construction period interest. The USDA Rural Development Office refunded the interim loan with the issuance of two Water Revenue Bonds, both dated March 29, 2007, and both issued at an annual

Varnado Waterworks District
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interest rate of 4.125%. The first bond issue totals \$651,000, and the second issue totals \$2,744,000, for a combined total of \$3,395,000. Both of the bond issues specify that the bond shall be payable over a forty (40) year period, with the first payment consisting of interest only which fell due on April 1, 2008 and will be paid thereafter in Four Hundred Eighty (480) consecutive monthly payments commencing May 1, 2008 and continuing through May 1, 2047 unless the principal amount hereof is prepaid in whole or in part in accordance with the terms set forth in the Bond Resolution. Each payment shall be applied first to the payment of accrued interest, and second to the payment of principal. For the issue totaling \$651,000, bond terms require a total monthly principal and interest payment of \$2,805.81, and for the \$2,744,000 bond issue a total monthly principal and interest payment of \$11,826.64. With the payoff of interim financing and the issuance of long-term financing provided by the USDA Rural Development, the District recorded a total of \$65,193 in bond issuance costs, to be amortized over the life of the bonds.

Under the terms of the bond issue, the bonds are payable as to principal and interest solely from the income and revenues derived from the operations of the combined water system of the District after provisions have been made for the payment of the reasonable and necessary expenses of administering, operating, and maintaining of the system.

The District is to maintain its water rates at minimum amounts and increase these rates as necessary in accordance with its loan agreements with RUS.

Each of the water revenue bonds specify the establishment and maintenance of a separately identifiable fund or account designated as the "Water System Bond Revenue Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the Bonds and any Additional Parity Bonds, as they severally become due and payable, by transferring from the Revenue Fund to the agent of the Issuer, monthly on or before the 20th day of each month of each year, a sum equal to the total amount of the principal and interest falling due on the next principal payment date for the bonds (except as specified during the construction phase by the USDA Rural Development Office, together with such proportionate sum as may be required as the same respectfully become due on such date. Money in the Sinking Fund shall be deposited as trust funds and shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments. Alternately, RUS has set up a payment schedule whereby the District can make payments directly to its office. This eliminates the need of the "Bond and Interest Sinking Fund".

Bond covenants also require that there shall also be set aside into a "Water Revenue Bond Reserve Fund" an amount equal to 5% of the monthly debt installment on all outstanding parity bonds, monthly in advance on or before the 20th day of each month, after the construction becomes revenue producing, until there is accumulated therein an amount equal to the highest annual debt service payment in any future year. Construction was completed for the \$3,395,000 in water revenue bonds issued March 29, 2007, and bond principal payments and interest payments for these bonds began on April 1, 2008, the monthly deposit requirement is calculated at 5% of the monthly debt installment and the District made required monthly deposits and the "Reserve Fund" did exceed the expected cumulative total based on those deposits at December 31, 2010. The Reserve Fund was fully funded and had a collective balance of \$130,087 in cash and investments held at December 31, 2010.

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Other bond covenants require that funds will also be set aside into a "Depreciation and Contingency Fund" (the Contingency Fund). After construction was completed for the \$3,395,000 in water revenue bonds issued March 29, 2007, and bond principal payments and interest payments for these bonds began on April 1, 2008, the monthly deposit requirement became equal to the 5% Reserve Fund deposit, requiring deposits monthly in advance on or before the 20th day of each month an amount equal to 5% of the required monthly installment of interest and principal on outstanding parity bonds. The bond covenants further specify that such payments shall continue over the life of the bonds and when a sum equal to the Reserve Fund Requirement has been accumulated in the Reserve Fund, the monthly payments into the Contingency Fund shall increase by a sum equal to 5% of the amount paid into the Sinking Fund.

