

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

**REPORT ON AUDIT OF COMPONENT
UNIT FINANCIAL STATEMENTS**

DECEMBER 31, 2018

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Ward Two Water District of Livingston Parish (the District), (a component unit of the Livingston Parish Council), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ward Two Water District of Livingston Parish as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Ward Two Water District of Livingston Parish's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ward Two Water District of Livingston Parish's basic financial statements. The schedule of revenues, expenses, and changes in net position- budget (GAAP Basis) and actual (Schedule 1), schedule of insurance coverage in force (Schedule 2), and schedule of water rates, tap fees and number of customers (Schedule 3) are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of revenues, expenses, and changes in net position- budget (GAAP Basis) and actual (Schedule 1), schedule of insurance coverage in force (Schedule 2), schedule of water rates, tap fees and number of customers (Schedule 3) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenses, and changes in net position- budget (GAAP Basis) and actual (Schedule 1), schedule of insurance coverage in force (Schedule 2), schedule of water rates, tap fees and number of customers (Schedule 3) are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ward Two Water District of Livingston Parish's internal control over financial reporting and compliance.

Respectfully submitted,

Harris T. Bangesis, LLP

Denham Springs, Louisiana
May 21, 2019

Ward Two Water District of Livingston Parish
Denham Springs, Louisiana
Management's Discussion and Analysis
December 31, 2018

Introduction

Ward Two Water District of Livingston Parish, Denham Springs, Louisiana (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, 2018, total assets and deferred outflows of resources were \$41,559,277 and exceeded liabilities in the amount of \$20,601,192 (i.e., net position). Of the total net position, \$2,590,882 was unrestricted and available to support short-term operations; \$4,501,970 was restricted for capital projects and debt service, with the balance of \$13,508,340 as net investment in capital assets.
- For the year ended December 31, 2018, user fee revenues (water sales) increased 1.43% to \$5,867,265 as compared to \$5,784,458 for the fiscal year ended December 31, 2017.
- The District's expenses increased 0.73% to \$5,300,534 as compared to \$5,261,934 in 2017.
- The District had asset improvements placed in service of \$865,698 during the year ended December 31, 2018.

The reasons for the above changes, and for other changes in the financial position of the District, are discussed following the financial statement tables and presentations within the Management Discussion and Analysis.

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 Ward Two Water District of Livingston Parish, Denham Springs, Louisiana'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 Position, 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 Position accounts for the revenues and expenses for the fiscal year, and provides information on how net position 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 Ward Two Water District of Livingston Parish, Denham Springs, Louisiana 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 Position, are presented below in condensed format. These statements report the net position, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, and the change in net position, 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.

Condensed Balance Sheets
As of December 31, 2018 and 2017

	2018	2017	Dollar Change	Percentage Change
Assets:				
Current Assets	\$ 9,281,122	\$ 8,950,736	\$ 330,386	3.69%
Noncurrent Assets:				
Other Assets	492	492	-	0.00%
Capital Assets	31,747,894	32,196,044	(448,150)	(1.39%)
Total Assets	41,029,508	41,147,272	(117,764)	(0.29%)
Deferred Outflows of Resources:				
Deferred Amount on Refunding of Debt	529,769	595,429	(65,660)	(11.03%)
Total Assets and Deferred Outflows of Resources	41,559,277	41,742,701	(183,424)	(0.44%)
Liabilities:				
Current Liabilities	9,256,364	9,573,529	(317,165)	(3.31%)
Long-Term Liabilities	11,701,721	13,231,651	(1,529,930)	(11.56%)
Total Liabilities	20,958,085	22,805,180	(1,847,095)	(8.10%)
Net Position:				
Net Investment in Capital Assets	13,508,340	12,248,793	1,259,547	10.28%
Restricted for Capital Activity and Debt Service	4,501,970	4,450,751	51,219	1.15%
Unrestricted	2,590,882	2,237,977	352,905	15.77%
Total Net Position	\$20,601,192	\$18,937,521	\$ 1,663,671	8.79%

The major components of change for “Current Assets” were primarily increases of Cash and Cash Equivalents of \$366,138, Inventory of \$7,868, Receivables of \$91,411, Prepaid expense of \$36,449, and decreases in Due from Other Governments of \$262,892 and in Unbilled Water Sales of \$23,465. In addition there was an increase in restricted assets of \$109,890.

“Capital Assets” decreased by \$448,150 primarily from additions to construction projects combined with the reduction effect of depreciation expense recorded of \$1,267,537 in combination to the additions of improvements and vehicles of \$865,698.

“Deferred Amount on Refunding of Debt” decreased by \$65,660 for amortization of the advanced refunding difference.

“Total Liabilities” decreased by \$1,847,095 primarily from changes in Short Term and Long Term Debt. The repayment of regular scheduled principal payments caused a decrease of \$1,484,000. In addition, the District had a net decrease of \$289,357 due to draws and principal payments on the bond anticipation note of an authorized \$8,000,000 Series 2011A Revenue Bond. Construction is expected to be finalized in 2019 for the 2011A Bond. Also Accounts Payable and Accrued Payables increased by a net of \$171,143, with the majority of increase relating to Accounts Payable \$171,664. There was a decrease in Construction Payable by \$273,152. There was also an increase in Customer Deposits \$39,390.

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2018 and 2017

	2018	2017	Dollar Change	Percentage Change
Revenues:				
Operating Revenues	\$ 6,567,139	\$ 6,480,429	\$ 86,710	1%
Nonoperating Revenues	397,066	530,777	(133,711)	(25%)
Total Revenues	6,964,205	7,011,206	(47,001)	(1%)
Expenses:				
Depreciation	1,267,537	1,226,392	41,145	3%
Other Operating Expenses	3,416,056	3,477,248	(61,192)	(2%)
Nonoperating Expenses	616,941	558,294	58,647	11%
Total Expenses	5,300,534	5,261,934	38,600	1%
Change in Net Position	1,663,671	1,749,272	(85,601)	(5%)
Beginning Net Position	18,937,521	17,188,249	1,749,272	10%
Ending Net Position	\$20,601,192	\$18,937,521	\$ 1,663,671	9%

While the Balance Sheet shows the change in net position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers to the nature and scope of these changes. The above table gives an indication of how Ward Two Water District of Livingston Parish, Denham Springs, Louisiana's is being conservatively managed in a time of consistent expansion. The District has grown from a customer base of approximately 7,000 in 1998 to billable customers totaling 20,709 at fiscal yearend compared to 20,330 in 2017, for an increase of 379.

Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) increased by \$86,710 (1.34%) for the fiscal year ended December 31, 2018 after a \$242,140 (3.88 %) increase for the year ended December 31, 2017. The increase in Operating Revenues for 2018 was related to more water usage by the customer base during the year. The Non-operating Revenues decreased by \$133,711.

Total expenses increased by \$38,600 from the prior year reflecting a \$58,647 increase in non-operating expenses (majority being interest expense). In addition, there was a net decrease in other operating expenses of \$61,192 primarily from the net effect of a \$52,205 decrease in repairs and maintenance, an increase of \$7,694 in office expense, and a \$19,919 decrease in personal and contractual services in 2018 compared to 2017. Also, there was a \$41,145 increase in depreciation expense due to new system improvements which were added.

The above changes resulted in an increase in Net Position of \$1,663,671 for the year ended December 31, 2018, as compared to an increase in net position of \$1,749,272 for the year ended December 31, 2017.

Budgetary Highlights

Ward Two Water District of Livingston Parish, Denham Springs, Louisiana adopts an annual operating budget and reviews budget-to-actual performance on a monthly basis. 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.

