

Livingston Parish Sewer District Number Two

Annual Financial Statements

As of and for the Year Then Ended December 31, 2016
With Supplemental Information Schedules
(with 2015 summarized comparative information)



BRUCE HARRELL & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

Livingston Parish Sewer District Number Two
Annual Financial Statements
As of and for the Year Ended December 31, 2016
With Supplemental Information Schedules
(with 2015 summarized comparative information)

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Independent Auditor's Report

To the Board of Commissioners
Livingston Parish Sewer District Number Two
Livingston Parish Council
Denham Springs, Louisiana 70438

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Livingston Parish Sewer District Number Two, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's 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 opinions 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 entity'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 entity'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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the utility fund of Livingston Parish Sewer District Number Two, as of December 31, 2016, and the respective changes in the 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 the Livingston Parish Sewer District Number Two's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 7 - 13 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 response 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 of the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule listed as Other Supplemental Information, included in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule listed as Other Supplemental Information in the table of contents is the responsibility of management and was derived from and relates 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

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auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 30, 2017 on our consideration of Livingston Parish Sewer District Number Two's internal control over financial reporting and 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 provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Livingston Parish Sewer District Number Two's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Bruce Harrell & Co." with a stylized flourish at the end.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

Kentwood, Louisiana
June 30, 2017

Required Supplemental Information
Management's Discussion and Analysis

Livingston Parish Sewer District Number Two
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Introduction

The Livingston Parish Sewer District Number Two (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), as amended. The amendment of GASB 34, including the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and applicable standards more fully described in the financial statement footnotes as *Footnote 1- Summary of Significant Accounting Policies*.

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, 2016, total assets and deferred outflows were \$25,776,513, and exceeded liabilities in the amount of \$3,312,158 (i.e., net position). Of the total net position, \$855,667 was unrestricted and available to support short-term operations. The net investment in capital assets totaled \$1,188,182. The remaining balance was restricted for capital projects activity and debt service.
- The long-term portion of bonds payable increased to \$21,233,037 at December 31, 2016 compared to \$19,537,000 at the end of the prior fiscal period. This was due to the bond principal payments during the fiscal year and bond refunding issued in the amount of \$2,200,000.
- For the year ended December 31, 2016, operating revenues increased to \$3,392,279 as compared to \$3,183,381 for the fiscal year ending December 31, 2015.
- The District's operating expenses, other than depreciation expense, increased by \$218,106 to \$1,850,600 for fiscal year ending December 31, 2016 as compared to \$1,632,494 for the prior fiscal year. The increase is due primarily to increases in repairs and maintenance of \$111,357, professional fees of \$23,899, utilities of \$37,673, and insurance of \$19,200.
- The District showed a decrease in net position of (\$1,670,868) for the fiscal year ended December 31, 2016, as compared to an increase of \$907,562 for the fiscal year ending December 31, 2015.

Livingston Parish Sewer District Number Two
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

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 Livingston Parish Sewer District Number Two'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 Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position 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, key information schedules on operation of the District, and if applicable, schedules detailing audit findings and management response, as well as required reports for Single Audit disclosure, if applicable.

Financial Analysis

The purpose of financial analysis is to help determine whether Livingston Parish Sewer District Number Two is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Statement of Net Position, 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 liabilities, 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.

Livingston Parish Sewer District Number Two
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Condensed Statements of Net Position
2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 4,707,720	\$ 6,292,932	\$ (1,585,212)	-25%
Capital Assets	21,023,237	19,387,879	1,635,358	8%
Total Assets	<u>25,730,957</u>	<u>25,680,811</u>	<u>50,146</u>	0%
Deferred Outflows of Resources				
Refunding of Debt	45,556	47,183	(1,627)	-3%
Total Deferred Outflows of Resources	<u>45,556</u>	<u>47,183</u>	<u>(1,627)</u>	-3%
Liabilities:				
Long-Term Debt Outstanding	21,233,037	19,537,000	1,696,037	9%
Other Liabilities	1,231,318	1,207,968	23,350	2%
Total Liabilities	<u>22,464,355</u>	<u>20,744,968</u>	<u>1,719,387</u>	8%
Net Position:				
Net Investment in Capital Assets	1,188,182	3,091,168	(1,902,986)	-62%
Restricted for Capital Activity and Debt Service	1,268,309	1,136,975	131,334	12%
Unrestricted	855,667	754,883	100,784	13%
Total Net Position	<u>\$ 3,312,158</u>	<u>\$ 4,983,026</u>	<u>\$ (1,670,868)</u>	-34%

The major components of change for "Current and Other Assets" is a decrease in restricted cash of \$1,684,356 for sewer expansion construction related to the Series 2012 expansion construction costs offset by an increase in Unrestricted Cash of \$23,686.