Monies in the Contingency Fund shall be used for the making of repairs or replacements to the system, for depreciable capital items, which are necessary to keep the system in operating condition, enhance its revenue producing capacity or provide for a higher degree of service for which money is not available as a maintenance and operation expense. Money in this fund may also be used to pay principal and interest on the bonds falling due at any time there is not sufficient money for payments in other bond funds. All the revenues, received in any year and not required to be paid in such year into any of the noted funds, shall be regarded as surplus and may be used for any lawful corporate purpose. The Depreciation and Contingency Fund was fully funded and had a collective balance of \$254,229 in cash and investments held at December 31, 2010.

As construction was completed for the \$3,395,000 in water revenue bonds issued March 29, 2007, and bond principal payments and interest payments for these bonds began on April 1, 2008, an additional bond requirement applied to the District. Bond covenants note that Additional Parity Bonds may also be issued on parity with the bonds if the following conditions are met:

The Net Revenues for the fiscal year immediately preceding the year in which such parity bonds are to be issued are equal to 120 percent of the average annual debt service requirements on all bonds then outstanding, including any bonds or obligations whatsoever then outstanding which are payable from revenues of the System, and any par passu additional bonds theretofore issued and then outstanding (but not including bonds which have been refunded or provision otherwise made for their full complete payment and redemption) and the bonds so proposed to be issued; however, that this limitation may be waived or modified by the written consent of the Owners of the Bonds. (Junior and subordinate bonds may be issued without restriction.) "Net Revenues" are defined in the bond documents as income and revenues to be derived from the operation of the System, after provision has been made for payment therefrom of the reasonable and necessary expenses of operating and maintaining the System. For the fiscal year ending December 31, 2010, Net Revenues were computed to exceed the 120 percent threshold of the average annual debt service requirements on all bonds held outstanding for the System.

9. Restricted and Designated Net Assets

At December 31, 2010, Varnado Waterworks District recorded \$348,755 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

Varnado Waterworks District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2010 and 2009

10. Intergovernmental Agreement

The Varnado Waterworks District has a service agreement with the Bogue Lusa Water Works District and the Washington Parish Gas District Number One, also known as Varnado Gas District. The Varnado Waterworks District will perform all necessary functions involving billing of customers, collection of customer's accounts, keeping and furnishing necessary financial information and records on a monthly basis for Bogue Lusa Water Works District and Varnado Gas District. The Varnado Waterworks District also performs meter reading for Varnado Gas District, which is included in the administrative costs. Bogue Lusa Water Works is independently responsible for its meter reading expenses. The per customer monthly fee for Bogue Lusa Water Works for this service was \$2.25 through April of 2010 and \$2.35 per customer per month for the remainder of the fiscal year, and \$2.35 per customer per month for Varnado Gas District, payable monthly. The rate for Varnado Gas District was increased to \$3.00 at the February 8, 2011 board meeting.

Varnado Waterworks District will provide all system repair and maintenance customarily done by its own personnel. Accurate hourly records of personnel records involved in repairs shall be kept and Bogue Lusa Water Works District and Varnado Gas District will be billed monthly at two times the employees hourly rate. All materials, parts and supplies will be paid directly by the District which incurred the cost. Varnado Waterworks District employees will keep accurate mileage records for the service truck used for maintenance and repairs and will bill the other districts at an agreed-upon rate per mile for work done on their respective systems. Periodically, an accounting will be made of the costs of the services provided under the agreement. Cash settlements will be made between the Districts, so each District pays its portion of the actual costs.

For the fiscal year ending December 31, 2010 billing fees charged to Other Governments were as follows:

	Bogue Lusa Waterworks	Washington Parish Gas District 1
Billing Fees Charged for the Following Services:		
Contracted Labor for Administrative Billing Costs	\$ 41,805.00	\$ 12,018.00
Contracted Labor for Repairs and Maintenance	39,055.00	
Total Billing Fees Charged to Other Governments	<u>\$ 80,860.00</u>	<u>\$ 12,018.00</u>

Other Supplemental Information

Schedule 2

Varnado Waterworks District
Schedule of Insurance
For the year ended December 31, 2010