Condensed Statement of Revenues, Expenses and Changes in Net Position
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2018

	Final Budget December 31, 2018	Actual December 31, 2018	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 6,514,500	\$ 6,567,139	\$ 52,639
Nonoperating Revenues	319,200	397,066	77,866
Total Revenues	6,833,700	6,964,205	130,505
Expenses:			
Depreciation	1,230,000	1,267,537	(37,537)
Other Operating Expenses	3,767,800	3,416,056	351,744
Nonoperating Expenses	625,000	616,941	8,059
Total Expenses	5,622,800	5,300,534	322,266
 Change in Net Position	 1,210,900	 1,663,671	 452,771
 Beginning Net Position	 18,937,521	 18,937,521	 -
Ending Net Position	20,148,421	20,601,192	452,771

Actual Operating Revenues were less than budgeted Operating Revenues by a favorable 0.81 %. Actual Other Operating Expenses were less than budgeted amounts by \$351,744. Actual Non-operating Expenses were less than budgeted amounts by \$8,059 and is comprised primarily of decreased interest expense. The major reason for Actual Operating Expenses being under budget \$351,744 was primarily attributed to the net of effect of decreases in repairs and maintenance and supplies of \$296,985 and \$75,884, respectively, and increases in contractual services and utilities of \$19,208 and \$18,451, respectively.

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

As of December 31, 2018 and 2017, the District had the following number of customers:

	December 31, 2018	December 31, 2017	Increase (Decrease)
Customers			
Residential	19,409	19,066	343
Nonresidential	1,300	1,264	36
Total Customers	<u>20,709</u>	<u>20,330</u>	<u>379</u>

Revenue and Expense Data Per Customer Per Month

	December 31, 2018	December 31, 2017	Increase (Decrease)	Percentage Change
Water Sales	23.61	23.71	(0.10)	0%
Operating Revenues	26.43	26.56	(0.13)	0%
Total Revenues	28.02	28.74	(0.72)	(3%)
Operating Expenses	18.85	19.28	(0.43)	(2%)
Total Expenses	21.33	21.57	(0.24)	(1%)

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 ended December 31, 2018 and 2017.

	December 31, 2018	December 31, 2017	Increase (Decrease)
Accounts Receivable			
Current	\$ 487,149	\$ 395,156	\$ 91,993
31-60 Days Past Due	4,278	5,441	(1,163)
Over 60 Days Past Due	28,406	41,135	(12,729)
Subtotal	<u>519,833</u>	<u>441,732</u>	<u>78,101</u>
Allowance for Uncollectible Accounts	<u>(28,406)</u>	<u>(41,716)</u>	<u>13,310</u>
Net Accounts Receivable	<u>\$ 491,427</u>	<u>\$ 400,016</u>	<u>\$ 91,411</u>

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ended December 31, 2018, Ward Two Water District of Livingston Parish, Denham Springs, Louisiana had \$31,747,894 (net of accumulated depreciation) recorded in capital assets. The District continues to make additions to its water system to meet the demands of its increasing customer base. The changes in capital assets are presented in the table below.

	December 31, 2018	December 31, 2017	Increase (Decrease)	Percentage Change
Capital Assets				
Land	\$ 553,594	\$ 553,594	\$ -	0%
Utility System	45,631,158	44,939,115	692,043	2%
Buildings	974,108	974,108	-	0%
Equipment	1,313,455	1,313,455	-	0%
Furniture and Fixtures	41,565	41,565	-	0%
Vehicles	468,637	436,190	32,447	7%
Subtotal	48,982,517	48,258,027	724,490	2%
Less: Accumulated Depreciation	(17,234,623)	(16,061,983)	(1,172,640)	7%
Net Capital Assets	<u>\$ 31,747,894</u>	<u>\$ 32,196,044</u>	<u>\$ (448,150)</u>	(1%)

Long-Term Debt

The primary source of long-term financing for Ward Two Water District of Livingston Parish, Denham Springs, Louisiana are seven series of existing bonds financed by financial institutions and various government agencies. During 2012, the District refunded several series of bonds in order to reduce interest expense and fees over the life of the bonds. The refunding of the Series 2000 bonds and Series 2005 bonds resulted in a decrease of total debt service payments over the next 14 years by \$728,956 and resulted in an economic gain of \$628,526. The partial refunding of the Series 2004 bonds resulted in a decrease of total debt service payments over the next 17 years by \$585,966 and an economic gain of \$480,303. Details including balances, payments, and interest rates are included in Note 6 - Long-Term Debt.

Bonds financed for Ward Two Water District of Livingston Parish, Denham Springs, Louisiana require a specific debt service to net income ratio, referred to as the "Bond Debt Coverage Ratio" in Footnote 8 - Long Term Debt Restricted Assets and Bond Covenant Requirements. This ratio, described in Footnote 8, measures the extent to which revenues of the District are sufficient to cover the costs of operation and debt service including annual installments for debt service and required deposits to the Sinking Fund, Reserve Fund, and Renewal and Replacement Fund. The ratio of revenue to operating expenses, exclusive of non-cash flow items such as depreciation, and amortization, and the aforementioned debt requirements must equal at least 125%. For existing bonds at December 31, 2018, the Bond Debt Coverage Ratio exceeded the 125% requirement.

Future Economic Plans

Ward Two Water District of Livingston Parish, Denham Springs, Louisiana's management approach has been conservative when estimating revenues and expenses of operation, but has been aggressive to meet the needs of a rapidly expanding water system. During 2010, the District, based on the District's consulting engineer's recommendation, approved resolutions authorizing additional loan proceeds from the Department of Health and Hospitals (DHH) to fund a maximum of Twelve Million (\$12,000,000) in construction improvements and expansions. Funds are to be repaid with a pledge of revenues by the District. During 2012, the District completed the construction and placed in service the improvement and expansions related to the \$4,000,000 Series 2010A Revenue Bonds. The District closed the loan on the \$8,000,000 Series 2011A Bonds during the fourth quarter of 2011, and began construction in the first quarter of 2012. At December 31, 2018, the District had received \$7,600,680 (\$1,125,000 which has been forgiven) in bond anticipation notes of an authorized \$8,000,000 Series 2011A Revenue Bond and the remaining projects are expected to be completed in 2019. During 2012, the District fully refunded the Series 2000 bonds and Series 2005 bonds and partially refunded the Series 2004 bonds in order to reduce interest expense and fees over the life of the bonds. The refunding bonds were classified as the 2012A, 2012B, 2012C and 2012D bonds. Since the refunding, the 2012C bonds have been paid off.

In 2017, the District had a slower numerical customer growth than experienced in the past five years due mainly to the August 2016 federal disaster event, but in 2017 actually provided more water to the customer base of the District resulting in water related revenue increasing by 4% and overall operating expenses decreasing 3%, compared to 2016. The rebound from the federal disaster of 2016 experienced by customers is now showing signs of consistent growth again in 2018 and beyond. Development plans are once again taking action which will again increase the customer base of the District in the years ahead as experienced since 2010. The District is also having expansion opportunities unfold for customer growth primarily in southern and southeastern portions of Livingston Parish via purchasing existing water systems such as the Port Vincent and French Settlement areas. Further expansion into southern areas will be explored in upcoming months.