"Capital Assets" increased by \$1,635,358, reflecting primarily asset additions of \$2,046,355 less the depreciation recorded on capital assets of \$410,995 for the fiscal year ending December 31, 2016. Capital asset increases included \$104,506 for various equipment and improvements, and \$1,941,849 for construction in progress relating to the 2012 sewer expansion project.

"Total Net Position" (total assets less total liabilities) decreased \$1,670,868 for the fiscal year ended December 31, 2016, compared to an increase of \$907,562 for the fiscal year ending December 31, 2015.

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis (Unaudited) As of and for the Year Ended December 31, 2016

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year ended December 31, 2016	Year ended December 31, 2015	Dollar Change	Percentage Change
Revenues:				
Operating Revenues	\$ 3,392,279	\$ 3,183,381	\$ 208,898	7%
Nonoperating Revenues	374,664	133,710	240,954	180%
Total Revenues	<u>3,766,943</u>	<u>3,317,091</u>	<u>449,852</u>	14%
Expenses:				
Depreciation Expense	410,995	401,723	9,272	2%
Other Operating Expense	1,850,600	1,632,494	218,106	13%
Nonoperating Expense	3,176,216	375,312	2,800,904	746%
Total Expenses	<u>5,437,811</u>	<u>2,409,529</u>	<u>3,028,282</u>	126%
Changes in Net Position	<u>(1,670,868)</u>	<u>907,562</u>	<u>(2,578,430)</u>	-284%
Net Position, Beginning	<u>4,983,026</u>	<u>4,075,464</u>	<u>907,562</u>	22%
Ending Net Position	<u>\$ 3,312,158</u>	<u>\$ 4,983,026</u>	<u>\$ (1,670,868)</u>	-34%

While the Statement of Net Position shows the change in financial position of 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 Livingston Parish Sewer District Number Two is being conservatively managed.

Total "Operating Revenues" (including sewer sales and revenues related to providing sewer maintenance fees and impact fees) increased by \$208,898 primarily due to an increase of \$202,574 in sewer fees and \$47,808 in impact fees, offset by a decrease of \$37,420 in maintenance revenue from Sewer #1. Nonoperating revenues increased \$240,954 due to an increase of \$92,903 in FEMA reimbursements, an increase of \$122,683 in transfers in from other governments, and a \$24,260 increase in Sewer #1 Series 2012 Debt Payments – Net of Interest Expense.

Total "Operating Expenses", other than depreciation expense, increased by \$218,106 to \$1,850,600 for fiscal year ending December 31, 2016 as compared to \$1,632,494 for the prior fiscal year. The increase is due primarily to increases in repairs and maintenance of \$111,357, professional fees of \$23,899, utilities of \$37,673, and insurance of \$19,200.

Total "Nonoperating Expense" increased by \$2,800,904. This increase was due primarily to bond refunding transfers to the Parish Council for Series 2016 Revenue Refunding Bonds of \$2,276,245, flood expenses of \$397,600, bond issuance cost of \$92,914, and interest expense of \$29,826.

The District showed a decrease of \$(1,670,868) (change in net position) for the fiscal year ending December 31, 2016, as compared to an increase of \$907,562 for the fiscal year ending December 31, 2015.

Livingston Parish Sewer District Number Two
Management’s Discussion and Analysis (Unaudited)
As of and for the Year Ended December 31, 2016

Budgetary Highlights

Livingston Parish Sewer District Number Two adopts an annual operating budget to enhance management and operation of the District. 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 – Schedule of Revenues, Expenses, and Changes in Net Position-Budget (GAAP Basis) and Actual”, as supplementary information, following the footnotes to the financial statements.

Budget vs. Actual - Fiscal Year ended December 31, 2016

	Budget Year ended December 31, 2016	Actual Year ended December 31, 2016	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 3,381,100	\$ 3,392,279	\$ 11,179
Nonoperating Revenues	3,500	374,664	371,164
Total Revenues	<u>3,384,600</u>	<u>3,766,943</u>	<u>382,343</u>
Expenses:			
Depreciation Expense	460,000	410,995	49,005
Other Operating Expense	2,132,600	1,850,600	282,000
Nonoperating Expense	792,000	3,176,216	(2,384,216)
Total Expenses	<u>3,384,600</u>	<u>5,437,811</u>	<u>(2,053,211)</u>
Change in Net Position	<u>\$ -</u>	<u>\$ (1,670,868)</u>	<u>\$ (1,670,868)</u>

Actual revenues exceeded budgeted revenues by 11% or \$382,343, and actual expenses were above their projection of expenses by 61% or \$2,053,211 due to the recording of Series 2016 Revenue Refunding Bonds.