<u>Insurance Company / Policy Number</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
Western Surety Company 18216102	Fidelity Bond Coverage:		11/16/2010 to 11/16/2011
	Employee Dishonesty	\$ 100,000	
	Forgery and Alteration	100,000	
	Theft, Disappearance	100,000	
	Computer Fraud	50,000	
American Alternative Insurance Co. SDISSP9153823-2	Commercial General Liability:		2/28/2010 to 2/28/2011
	General Aggregate	3,000,000	
	Per Occurrence Limits	1,000,000	
	Personal & Advertising Injury	1,000,000	
	Products Completed	3,000,000	
	Fire Damage	1,000,000	
	Medical Expense Per Accident	10,000	
	Commercial Property:		
	Office Building	85,000	
	Contents	20,000	
	Metal Building	8,000	
	Scheduled Tanks, Pumps	742,855	
	Inland Marine Coverage	250,000	
	Crime Coverage	100,000	
SDIS-SA-8051038-03/000	Business Auto:		2/28/2010 to 2/28/2011
	Liability	1,000,000	
	Uninsured Motorist	1,000,000	
	Comprehensive	As scheduled	
	Collision	As scheduled	
	Medical Payments	5,000	
Louisiana Workers Comp. 105384-B	Workers Compensation:		4/8/2010 to 4/8/2011
	Accident	100,000	
	Policy Limit	500,000	
	Each Employee	100,000	

See accountants report.

Schedule 3

Varnado Waterworks District
 Schedule of Compensation Paid to Board of Commissioners
 For the year ended December 31, 2010

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Freddie Jefferson, President (985) 986-2460	31110 School Road Angie, LA 70426	\$ 720	12/31/11
Tommy Terrell, Commissioner (985) 848-5820	53668 Highway 62 Franklinton, LA 70438	600	12/31/12
Levi Lewis, Sr., Commissioner (985) 735-5890	63389 Foster Town Road Angie, LA 70426	660	12/31/13
Ronald Owens, Commissioner (985) 735-6111	26183 Highway 21 Angie, LA 70426	720	12/31/14
Argil Boone, Commissioner (985) 732-2962	61768 Seal Road Angie, LA 70426	660	12/31/10
		\$ <u>3,360</u>	

See accountant's report.

Schedule 4

Varnado Waterworks District
 Schedule of Water Rates
 For the year ended December 31, 2010

Water	
Residential Rates	Commercial Rates
\$ 14.00 - First 2,000 Gallons	\$ 45.00 - First 15,000 Gallons
2.25 - Per 1,000 Gallons of Water over 2,000 Gallons	2.25 - Per 1,000 Gallons of Water over 15,000 Gallons

As of December 31, 2010 and 2009, the district had the following number of customers:

	December 31, 2010	December 31, 2009	Increase (Decrease)
Customers			
Residential	1,601	1,588	13
Commercial	18	18	-
Schools	5	5	-
Prison	1	1	-
Total Customers	<u>1,625</u>	<u>1,612</u>	<u>13</u>

Commercial users having a meter size larger than the residential size (3/4") 18

See accountant's report.

Minda B. Raybourn

Certified Public Accountant

Limited Liability Company

820 11TH AVENUE
FRANKLINTON, LOUISIANA 70438
(985) 839-4413
FAX (985) 839-4402

MEMBER
A.I.C.P.A.

MEMBER
L.C.P.A.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Washington Parish Council
Board of Commissioners
Varnado Waterworks District
Varnado, Louisiana

I have audited the financial statements of the business-type activities of the Varnado Waterworks District (a component unit of the Washington Parish Council) as of and for the year ended December 31, 2010, and have issued my report thereon dated June 26, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

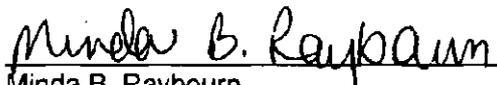
A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent and detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Varnado Waterworks District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance with 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 non compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners of the Varnado Waterworks District, the Washington Parish Council, the State of Louisiana Legislative Auditor, and the U. S. Rural Utility Service, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.


Minda B. Raybourn
Certified Public Accountant

June 26, 2011