Contacting the District's Management

This financial report is designed to provide a general overview of the finances of Ward Two Water District of Livingston Parish, Denham Springs, Louisiana, for all those interested in the District's finances. Questions regarding any of the information in this report or request for additional information should be addressed to Manager, Ward Two Water District of Livingston Parish, Post Office Box 637, Denham Springs, Louisiana 70727.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

BALANCE SHEET

AS OF DECEMBER 31, 2018

(With Comparative Totals as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,503,008	\$ 2,136,870
Receivables:		
Accounts (Net of Allowance for Uncollectible Accounts of \$28,406 and \$41,716, respectively)	491,427	400,016
Unbilled Water Sales	240,775	264,240
Due from Other Governments	195,240	155,743
Other	4,987	-
	<u>932,429</u>	<u>819,999</u>
Restricted Assets:		
Cash and Cash Equivalents -		
Cash for Customer Deposits	576,506	535,954
Bond Covenant Accounts	4,402,333	4,337,924
Construction Account	265,963	261,034
	<u>5,244,802</u>	<u>5,134,912</u>
Due from Other Governments	-	302,389
	<u>5,244,802</u>	<u>5,437,301</u>
Inventory	469,401	461,533
Prepaid Insurance	131,482	95,033
Total Current Assets	<u>9,281,122</u>	<u>8,950,736</u>
Noncurrent Assets:		
Deposits	492	492
Capital Assets:		
Land and Construction in Progress	553,594	553,594
Other Capital Assets, at Cost (Net of Accumulated Depreciation)	31,194,300	31,642,450
Total Capital Assets	<u>31,747,894</u>	<u>32,196,044</u>
Total Noncurrent Assets	<u>31,748,386</u>	<u>32,196,536</u>
Total Assets	<u>41,029,508</u>	<u>41,147,272</u>
<u>Deferred Outflows of Resources</u>		
Deferred Amount on Refunding of Debt	<u>529,769</u>	<u>595,429</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 41,559,277</u>	<u>\$ 41,742,701</u>

(CONTINUED)

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

BALANCE SHEET (CONTINUED)

AS OF DECEMBER 31, 2018

(With Comparative Totals as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts Payable	\$ 601,996	\$ 430,332
Accrued Payables	33,949	34,200
Construction Payable	29,913	303,065
Due to Other Governments	74,905	67,269
Accumulated Unpaid Vacation	11,240	13,217
Customer Deposits	1,266,625	1,227,235
Bond Anticipation Note Payable	5,577,323	5,866,680
Bonds Payable - Current Portion	1,524,000	1,484,000
Accrued Interest on Bonds Payable	136,413	147,531
	<hr/>	<hr/>
Total Current Liabilities	9,256,364	9,573,529
Noncurrent Liabilities:		
Bonds Payable	11,668,000	13,192,000
Accumulated Unpaid Vacation	33,721	39,651
	<hr/>	<hr/>
Total Long-Term Liabilities	11,701,721	13,231,651
	<hr/>	<hr/>
Total Liabilities	20,958,085	22,805,180
	<hr/>	<hr/>
<u>Net Position</u>		
Net Investment in Capital Assets	13,508,340	12,248,793
Restricted for:		
Capital Projects and Debt Service	4,501,970	4,450,751
Unrestricted	2,590,882	2,237,977
	<hr/>	<hr/>
Total Net Position	20,601,192	18,937,521
	<hr/>	<hr/>
Total Liabilities and Net Position	\$ 41,559,277	\$ 41,742,701
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The accompanying notes are an integral part of this statement.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Water Sales	\$ 5,867,265	\$ 5,784,458
Water Tap Fees	213,152	226,593
Service Charges	95,142	100,575
Penalty Charges	115,892	78,889
Sewer Billing Fees	122,084	119,979
Other	153,604	169,935
Total Operating Revenues	<u>6,567,139</u>	<u>6,480,429</u>
Operating Expenses:		
Personal Services and Benefits	1,749,362	1,859,577
Bad Debts	22,149	18,569
Bank Fees	173,463	159,686
Contractual Services	387,208	296,912
Depreciation	1,267,537	1,226,392
Insurance	131,392	131,842
Office Expense	182,360	174,666
Repairs and Maintenance	244,015	296,220
Supplies	88,116	107,833
Utilities	364,451	356,090
Vehicle Expense	73,540	75,853
Total Operating Expenses	<u>4,683,593</u>	<u>4,703,640</u>
Operating Income	1,883,546	1,776,789
Nonoperating Revenues (Expenses):		
Interest Income	69,457	36,463
Interest Expense	(616,941)	(558,294)
Gain (Loss) on Disposal of Assets	(23,209)	38,178
Other Income	350,818	456,136
Total Nonoperating Revenues (Expenses)	<u>(219,875)</u>	<u>(27,517)</u>
Change in Net Position	1,663,671	1,749,272
Net Position - Beginning of Year	<u>18,937,521</u>	<u>17,188,249</u>
Net Position - End of Year	<u>\$ 20,601,192</u>	<u>\$ 18,937,521</u>

The accompanying notes are an integral part of this statement.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 6,432,560	\$ 6,547,469
Cash Payments to Suppliers for Goods and Services	(1,509,562)	(1,178,037)
Cash Payments to Employees for Services and Benefits	(1,757,520)	(1,867,923)
Other Receipts (Payments)	350,818	456,136
Net Cash Provided by Operating Activities	<u>3,516,296</u>	<u>3,957,645</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(1,138,850)	(1,886,703)
Proceeds from Sale of Assets	23,102	40,622
Interest Expense Paid that was Capitalized	-	(67,717)
Interest Expense Paid on Bonds Not Capitalized	(562,399)	(489,750)
Proceeds from Issuance of Debt	317,032	1,732,048
Principal Repayment on Debt	(1,788,000)	(1,674,000)
Net Receipts from Customer Deposits	39,390	65,600
Net Cash Used in Capital and Related Financing Activities	<u>(3,109,725)</u>	<u>(2,279,900)</u>
Cash Flows from Investing Activities:		
Interest Income Received	69,457	36,463
Net Cash Provided by Investing Activities	<u>69,457</u>	<u>36,463</u>
Net Increase in Cash and Cash Equivalents	476,028	1,714,208
Cash and Cash Equivalents, Beginning of Year	<u>7,271,782</u>	<u>5,557,574</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,747,810</u>	<u>\$ 7,271,782</u>

(CONTINUED)

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Income	\$ 1,883,546	\$ 1,776,789
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,267,537	1,226,392
Provision for Bad Debt	22,149	18,569
Miscellaneous Revenues less Expenses	350,818	456,136
(Increase) Decrease in Accounts Receivable	(113,560)	216,312
(Increase) Decrease in Unbilled Receivable	23,465	(49,158)
(Increase) Decrease in Other Receivable	(4,987)	11,661
(Increase) Decrease in Due from Other Governments	(39,497)	(111,775)
(Increase) Decrease in Inventory	(7,868)	25,754
(Increase) Decrease in Prepaid Insurance	(36,449)	3,954
Increase (Decrease) in Accounts Payable	171,664	324,088
Increase (Decrease) in Compensated Absences	(7,907)	(665)
Increase (Decrease) in Accrued Expenses	(251)	(7,681)
Increase (Decrease) in Due to Other Governments	7,636	67,269
	<u>\$ 3,516,296</u>	<u>\$ 3,957,645</u>
Net Cash Provided by Operating Activities		
Schedule of Noncash Capital and Related Financing Activities:		
Amortization of Advanced Refunding Difference	<u>\$ 65,660</u>	<u>\$ 63,847</u>
Reconciliation of Cash and Cash Equivalents to the		
Balance Sheet:		
Cash and Cash Equivalents, Unrestricted	\$ 2,503,008	\$ 2,136,870
Cash and Cash Equivalents, Restricted	<u>5,244,802</u>	<u>5,134,912</u>
Total Cash and Cash Equivalents	<u>\$ 7,747,810</u>	<u>\$ 7,271,782</u>

The accompanying notes are an integral part of this statement.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

(1) Organization, Nature of Operations, and Summary of Significant Accounting Policies -

A. Organization and Nature of Operations

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

The District is located in rural Livingston Parish, Louisiana. The purpose of the District is to provide water to customers within the boundaries of the District. The District is composed of five board members who are appointed by the Parish Council of Livingston. Board members are compensated for meeting attendance at the rate of \$100 per meeting. The District serves approximately one third of Livingston Parish. The areas of service are in the western portion of the parish, north of Florida Boulevard and a small area south of Florida Boulevard between Denham Springs and Walker. The District has thirty-three full time and one part time employees. As of December 31, 2018 there were 20,709 metered customers, representing an increase in customers of 379 from the prior fiscal year. The District covers an area which includes over three hundred miles of water main lines.

