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Waterworks District No. 2
Financial Statements
For the Year Ended June 30, 2004

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 _____

Waterworks District No. 2
Financial Statements
For the Year Ended June 30, 2004

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**WATERWORKS DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

Our discussion and analysis of Waterworks District No. 2 (the District), provides an overview of the District activities for the year ended June 30, 2004. Please read it in conjunction with the basic financial statements. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

FINANCIAL HIGHLIGHTS

- The assets of the District, exceeded its liabilities at the end of the fiscal year by \$150,969. Of this amount, \$23,305 is unrestricted.
- The District total net assets decreased by \$2,700 for the fiscal year.
- Capital assets increased by \$712,398. This included \$709,648 in construction in progress due to the expansion of U. S. Highway 167.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements comprise three components:

- *Managements Discussion and Analysis*
- *The financial statements.*
- *Notes to the financial statements.*
- *Required Supplementary Information*
- *Other Supplemental Information*

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets for the 2003-2004 fiscal year decreased by \$2,700. Since this is the first year that GASB Statement No. 34 has been implemented, comparative figures for prior periods are not available. Such comparative information will be provided in future years.

Statement of Net Assets

The following table reflects the condensed net assets:

ASSETS:	
Current and Other Assets	\$ 233,040
Capital Assets	748,296
Total Assets	<u>\$ 981,336</u>
LIABILITIES:	
Long-term Debt Outstanding	\$ 618,008
Other Liabilities	212,359
Total Liabilities	<u>830,367</u>
NET ASSETS:	
Invested in Capital Assets Net of Debt	\$ 47,664
Restricted Net Assets	80,000
Unrestricted Net Assets	23,305
Total Net Assets	<u>150,969</u>
Total Liabilities and Net Assets	<u>\$ 981,336</u>

Net assets (assets less liabilities) may serve over time as a useful indicator of financial position. The District's assets exceeded liabilities by \$150,969 at the close of the fiscal year.

Statement of Activities

The following table shows the revenues and expenses of the governmental and business type activities:

Charges for Services	\$ 75,434
Cost of Sales	38,472
Gross Profit	36,962
Operating Expenses	40,553
Operating Loss	(3,591)
Other Income/Expense	891
Net Loss	(2,700)
Net Assets at Beginning of Year	153,669
Net Assets June 30, 2004	<u>\$ 150,969</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in Capital assets as of June 30, 2004 amounted to \$748,296 (net of depreciation). This investment includes land, buildings and improvements, equipment, water distribution system and construction in progress. Outstanding debt includes \$80,000 in water revenue bonds and \$553,008 in Utility Relocation Assistance Funding from the Louisiana Department of Transportation and Development.

This year the District recognized \$2,576 in depreciation expense and \$712,398 of Capital additions. These additions were primarily relation to the expansion of U. S. Highway 167.

ECONOMIC FACTORS AND FUTURE RATES

The Board of Commissioners and management are constantly reviewing economic factors within the District and the surrounding area and current financial data in order to make decisions that would be in the best interest of the District. The Board and management are vigilant when considering balancing the District's needs while, at the same time, maintaining costs at levels consistent with the precious year. If management's estimates about future operating results remain consistent, the net asset balance of the District would be expected to remain level or increase modestly over the prior year

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Districts Office, 116 Pinecrest Drive, Ruston, Louisiana 71270.

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

We have audited the accompanying basic financial statements of Waterworks District No. 2, a component-unit of the Lincoln Parish Police Jury, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic 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 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 2, as of June 30, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Waterworks District No. 2 has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2004, on our consideration of the District's internal control over financial reporting and our 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 our audit.

Management's discussion and analysis are not a required part of the basic financial statements but are supplementary information required by 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information beginning on page 19 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Waterworks District No. 2. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Warren & Brewer CPAs APAC

Ruston, Louisiana
October 5, 2004

Financial Statements

Waterworks District No. 2
Statement of Net Assets
Enterprise Fund
June 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents	\$	8,952
Accounts Receivable - Customers		9,141
Due From LA Dept of Transportation & Development		104,009
Unbilled Revenues		1,200
Sales Tax Refunds Receivable		248
Prepaid Insurance		1,285
Total Current Assets		<u>124,835</u>

Restricted Assets

Construction Fund Checking	6,810
Bond Sinking Fund	7,318
Bond Reserve Fund	8,000
Certificate of Deposit - Customer Meter Deposits	6,077
Certificate of Deposit - Capital Expenditures	80,000
Total Restricted Assets	<u>108,205</u>