B. Financial Reporting Entity

The Livingston Parish Council is the financial reporting entity for Livingston Parish, Louisiana. The Livingston Parish Council appoints a voting majority of the District's governing body and can impose its will on the District. Accordingly, the District has been determined to be a component unit of the Livingston Parish Council.

The accompanying financial statements present information only on the activities and the fund maintained by the District and do not present information on the Livingston Parish Council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity for Livingston Parish, Louisiana.

The District has no entities or organizations that are required to be included in its financial report as defined by Governmental Accounting Standards Board (GASB) Statement 61.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

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

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and promulgated by the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards. These statements establish standards for external financial reporting for all state and local governmental entities which includes a balance sheet, a statement of revenues, expenses and changes in net position and a statement of cash flows.

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. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred or economic asset used. The District follows the guidance included in GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*.

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.

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 statement of revenues, expenses and changes in net position includes all charges for services and costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are user charges for the services provided by the enterprise funds. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

D. Deposits and Investments

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

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.

E. Inventories

Inventory held primarily consists of supplies for system maintenance and is valued at cost using the first-in / first-out method. 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.

F. 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 at December 31, 2018.

G. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, including receivables reported as due from other government, are classified as restricted assets because their use is limited by applicable bond covenants or to ongoing construction projects funded by the bonds. In addition, certain resources are set aside to reimburse customers their utility deposits upon discontinuance of service.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

H. 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. In addition, the District capitalizes costs of water and sewer taps. 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.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20 to 40
Machinery and Equipment	5 to 10
Furniture and Fixtures	5 to 10
Vehicles	5
Utility System	40

I. Estimates

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

J. Accumulated Unpaid Vacation and Sick Pay

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

GASB Statement Number 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

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

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

K. Long-Term Obligations

Long-term liabilities are recognized within the Proprietary Fund. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as expense in the period incurred. Prepaid insurance costs related to debt issuance is reported as an asset and recognized over the life of the related debt.

L. Net Position

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

- Net investment in capital assets - This component of net position 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 position 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 position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

M. Summary Financial Information for 2017

The financial statements include certain prior year summarized information in total. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

(2) **Cash and Cash Equivalents -**

For reporting purposes, cash and cash equivalents include cash, demand deposits, and time certificates of deposit with original maturity dates of 90 days or less. Under state law the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, any other state in the union, or under the laws of the United States. Further, the District may invest in time deposits or certificates of deposit of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

Cash and cash equivalents and investments are stated at cost, which approximates market. The following is a summary of cash and cash equivalents and investments at December 31, 2018:

	<u>Book Balance</u>	<u>Bank Balance</u>
Petty Cash	\$ 1,000	\$ -
Demand Deposits and Savings Accounts	3,344,477	3,459,456
Restricted Cash Held in Bank Trust Accounts	<u>4,402,333</u>	<u>4,402,333</u>
	<u>\$7,747,810</u>	<u>\$7,861,789</u>

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. To mitigate this risk, state law requires for these deposits (or the resulting bank balances) to be secured by federal deposit insurance or the pledge of securities by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The pledged securities are deemed by Louisiana State Law to be under the control and possession and in the name of the District regardless of its designation by the financial institution in which it is deposited. As of December 31, 2018, none of the District's bank balance of \$7,861,789 was exposed to custodial credit risk.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(3) Receivables -

The following is a summary of receivables at December 31, 2018:

Accounts Receivable:	
Current	\$ 487,149
31-60 Days Past Due	4,278
Over 60 Days Past Due	<u>28,406</u>
Subtotal	519,833
Less: Allowance for Uncollectible Accounts	<u>(28,406)</u>
Net Accounts Receivable	<u>\$ 491,427</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 uncollectible accounts is adjusted to a reasonable estimate of collectability. Bad debt expense totaled \$22,149 for the year ended December 31, 2018.

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 year. At December 31, 2018, accrued amounts were \$240,775.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(4) Capital Assets -

A summary of changes in capital assets during the year ended December 31, 2018 is as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
Capital Assets not being Depreciated:				
Land	\$ 553,594	\$ -	\$ -	\$ 553,594
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	553,594	-	-	553,594
Capital Assets being Depreciated:				
Buildings and Improvements	974,108	-	-	974,108
Equipment	1,313,455	-	-	1,313,455
Furniture and Fixtures	41,565	-	-	41,565
Vehicles	436,190	56,882	(24,435)	468,637
Utility System	44,939,115	808,816	(116,773)	45,631,158
Total Capital Assets being Depreciated	47,704,433	865,698	(141,208)	48,428,923
Less Accumulated Depreciation for:				
Buildings and Improvements	244,940	22,886	-	267,826
Equipment	1,017,861	66,517	-	1,084,378
Furniture and Fixtures	29,757	2,442	-	32,199
Vehicles	314,369	58,588	(24,435)	348,522
Utility System	14,455,056	1,117,104	(70,462)	15,501,698
Total Accumulated Depreciation	16,061,983	1,267,537	(94,897)	17,234,623
Total Capital Assets being Depreciated, Net	31,642,450	(401,839)	(46,311)	31,194,300
Total Capital Assets, Net	\$ 32,196,044	\$ (401,839)	\$ (46,311)	\$ 31,747,894

Depreciation expense for the year ended December 31, 2018 was \$1,267,537.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(5) Short-Term Debt -

On April 21, 2009, the District adopted a resolution granting preliminary authorization to proceed with the issuance of not exceeding Twenty Million and no/100 dollars (\$20,000,000) in aggregate amount of water revenue bonds. Based on the cost analysis provided by the District's consulting engineer, the Board determined that the Bonds should be issued in an amount not to exceed Twelve Million and no/100 Dollars (\$12,000,000) and that the placement of the bonds under the Program with the Louisiana Department of Health and Hospitals (DHH) was the most cost-effective financing option for the District. On July 26, 2010, DHH committed to lend to the District, from available moneys in the State Revolving Fund, and under the terms and conditions of the Federal Act, the State Act, the Commitment Agreement, the Loan Agreement and the Bonds, the maximum sum of Four Million Dollars (\$4,000,000). Construction was finalized during 2012 and the loan was converted to a bond payable and is referred to as Waterworks Revenue Bonds, Series 2010A issued at 2.95% with installments of interest due on October 1 and April 1 of each year, with principal installments due on April 1 of each year.

On June 1, 2011, DHH committed to lend to the District, from available moneys in the State Revolving Fund, and under the terms and conditions of the Federal Act, the State Act, the Commitment Agreement, the Loan Agreement and the Bonds, an additional maximum sum of Eight Million Dollars (\$8,000,000). Once construction is finalized, the loan will be converted to a bond payable and referred to as Waterworks Revenue Bonds, Series 2011 issued at 2.95% with installments of interest due on October 1 and April 1 of each year, with principal installments due on April 1 of each year. The final bond payment schedule will be revised by DHH after final payment of the bonds to the District. In the Loan and Pledge Agreement under section 3.02, it states that upon the payment of each principal draw on the loan, and without any further action on the part of the DHH or the District, thirty percent (30%) of the principal amount of each such draw on the loan shall immediately and irrevocably be deemed to be forgiven by the DHH, up to a maximum amount of principal forgiveness of \$1,125,000, and no interest shall accrue on the principal amount that is so forgiven. During 2013, the District met the maximum amount of principal forgiveness.

For the year ended December 31, 2018, the Series 2011 project is not complete, with total bond proceeds received net of principal forgiven reported as Bond Anticipation Note Payable with a balance of \$5,577,323. The remaining funds are expected to be utilized during 2019.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(6) Long-Term Debt -

The following is a summary of long-term obligation transactions for the year ended December 31, 2018:

Description	Balance			Balance		Due Within One Year
	December 31, 2017	Additions	Deletions	December 31, 2018		
Long-Term Debt						
2010A DHH Bonds	\$ 2,926,000	\$ -	\$ (194,000)	\$ 2,732,000	\$ 199,000	
2012A Revenue Bonds	2,910,000	-	(555,000)	2,355,000	570,000	
2012B Revenue Bonds	3,385,000	-	(340,000)	3,045,000	350,000	
2012D Revenue Bonds	5,455,000	-	(395,000)	5,060,000	405,000	
Total Long-Term Debt	\$ 14,676,000	\$ -	\$ (1,484,000)	\$ 13,192,000	\$ 1,524,000	

2010 Waterworks System Revenue Bonds:

The \$4,000,000 bonds were issued on July 26, 2010, and are due to the Louisiana Department of Health and Hospitals with semi-annual payment installments including principal, interest at 2.95% and a DEQ .5% administrative fee through April 1, 2030. The bonds were issued through the Louisiana Department of Health and Hospitals through the Drinking Water Revolving Loan Fund to fund the waterworks expansion project. The debt service requirements to maturity for the 2010 Waterworks System Revenue Bonds are as follows:

Year	Principal	Interest	Administrative Fee	Total
2019	\$ 199,000	\$ 77,629	\$ 13,162	\$ 289,791
2020	204,000	71,685	12,155	287,840
2021	209,000	65,593	11,122	285,715
2022	214,000	59,354	10,065	283,419
2023	219,000	52,967	8,983	280,950
2024 to 2028	1,175,000	163,681	27,750	1,366,431
2029 to 2030	512,000	15,178	2,573	529,751
	\$2,732,000	\$ 506,087	\$ 85,810	\$3,323,897

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

2012A, 2012B, and 2012C Water Revenue Refunding Bonds:

On June 29, 2012, the District issued \$5,355,000 Series 2012A, \$4,540,000 Series 2012B, and \$470,000 Series 2012C Water Revenue Refunding Bonds for the purpose of refunding the outstanding balance of the Series 2000 DEQ Revenue bonds and the Series 2005 DHH bonds, interest and administrative fees. The District refunded the Series 2000 and Series 2005 bonds to decrease total debt service payments over the next 14 years by \$728,956 and to obtain an economic gain of \$628,526.

The Series 2012A bonds have semi-annual payment installments including principal and interest at 2.285% through April 1, 2022. The Series 2012B bonds have semi-annual payment installments including principal and interest at 2.563% through April 1, 2026. The Series 2012C bonds had semi-annual payment installments including principal and interest at 2.75% through April 1, 2014.

The debt service requirements to maturity for these Water Revenue Refunding Bonds are as follows:

Series 2012A Water Revenue Refunding Bonds

Year	Principal	Interest	Total
2019	\$ 570,000	\$ 47,300	\$ 617,300
2020	580,000	34,161	614,161
2021	595,000	20,736	615,736
2022	610,000	6,969	616,969
	<u>\$2,355,000</u>	<u>\$ 109,166</u>	<u>\$ 2,464,166</u>

Series 2012B Water Revenue Refunding Bonds

Year	Principal	Interest	Total
2019	\$ 350,000	\$ 73,558	\$ 423,558
2020	355,000	64,524	419,524
2021	365,000	55,297	420,297
2022	375,000	45,814	420,814
2023	385,000	36,074	421,074
2024 to 2026	1,215,000	47,223	1,262,223
	<u>\$3,045,000</u>	<u>\$ 322,490</u>	<u>\$ 3,367,490</u>

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

2012D Water Revenue Refunding Bonds:

On June 29, 2012, the District issued \$6,725,000 Series 2012D Water Revenue Refunding Bonds for the purpose of refunding \$5,915,000 of the outstanding balance of the Series 2004 Waterworks System Revenue Parity Bonds and interest and redemption premium associated with the Series 2004 Bonds. The net proceeds of \$6,579,468 (after payment of \$191,791 in cost of issuance) plus an additional \$47,816 of the sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. As a result, \$5,915,000 of the 2004 Series Bonds were considered in-substance defeased and the liability for those bonds was removed from the District's books. The \$5,915,000 of defeased bonds were paid off during 2014.

The Series 2012D bonds have semi-annual payment installments including principal and interest at 2.585% through April 1, 2029. The debt service requirements to maturity for the Series 2012D bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 405,000	\$ 125,566	\$ 530,566
2020	415,000	114,968	529,968
2021	425,000	104,111	529,111
2022	435,000	92,995	527,995
2023	450,000	81,557	531,557
2024 to 2028	2,410,000	226,446	2,636,446
2029	520,000	6,721	526,721
	<u>\$5,060,000</u>	<u>\$ 752,364</u>	<u>\$ 5,812,364</u>

The advance refunding of the Series 2004 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$710,232 which was deferred and is being amortized over the life of the new bonds. The difference is reported in the accompanying financial statements as a deferred outflow of resources and is being charged to operations as a component of interest expense. The District refunded the Series 2004 bonds to decrease total debt service payments over the next 17 years by \$585,966 and to obtain an economic gain of \$480,303.

Deferred Amount on Prior Advanced Refunding:

On April 1, 1994, the District issued \$4,225,000 in Waterworks Revenue Bonds with an average interest rate of 5.8 percent to advance refund \$1,820,000 of outstanding 1989 series bonds with an average interest rate of 8.6 percent. The District purchased U.S. government securities valued at \$2,063,413 and deposited them into an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$1,820,000 of 1989 series bonds. As a result, \$1,820,000 of the 1989

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

series bonds are considered to be defeased and the liability for the bonds has been removed from the District’s books. Further, on April 1, 2004, the District issued the 2004 Waterworks System Revenue Parity Bonds for \$8,250,000 that paid \$3,165,000 for the redemption of 1994 Waterworks Revenue Bonds.

The 1994 advance refunding of the 1989 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$531,288. The difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2019 as a component of interest expense using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by \$187,383 and to obtain an economic gain of \$115,345.

Debt Service Requirements to Maturity:

The annual requirements to amortize all long term debt outstanding as of December 31, 2018 including expected interest payments of \$1,690,107 and administration fees of \$85,810 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Administratio n Fee</u>	<u>Total</u>
2019	\$ 1,524,000	\$ 324,053	\$ 13,162	\$ 1,861,215
2020	1,554,000	285,338	12,155	1,851,493
2021	1,594,000	245,737	11,122	1,850,859
2022	1,634,000	205,132	10,065	1,849,197
2023	1,054,000	170,598	8,983	1,233,581
2024 to 2028	4,800,000	437,350	27,750	5,265,100
2029 to 2030	1,032,000	21,899	2,573	1,056,472
	<u>\$13,192,000</u>	<u>\$1,690,107</u>	<u>\$ 85,810</u>	<u>\$14,967,917</u>

(7) Deferred Outflows of Resources -

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* provide guidance on reporting the difference between the reacquisition price and the net carrying amount of the old debt for current and advance refundings resulting in defeasance of debt. The difference is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense over the remaining life of the old debt. At December 31, 2018, the District had a deferred amount on refunding of debt of \$529,769 which is comprised of \$5,310 for the 1994 advanced refunding and \$524,459 for the 2012 advanced refunding of debt.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(8) Long-Term Debt Restricted Assets and Bond Covenant Requirements -

Ward Two Water District of Livingston Parish, Denham Springs, Louisiana is required to maintain the following reserves as part of debt covenants related to the debt held at December 31, 2018. As of December 31, 2018, debt covenants relate to existing parity bonds, consisting of the 2010 Waterworks System Revenue Bonds and the Series 2012A, 2012B, and 2012D Water Revenue Refunding bonds. The District’s compliance with bond covenants as of December 31, 2018, related to required deposits, is detailed below and is followed first by a narrative description of the related bond deposit requirements, and secondly by a description of compliance to bond rate covenants, referenced as “Bond Debt Coverage Ratio”, requiring that revenues of the District be sufficient to cover the operating and maintenance and debt service requirements of the outstanding bonds.