Property, Plant & Equipment

Water System	101,329
Buildings	5,667
Office Equipment	3,877
Construction in Progress	709,648
Land	800
Total Property, Plant & Equipment	<u>821,321</u>
Accumulated Depreciation	<u>(73,025)</u>
Net Property, Plant & Equipment	<u>748,296</u>
TOTAL ASSETS	\$ <u><u>981,336</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Current Portion of Long-Term Debt/Bonds	\$ 18,772
Accounts Payable	147,420
Retainages Payable	37,217
Accrued Water Purchases	2,150
Accrued Interest on Bonds	1,060
Total Current Liabilities	<u>206,619</u>

Payable From Restricted Assets

Customer Meter Deposits	<u>5,740</u>
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Long-Term Liabilities

Waterworks Improvement Bonds Payable	65,000
Loan Payable - LA Depart of Trans & Dev	553,008
Total Long-Term Liabilities	<u>618,008</u>

TOTAL LIABILITIES	<u>830,367</u>
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NET ASSETS

Investments in Capital Assets, Net of Related Debt	47,664
Restricted	80,000
Unrestricted	23,305
Total Net Assets	<u>150,969</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 981,336</u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Statements of Revenue, Expenses and Changes in Net Assets
Enterprise Fund
For the Year Ended June 30, 2004

OPERATING REVENUES

Charges for Services		
Water Revenue	\$	71,248
Penalties		1,221
Meter Installations & Connection Fees		2,965
Total Operating Revenues		<u>75,434</u>

Cost of Sales

Water Purchases		<u>38,472</u>
Gross Profit		36,962

OPERATING EXPENSES

Accounting & Audit Expenses		7,650
Bad Debts		200
Bank Service Charges		26
Contract Services		7,060
Depreciation		2,576
Electricity		124
Insurance		2,893
Legal		341
Miscellaneous		450
Office Supplies		426
Repairs & Maintenance		10,786
Salaries		4,400
Sales Tax		444
Software Support		307
Payroll Taxes		336
Telephone		883
Travel		887
Postage		764
Total Operating Expenses		<u>40,553</u>
Operating Income (Loss)		(3,591)

OTHER INCOME/(EXPENSE)

Interest Income		1,951
Interest Expense		<u>(1,060)</u>
Total Other Income		891
NET INCOME (LOSS)	\$	<u>(2,700)</u>

Net Assets - Beginning of Year		<u>153,669</u>
Net Assets - End of Year	\$	<u><u>150,969</u></u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Enterprise Fund
Statement of Cash Flows
For the Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	72,707
Payments to Suppliers for Goods and Services	(33,629)
Payments to Employees and Contractors for Services	(4,400)
Net cash provided by operating activities	<u>34,678</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Increase in Customer Meter Deposits	270
Increase in Restricted Assets	(20,968)
Net cash used by financing activities	<u>(20,698)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Expenditures	(671,833)
Net cash used by financing activities	<u>(671,833)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in Certificates of Deposit	(78)
Proceeds From Certificates of Deposit	28,607
Proceeds From Loan From LA Dept of Trans & Dev	556,780
Proceeds From Issuance of Bonds	80,000
Net cash provided by investing activities	<u>665,309</u>
Net Increase in cash and cash equivalents	<u>7,456</u>
Cash and cash equivalents at beginning of year	<u>1,496</u>
Cash and cash equivalents at end of year	\$ <u><u>8,952</u></u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Enterprise Fund
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2004

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating Loss:	\$ (3,591)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	2,576
Decrease (Increase) in Accounts Receivable - Customers	(2,727)
(Increase) Decrease in Unbilled Revenue	(380)
Decrease in Prepaid Assets	673
Decrease in Sales Tax Refunds Receivable	140
Increase in Retainage Payable	37,217
Increase in Accrued Interest	1,060
Decrease in Accrued Water Purchases	(290)
Net cash provided (used) by operating activities	\$ <u>34,678</u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

Waterworks District No. 2, (the "District") pursuant to Louisiana revised Statute 33:3811, was created by Ordinance 300, dated July 13, 1965, adopted by the Lincoln Parish Police Jury. The District, which serves commercial and residential customers in and around Vienna, Louisiana, was completed and became revenue producing during the month of May, 1966.

The District's accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:514 and to the guides set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

Basis of Presentation

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued *Statement 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and *Statement 35 Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. They require new information and restructure much of the information that government should have presented in the past. Comparability with reports issued in years prior to 2004 is affected.

Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the District has implemented the following GASB Statements: Statement 37 – *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38 – *Certain Financial Statements Note Disclosures*.

The accompanying financial statements present the financial position of the District, the results of operations of the District, and the cash flows of the proprietary fund. The financial statements are presented as of June 30, 2004 and for the year then ended.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

Financial Reporting Entity

As the governing authority of the parish, for reporting purposes, the Lincoln Parish Police Jury is the financial reporting entity for Lincoln Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Lincoln Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
2. The ability of the police jury to impose its will on that organization and/or
3. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
4. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
5. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Lincoln Parish Police Jury Ordinance 300, dated July 13, 1965, created Waterworks District No. 2, set forth and defined its boundaries, designated its name and number, designated its domicile, its powers and its commissioners, designated the minimum number of meetings of the commissioners and their compensation, set forth the qualifications of the commissioners, designated the maximum amount of salary which may be paid the secretary of the board of commissioners, and designated the officers to be elected by the board of commissioners.