	Sinking Fund	Reserve Fund	Renewal and Replacement Fund	Total
Required Balance	\$ 1,399,180	\$ 2,369,800	\$ 500,000	\$ 4,268,980
Current Reserved Amount	1,517,480	2,372,240	512,613	4,402,333
Amount Over (Under) Funded	\$ 118,300	\$ 2,440	\$ 12,613	\$ 133,353

Sinking Fund Requirements

Bond covenants require the maintenance of a separately identifiable fund or account designated as the “Sinking Fund” into which deposits are required in sufficient amount to pay promptly and fully the interest and principal installments of the “Bonds and the Parity Obligations” as the required payments become due, by transferring from the Revenue Fund to the Sinking Fund monthly on or before the 20th day of each month of each year a sum equal to 1/6 of the interest and administrative fee falling due on the Bonds on the next interest payment date, and a sum equal to 1/12 of the principal falling due on the Bonds on any principal date within the next twelve months, together with any proportionate monthly sum as may be required to pay said principal, interest, and administrative fee as they become due. The bond covenants language and requirements apply to existing Parity obligations, including the 2010 Waterworks System Revenue Bonds and the Series 2012A, 2012B, and 2012D Water Revenue Refunding bonds.

At December 31, 2018, the District Sinking Fund bond deposits requirements were over funded by \$118,300 for the 2010, 2012A, 2012B, and 2012D bond issues. The District made the required installments for the year ended December 31, 2018.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

Bond Reserve Fund

Bond Reserve Fund covenants require the maintenance of a separately identifiable account designated as the "Reserve Fund" into which is to be deposited monthly, on or before the 20th day of each month of each year, a sum at least equal to 25 percent of the amount required to be paid into the Sinking Fund for each month with respect to the Bonds, until such time as there has been accumulated therein a sum equal to the highest amount of principal and interest due in any given year on the Bonds (the "Reserve Fund Requirement"), 2010 Waterworks System Revenue Bonds and the Series 2012A, 2012B, and 2012D Water Revenue Refunding bonds and any additional Parity Obligations hereafter issued. The 2012 Water Revenue Refunding Bonds were issued in parity with existing bond obligations and bond covenants specify that the payments to the Reserve Fund shall be increased or otherwise adjusted to the amounts as will assure that there will be accumulated in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of such additional parity obligations an amount of money equal to the Reserve Fund Requirement. The District chose to increase monthly payments over 5 years to fund the increased installment requirements for the 2012 Water Revenue Refunding bonds. At December 31, 2018, the District maintained a balance of \$2,372,240 which was \$2,440 more than the bond deposit requirements at year end. Bond covenants require that the monies in the Reserve Fund be retained solely for the purpose of paying the principal of and interest on the Bonds payable as to which there would otherwise be default.

Renewal and Replacement Fund

The Renewal and Replacement Fund is established pursuant to the 2004 Bond Resolution, and is restated in 2012 Water Revenue Refunding bonds' Revenue Bond Resolution to apply to any subsequent Outstanding Parity Bonds. The Fund is established to pay for extensions, additions, improvements, renewals and replacements necessary to properly operate the System by transferring from the Revenue Fund to the Renewal and Replacement Fund monthly on or before the twentieth day of each month of each year, a sum equal to five percent of the Gross Revenues of the System for the preceding month, provided that such sum is available after provisions are made for the payments required. Such payments to the Renewal and Replacement Fund shall continue until such time as there has been accumulated in said Fund the sum of \$500,000 (the "Renewal and Replacement Fund Requirement"), whereupon such payments may cease and need be resumed thereafter only if the total amount of money on deposit in said fund is reduced below the Renewal and Replacement Fund Requirement, in which event such payments shall be resumed and continue until said Renewal and Replacement is again accumulated.

In addition to caring for extensions, additions, improvements, renewal and replacements necessary to properly operate the System, the money in the Renewal and Replacement Fund may also be used to pay the principal of and the interest on the Bonds and the Outstanding Parity Bonds, for the payment of which there is not sufficient money in the Sinking Fund and Reserve Fund and any Parity Obligations issued hereafter in the manner provided by the Bond Resolution for the payment of

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

which there is not sufficient money in the Sinking fund and Reserve Fund , but the money in said Renewal and Replacement Fund shall not be used for the making of improvements and extensions to the System (other than emergency repairs or replacements) or for the payment of principal of or interest on the Bonds or the Outstanding Parity Bonds if the use of said money will leave in the said Renewal and Replacement Fund for the making of emergency repairs or replacement less than the sum of ten percent of the Renewal and Replacement Fund Requirement.

For the year ended December 31, 2018, the Renewal and Replacement Fund was fully funded with a balance of \$512,613.

Bond Debt Coverage Ratio

Bond covenants of the outstanding parity obligations require the District to fix, establish, levy and collect, so long as any principal and interest is unpaid on the Bonds and any Parity Obligations, such rates, fees, rents, or other charges for services and facilities of the System and all parts thereof, and revise the same from time to time whenever necessary as will always provide revenues in each fiscal year sufficient to pay operations and maintenance expenses in each fiscal year and provide net revenues in each fiscal year in an amount equal to at least one hundred twenty-five percent of the required deposits to the Sinking Fund established in the Series 2004 Bond Resolution, Series 2010 Bond Resolution, Series 2012 Bond Resolution and any resolution relating to additional Parity Obligations. The covenants require that such rates, fees, rents, or other charges shall not at any time be reduced so as to be insufficient to provide adequate revenues for the foregoing purposes.

The calculated bond debt coverage ratio for existing Parity Obligations, including Series 2004 bonds, Series 2010 bonds and Series 2012 bonds exceeded the 125 percent ratio for the year ended December 31, 2018.

(9) Restricted and Designated Net Position -

At December 31, 2018, the District recorded \$4,501,970 in Restricted Net Position (Restricted for Capital Projects 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.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(10) Risk Management -

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

(11) Litigation -

There is no outstanding litigation at December 31, 2018 for Ward Two Water District of Livingston Parish for which the District would expect an unfavorable outcome.

(12) Compensated Absences and Retirement Plan -

At December 31, 2018, the employees of the District have accumulated and vested \$44,961 of employee leave benefits, which was computed in accordance with GASB Codification Section C60. The District has no plan or provision for other post employment benefits.

The District does not belong to a retirement system; however, the District contributes to the Social Security System as required by law. In September 2012, the District adopted a 457(b) deferred compensation plan and the District elected to match employee contributions up to a maximum of 5 percent. The District contributed \$44,416 into the 457(b) plan during 2018. Under the 457(b) plan, the District's contributions are vested based on an employee's years of service in accordance with the terms of the Adoption Agreement.

(13) Compensation Paid to Board Members -

Compensation paid to the board members for 2018 were as follows:

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

<u>Name / Contact Number</u>	<u>Title</u>	<u>Address and Telephone</u>	<u>Compensation Received</u>
Theodore Graham (225) 664-9189	President	33550 Cane Market Road Walker, LA 70785	\$ 1,200
John Easterly (225) 665-9794	Vice-President	37917 Louisiana Highway 16 Denham Springs, LA 70706-0334	1,100
Stanley Spillman (225) 665-2669	Secretary - Treasurer	P.O. Box 692 Watson, LA 70786	1,100
Shyrl Westmoreland (225) 664-2597	Board Member	29709 Bickford Lane Denham Springs, LA 70726	1,100
Jimmie McCoy (225) 665-3596	Board Member	37375 Louisiana Highway 16 Denham Springs, LA 70706-0326	1,200
			<u>\$ 5,700</u>

Board members serve continuous terms per Livingston Parish Council appointment and approval.