Because of the above criteria, the district was determined to be a component unit of the Lincoln Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the district and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

Fund Accounting

The Waterworks District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Waterworks District No. 2 Enterprise Fund is classified in the following category and fund type.

Proprietary Fund

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Property, Plant and Equipment

Public domain (infrastructure) assets including the waterline distribution system are capitalized along with other fixed assets and are included on the proprietary fund's balance sheet.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated service lives using the straight-line method. The estimated service lives are as follows:

Office Equipment	5 - 10 Years
Storage Building	20 Years
Waterline Distribution	20 - 50 Years

Depreciation on the proprietary fund amounted to \$2,576 for the year ended June 30, 2004. All property, plant and equipment are recorded at historical cost with the exception of donated property, plant and equipment which are recorded at their estimated fair value of \$8,164 on the date donated.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

Budgets and Budgetary Accounting - Legal Compliance

Waterworks District No. 2 is not legally required to adopt a budget and has not done so. Encumbrance accounting is not used.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes amounts in demand deposits and interest bearing demand deposits, as well as short-term certificates of deposit with a maturity date within three months of the date acquired by the District. Certificates of deposit and other securities with original maturities over three months are classified as short-term investments and stated at cost, which approximates market value.

Investments

The District is authorized to make direct investments in United States government bonds, treasury notes, treasury bills or certificates, or times certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana.

Net Assets

Reserves are recorded to indicate that a portion of the net assets is segregated for a specific future use. The reserved account, "for capital expenditures" is used to segregate a portion of net assets for capital expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

2. RESTRICTED ASSETS

Certain assets of the District have been restricted for customer meter deposits and capital expenditures. These assets consist of short-term investments as follows:

<u>Certificates of Deposit</u>	<u>2004</u>
Customer Meter Deposits	\$ <u>5,740</u>
Capital Expenditures	\$ <u>80,000</u>

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

3. CASH AND CASH EQUIVALENTS

Cash and certificates of deposit are stated at cost, which approximates market value. 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 June 30, 2004, the District had \$111,340 in deposits (collected bank balances) which were adequately secured from risk by federal deposit insurance and pledged securities held by the custodial bank in the name of Waterworks District No. 2.

4. RECEIVABLES

All accounts receivable are considered by management to be fully collectible and no allowances for doubtful accounts is considered necessary.

5. SEGMENT INFORMATION - ENTERPRISE FUND

The Waterworks District maintains an enterprise fund which is intended to be self-supporting through user fees charged for water service to the public. Financial segment information as of and for the year ended June 30, 2004, is presented below.

Property and equipment additions	5,326
Construction in Progress	709,648
Operating revenues	75,434
Depreciation	2,576
Operating loss	(3,591)
Net loss	(2,700)
Net working capital	(36,988)
Total assets	981,336
Net assets	150,969

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

6. PROPERTY, PLANT AND EQUIPMENT

A summary of proprietary fund type property, plant and equipment at June 30, is as follows:

Office Equipment	\$3,877
Buildings	5,667
Water Distribution System	101,329
Construction in Progress	709,648
Land	<u>800</u>
 Totals	 821,321
 Accumulated Depreciation	 <u>(73,025)</u>
 Net	 <u><u>\$748,296</u></u>

7. LONG-TERM DEBT

Revenue Bonds

The District issued revenue bonds during the fiscal year ended June 30, 2004. Proceeds from the bonds are to be used to for the relocation and upgrade of water lines in conjunction with the U.S. Highway 167 expansion project.

\$80,000 Revenue Bonds, Series 2004 dated 02-03-2004 due in annual installments of \$15,000 to \$ 17,000 through February 1, 2009, interest at 0% to 3.790%.

\$80,000

Other Long-Term Liabilities

The District entered a Utility Relocation Assistance Funding agreement (URAF) with the Louisiana Department of Transportation and Development as part of the expansion of U.S. Highway 167. The maximum amount of this funding will be \$667,496 and will be based on actual costs of relocation.

\$667,496 Utility Relocation Assistance Funding (URAF) dated May 6, 2003 due in annual installments equal to 5% of the District's gross income at zero percent interest.

\$556,780

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

The annual requirements to amortize all debt outstanding as of June 30, 2004, including interest requirements, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2005	\$18,772	\$2,563	\$21,335
2006	18,772	2,084	20,856
2007	19,772	1,592	21,364
2008	19,772	1,062	20,834
2009	19,772	530	20,302
2010 - Thereafter	537,920	-	537,920
Totals	<u>\$634,780</u>	<u>\$7,831</u>	<u>\$642,611</u>

There was no interest paid during the fiscal year ended June 30, 2004. Interest expense for the fiscal year was \$1,060.