(14) Schedule of Compensation, Benefits and Other Payments to Agency Head -

In accordance with Louisiana Revised Statute 24:513A, the following is a Schedule of Compensation and Benefits received by Theodore Graham, the District’s Board President, who was the acting agency head for the year ended December 31, 2018:

Agency Head Name: Theodore Graham, Board President

<u>Purpose</u>	<u>Amount</u>
Salary	\$ -
Benefits- health insurance	15,350
Benefits-retirement	-
Benefits- life insurance	30
Benefits- vision insurance	132
Per diem	1,200
Reimbursements	-
	<u>\$ 16,712</u>

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

(15) Current Accounting Pronouncements -

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

In March 2018, the Governmental Accounting Standards Board issued GASB Statement No 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

In June 2018, the Governmental Accounting Standards Board issued GASB Statement No 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In August 2018, the Governmental Accounting Standards Board issued GASB Statement No 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management is currently evaluating the effects of the new GASB pronouncements.

(16) Subsequent Events -

Subsequent to year end, the District entered into two purchase agreements to purchase five existing water systems in the southern part of Livingston Parish. The estimated purchase price for the systems is approximately \$350,000.

Management has evaluated subsequent events and transactions for potential recognition or disclosures in the financial statements through May 21, 2019, the date which the financial statements were available to be issued.

OTHER SUPPLEMENTAL INFORMATION

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET (GAAP BASIS) AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Operating Revenues:				
Water Sales	\$ 5,900,000	\$ 5,935,000	\$ 5,867,265	\$ (67,735)
Water Tap Fees	231,000	195,000	213,152	18,152
Service Charges	110,000	100,000	95,142	(4,858)
Penalty Charges	80,000	117,000	115,892	(1,108)
Sewer Billing Fees	16,500	16,500	122,084	105,584
Other	144,000	151,000	153,604	2,604
Total Operating Revenues	6,481,500	6,514,500	6,567,139	52,639
Operating Expenses:				
Personal Services and Benefits:				
Salaries and Wages	1,260,000	1,170,000	1,167,736	2,264
Director's Fees	5,400	5,800	5,700	100
Employee Benefits and Payroll Taxes	611,000	590,000	575,926	14,074
	1,876,400	1,765,800	1,749,362	16,438
Bad Debts	3,000	17,000	22,149	(5,149)
Bank Card Charges and Fees	167,000	170,000	173,463	(3,463)
Contractual Services:				
Meter Reading	175,000	207,000	206,688	312
Professional Fees	105,000	121,000	141,520	(20,520)
Telemetry	40,000	40,000	39,000	1,000
	320,000	368,000	387,208	(19,208)
Depreciation	1,215,000	1,230,000	1,267,537	(37,537)
Insurance	170,000	136,000	131,392	4,608
Office Expense:				
Advertising	3,000	2,000	2,258	(258)
Computer and Printer Supplies	55,000	64,000	72,606	(8,606)
Miscellaneous	22,000	20,000	13,469	6,531
Postage	100,000	100,000	94,027	5,973
	180,000	186,000	182,360	3,640
Repairs and Maintenance	210,000	541,000	244,015	296,985
Supplies:				
Chlorination	50,000	57,000	50,745	6,255
Miscellaneous	80,000	80,000	5,001	74,999
Supplies	28,000	27,000	32,370	(5,370)
	158,000	164,000	88,116	75,884

(CONTINUED)

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET (GAAP BASIS) AND ACTUAL (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Operating Expenses (Continued):				
Utilities:				
Utilities	310,000	318,000	328,349	(10,349)
Telephone	44,000	28,000	36,102	(8,102)
	<u>354,000</u>	<u>346,000</u>	<u>364,451</u>	<u>(18,451)</u>
Vehicle Expense	<u>82,000</u>	<u>74,000</u>	<u>73,540</u>	<u>460</u>
Total Operating Expenses	<u>4,735,400</u>	<u>4,997,800</u>	<u>4,683,593</u>	<u>314,207</u>
Operating Income	1,746,100	1,516,700	1,883,546	366,846
Nonoperating Revenues (Expenses):				
Interest Income	5,000	45,000	69,457	24,457
Interest Expense	(625,000)	(625,000)	(616,941)	8,059
Gain (Loss) on Disposal of Assets	40,600	23,200	(23,209)	(46,409)
Other Income	246,500	251,000	350,818	99,818
Total Nonoperating Revenues (Expenses)	<u>(332,900)</u>	<u>(305,800)</u>	<u>(219,875)</u>	<u>85,925</u>
Change in Net Position	1,413,200	1,210,900	1,663,671	452,771
Net Position - Beginning of Year	<u>18,937,521</u>	<u>18,937,521</u>	<u>18,937,521</u>	<u>-</u>
Net Position - End of Year	<u>\$ 20,350,721</u>	<u>\$ 20,148,421</u>	<u>\$ 20,601,192</u>	<u>\$ 452,771</u>

See independent auditor's report.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SCHEDULE OF INSURANCE COVERAGE IN FORCE (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018

Insurance Company / Policy Number	Coverage	Amount	Policy Period
	Theft Disappearance and Destruction		
	Inside (\$1,000 Deductible)	250,000	
	Outside (\$1,000 Deductible)	250,000	
	Robbery/Safe Burglary		
	Inside the Premises (\$1,000 Deductible)	5,000	
	Computer Fraud (\$1,000 Deductible)	100,000	
	Funds Transfer Fraud (\$1,000 Deductible)	100,000	
	Money Orders (\$1,000 Deductible)	100,000	
Allied World Specialty Ins Co (Continued)			
Policy Number	Automobile Coverage		10/31/2018 to
5106-1993-01	Physical Damage	Per Schedule	10/31/2019
		on File	
	Liability	1,000,000	
	Uninsured Motorist	1,000,000	
Allied World Specialty Ins Co	Excess Insurance Coverage		
Policy Number	Any One Occurrence Limit	4,000,000	
5107-1993-01	Annual Aggregate Limit	4,000,000	
Travelers Casualty and Surety Insurance Company	Cyber Coverage w/Identity Fraud Expense		10/31/2018 to
Policy Number 105699834	Reimbursement		10/31/2019
	Network & Information / Security Limit of		
	Liability	1,000,000	
	Communication and Media Limit of Liability	500,000	
	Regulatory Defense Expenses Limit of Liability	500,000	
	Crisis Management Event Expenses	250,000	
	Security Breach Remediation & Notification		
	Expense	250,000	
	CyberRisk Policy Aggregate	1,000,000	
	Retention	2,500	
Louisiana Workers Compensation Corporation	Workers Compensation Insurance		10/31/2018 to
Policy Number 77205-B	State of Louisiana Coverage Only		10/31/2019
	Employers Liability Insurance		
	Bodily Injury by Accident - Each Accident	1,000,000	
	Bodily Injury by Disease - Policy Limit	1,000,000	
	Bodily Injury by Disease - Each Employee	1,000,000	

See independent auditor's report.