8. CONCENTRATIONS OF CREDIT RISK

The District grants credit without collateral in excess of customers' deposits. Customers are local area residents and commercial entities within the Waterworks district.

9. WATER REVENUE

A summary of water sales to metered customers for the years ended June 30 is presented below:

	<u>2004</u>
Sales to Customers	\$ 71,248
Number of Customers at June 30	205

Information regarding gallons of water sold and purchased is as follows:

<u>Description</u>	<u>2004</u>
Gallons Sold	22,000,728
Gallons Purchased	<u>28,932,372</u>
Gallons Purchased in Excess of Sales	<u>(6,931,644)</u>

The above discrepancies are consistent with prior years and the cause has not been completely determined.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

10. WATER CONTRACTS

Waterworks District No. 2 purchases its water from the City of Ruston. Purchases of water by Waterworks District No. 2 was \$38,472 for the year ended June 30, 2004.

On April 29, 1997, the Waterworks Board of Commissioners adopted a resolution to approve a new contract with the City of Ruston to supply water as presented below.

The unit price per 100 cubic feet is based on the city's audited operating cost per 100 cubic feet sold times 10% plus a capacity charge. The initial and minimum price per 100 cubic feet is 0.825.

The agreement is for five years with an option to renew for additional five-year terms. The Waterworks District has requested a renewal of the contract and is presently waiting on a response from the City of Ruston. The City may terminate the agreement at any time with a provision to supply water for a period of twelve months from notice. The contract was adopted by the Board of Alderman of the City of Ruston, and the contract was executed on September 30, 1997.

The current billing rates which have been effective since the billing period ended November 25, 1997, are as follows:

Base Rate (first 2,000 gallons)	\$ 9.50 per month
2,001 to 5,000 gallons	\$ 2.10 per 1,000 gallons
5,001 to 10,000 gallons	\$ 1.70 per 1,000 gallons
Over 10,000 gallons	\$ 1.30 per 1,000 gallons

11. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2004, there was no pending or contemplated litigation involving Waterworks District No. 2 which might involve contingent liabilities.

12. COMPENSATED ABSENCES

No accrual was made as prescribed in FASB 43 for employees compensation for future absences (vacation pay) since these rights do not vest or accumulate.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2004

13. COMMISSIONERS COMPENSATION

No compensation was paid to any member of the Board of Commissioners during the year ended June 30, 2004. Board members who served during the current fiscal year are listed below.

<u>Commissioner</u>	<u>Compensation</u>
Wayne Herren	None
William R. Graham	None
Kenneth W. Henry	None
Bill Hogan	None
Darryl Johnson	None
Elaine Levy	None
Winston McVea	None
George Parkman	None

Other Supplemental Information

**Waterworks District No. 2
Supplementary Information
Schedule of Investments
June 30, 2004**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Book Value</u>
ENTERPRISE FUND				
<u>Community Trust Bank</u>				
Certificate of Deposit - Water System Revenue Fund	1.50%	10/13/03	10/13/04	\$ 80,000
 <u>Regions Bank</u>				
Certificates of Deposit - Customer Meter Deposits	1.55%	3/31/04	3/31/05	6,077
Total Enterprise Fund				<u>\$ 86,077</u>

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

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

We have audited the financial statements of the Waterworks District No. 2 as of and for the year ended June 30, 2004, and have issued our report thereon dated October 5, 2004. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Commissioners
Waterworks District No. 2
Page 2

This report is intended solely for the information of management of Waterworks District No. 2, the Louisiana Legislative Auditor, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Warren & Brewer CPAs APAC

Ruston, Louisiana
October 5, 2004

Waterworks District No. 2
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2004

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements for the year ended June 30, 2004.
2. No reportable conditions were disclosed during the audit of the financial statements in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

Findings – Financial Statements Audit Reportable Conditions

N/A

Waterworks District No. 2
Summary Schedule Of Prior Findings
For The Year Ended June 30, 2004

Internal Control and Compliance Material to the Financial Statements

03-01 Cash Receipts

Condition

During the testing of cash receipts, it was noted that deposits are only being made one or two times each month.

Recommendation

The District should implement a policy requiring deposits to be made no less than once per week. Weekly deposits should not be an unreasonable burden for the one part-time employee.

Response

Management will take this recommendation under advisement.

Status

This item has been cleared.

Management Letter

No management letter was issued.

**Waterworks District No. 2
Management's Corrective Action Plan
For the Year Ended June 30, 2004**

Findings – Financial Statements Audit Reportable Conditions

N/A