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SCHEDULE OF WATER RATES, TAP FEES AND NUMBER OF CUSTOMERS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Water Fees	Tap Fees	
		Inch Tap	Fee
First 2,000 Gallons	\$ 13.50	3/4" Tap	\$ 385
Per Next 1,000 Gallons of Water up to 3,000 Gallons	2.52	1" Tap	\$ 560
Per Next 1,000 Gallons of Water up to 5,000 Gallons	2.12	1 1/2" Tap	\$ 650
Per Next 1,000 Gallons of Water over 10,000 Gallons	1.37	2" Tap	\$ 700
		4" Tap	Varies
Customers			
Residential	19,409		
Nonresidential	1,300		
Total Customers	<u>20,709</u>		

See independent auditor's report.

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

2322 Tremont Drive • Baton Rouge, LA 70809
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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of Ward Two Water District of Livingston Parish (the District), (a component unit of the Livingston Parish Council), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated May 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Burgess, LLP

Denham Springs, Louisiana
May 21, 2019

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2018

A. Internal Control Over Financial Reporting

None

B. Compliance and Other Matters

None

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2018

A. Internal Control Over Financial Reporting

None

B. Compliance and Other Matters

None

WARD TWO WATER DISTRICT OF LIVINGSTON PARISH

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

DECEMBER 31, 2018

DENHAM SPRINGS, LOUISIANA

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Independent Accountant's Report
on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below, which were agreed to by the Ward Two Water District of Livingston Parish (the District) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. The District's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - b) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget. – **No exceptions.**
 - c) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes. – **No exceptions.**
 - d) ***Disbursements***, including processing, reviewing, and approving – **No exceptions.**
 - e) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation). – **No exceptions.**

- f) *Payroll/Personnel*, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked. – **No exceptions.**
- g) *Contracting*, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process. – **No exceptions.**
- h) *Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)*, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases) – **No exceptions.**
- i) *Travel and expense reimbursement*, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Exception - The District does have written policies and procedures but the written policies do not address dollar thresholds by category of expense. However the District's written policies and procedures defines a \$1,000 limit per travel and expense reimbursement request (for all expense categories), but does not address dollar thresholds by category of expense.

- j) *Ethics*, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

Exception - The District does have written policies and procedures but written policies do not require that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. However, the District's written policies and procedures requires employees to read the District's ethics policy and sign an acknowledgement form at time of hire and when the District has an update to the personnel manual (which includes the District's ethics policy).

- k) *Debt Service*, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements. – **No exceptions**

Bank Reconciliations

- 2. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged); – **No exceptions.**
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged);

Exception - We noted bank reconciliations for four bank accounts that we tested did not have any evidence of management or board member approval during the fiscal year.
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Exception - We noted one bank account's reconciliations that we tested that included reconciling items more than 12 months old. In communicating with the employees responsible for the reconciliations, they indicated that they had researched the items and provided verbal explanations on the items but no written documentation was provided.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

3. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
– **No exceptions.**
4. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase. – **No exceptions.**
 - b) At least two employees are involved in processing and approving payments to vendors. – **No exceptions.**
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files. – **No exceptions.**
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments. – **No exceptions.**
5. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
 - a) Observe that the disbursement matched the related original invoice/billing statement. – **No exceptions.**
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable. – **No exceptions.**

Credit Cards/Debit Cards/Fuel Cards/P-Cards

6. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete. – **No exceptions.**
7. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for

excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]) – **No exceptions.**

- b) Observe that finance charges and late fees were not assessed on the selected statements. – **No exceptions.**
8. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by:
- (1) an original itemized receipt that identifies precisely what was purchased, – **No exceptions.**
 - (2) written documentation of the business/public purpose, and – **No exceptions.**
 - (3) documentation of the individuals participating in meals (for meal charges only). – **No exceptions.**

Travel and Expense Reimbursements

9. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov). – **Reimbursement are based on actual cost.**
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased – **No exceptions.**
 - c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy. – **No exceptions.**
 - d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement – **No exceptions.**

Payroll and Personnel

10. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
11. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #10 above, obtain attendance records and leave documentation for the pay period, and:
- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning

leave according to policy and/or contract, the official should document his/her daily attendance and leave.) – **No exceptions.**

b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

Exception – HTB noted that there was no signed “Request for Leave Form” for one employee’s paid comp time.

c) Observe that any leave accrued or taken during the pay period is reflected in the entity’s cumulative leave records. – **No exceptions.**

12. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management’s representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management’s termination payment calculations, agree the hours to the employee/officials’ cumulative leave records, and agree the pay rates to the employee/officials’ authorized pay rates in the employee/officials’ personnel files. – **No exceptions.**

13. Obtain management’s representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers’ compensation premiums have been paid, and associated forms have been filed, by required deadlines. – **No exceptions.**

Management’s Response/Corrective Action to Exceptions

The District’s response to the exceptions identified in our performance of the SAUPs is attached. The District’s response was not subjected to any procedures applied in the SAUPs and, accordingly, we express no opinion or any assurance on it.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Respectfully submitted,

Hannis T. Burgess, LLP

Denham Springs, Louisiana
May 21, 2019

Ward Two Water District of Livingston Parish
P.O. Box 637
Denham Springs, LA 70727-0637

May 17, 2019

Hannis T. Bourgeois, LLP, CPAs
178 Del Orleans Avenue, Suite C
Denham Springs, Louisiana 70726

Ward Two Water District of Livingston Parish
Response to 2018 Financial AUP Exceptons: 2018

The District hereby agrees to refine current procedures or implement written procedures regarding the below noted AUP exceptions:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

a) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Exception - The District does have written policies and procedures but the written policies do not address dollar thresholds by category of expense. However the District's written policies and procedures defines a \$1,000 limit per travel and expense reimbursement request (for all expense categories), but does not address dollar thresholds by category of expense.

Management's Response/Corrective Action – The District's management will amend the travel procedures to include the dollare threshold amount.

b) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

Exception - The District does have written policies and procedures but written policies do not require that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. However, the District's written policies and procedures requires employees to read the District's ethics policy and sign an acknowledgement form at time of hire and when the District has an update to the personnel manual (which includes the District's ethics policy).

Management's Response/Corrective Action – The District's management will amend the Ethics policy and procedures to include all required for the AUP exception.

Bank Reconciliations

2. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

- a) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged);

Exception - We noted bank reconciliations for four bank accounts that we tested did not have any evidence of management or board member approval during the fiscal year.

Management's Response/Corrective Action – The District's management will amend the bank reconciliation procedure to include signature verification from President of Board for all District bank accounts.

- b) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Exception - We noted one bank account's reconciliations that we tested that included reconciling items more than 12 months old. In communicating with the employees responsible for the reconciliations, they indicated that they had researched the items and provided verbal explanations on the items but no written documentation was provided.

Management's Response/Corrective Action – The District's management these all outstanding items more than 12 months old are researched and that the District has documentation reflected that is has been researched.

Payroll and Personnel

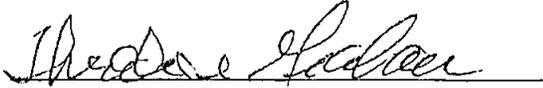
3. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

4. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected for testing, obtain attendance records and leave documentation for the pay period, and:

- a) Observe that supervisors approved the attendance and leave of the selected employees/officials.

Exception – HTB noted that there was no signed "Request for Leave Form" for one employee's paid comp time.

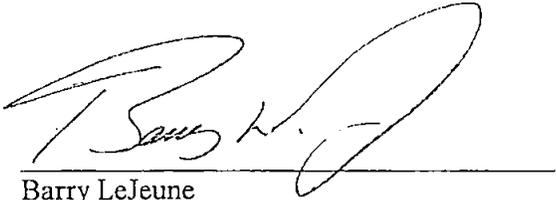
Management's Response/Corrective Action – The District's management will amend leave request policy and procedures to assure no leave request forms are not properly filed.



Theodore Graham
President of Board of Commissioners



Agnès "Cookie" Killcrease
Administrative Director



Barry LeJeune
General Manager