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.

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis (Unaudited) As of and for the Year Ended December 31, 2016

General Operating Data

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>Increase</u> <u>(Decrease)</u>
Customers	4,729	4,679	50
Total Customers	<u>4,729</u>	<u>4,679</u>	<u>50</u>

The increase in customers is primarily a result of construction improvements financed with the 2012 Construction bonds and continued expansion of the District.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2016, Livingston Parish Sewer District Number Two had \$21,023,237 (net of accumulated depreciation) recorded in capital assets. This includes sewer line systems and improvements, land, buildings, machinery and equipment, and vehicles used to operate the sewerage system. The changes in capital assets are presented in the table below.

	<u>December</u> <u>31, 2016</u>	<u>December</u> <u>31, 2015</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Capital Assets				
Buildings	\$ 412,633	\$ 407,823	\$ 4,810	1%
Machinery & Equipment	1,249,269	1,159,039	90,230	8%
Utility System	12,222,065	12,222,075	(10)	0%
Vehicles	161,952	152,478	9,474	6%
Subtotal	<u>14,045,919</u>	<u>13,941,415</u>	<u>104,504</u>	<u>1%</u>
Less: Accumulated Depreciation	<u>(7,181,323)</u>	<u>(6,770,328)</u>	<u>(410,995)</u>	<u>-6%</u>
Capital Assets Being Depreciated, Net	6,864,596	7,171,087	(306,491)	-4%
Land	138,134	138,134	-	0%
Construction in Progress	<u>14,020,507</u>	<u>12,078,658</u>	<u>1,941,849</u>	<u>16%</u>
Net Capital Assets	<u>\$ 21,023,237</u>	<u>\$ 19,387,879</u>	<u>\$ 1,635,358</u>	<u>8%</u>

“Capital Assets” increased by \$1,635,358, reflecting primarily asset additions of \$2,046,355 less the depreciation recorded on capital assets of \$410,995 for the fiscal year ending December 31, 2016. Capital asset increases included \$104,506 for various equipment and improvements, and \$1,941,849 for construction in progress relating to the 2012 sewer expansion project.

Long-Term Offerings

The primary source of long-term financing for Livingston Parish Sewer District Number Two are bonds issued through private lenders. With the issuance of the 2014 Series Refunding Bonds at an original issue amount of \$4,625,000, the issuance of the 2012 Refunding Bonds at \$572,000, the issuance of the 2012 Ward Two Sewer District Expansion bonds at \$15,900,000, and the issuance of the Series 2016 Sewer Refunding Bonds at \$2,200,000 the District covenants that net income will be maintained at a sufficient level to cover all operating and maintenance expenses and to cover bond requirements including debt installments and bond deposit

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis (Unaudited) As of and for the Year Ended December 31, 2016

requirements agreed to with the issuance of revenue bonds for the District. The District has also assumed responsibility for payment of the bonds issued by the Livingston Parish Council, the Livingston Parish Sewer District No. 2, Series 2009. The reader should refer to *Footnote 7 – Flow of Funds Restrictions on Use* and *Footnote 12 – Other Commitments and Contingencies* for a discussion of the District's compliance to bond covenants. The District for the fiscal year ending December 31, 2016 complied with bond covenants requiring a 125% ratio of Net Revenues to bond deposit requirements, and also implemented a rate increase implemented on June 1, 2015, to further comply with the bond covenant and to accumulate funds for needed repairs and maintenance of the sewer system. The reader should also refer to *Footnote 12 - Other Commitments and Contingencies* and *Footnote 14 – Subsequent Events*, since the Series 2009 Bonds of the Livingston Parish Council, for which the District is contractually obligated to pay debt installments, was refinanced by the District subsequent to fiscal year end.

Future Economic Plans

During the fiscal year ending December 31, 2016, and subsequent to fiscal year end, significant changes affect the future operation of Livingston Parish Sewer District Number Two. The reader of this document should refer to the following footnotes:

- *Footnote 6 Long-Term Obligations.* This footnote lists additional debt financing, Revenue Refunding Bonds, Series 2016 at \$2,200,000, for the District with the bond proceeds used to refund Series 2009 bonds, originally issued by the Livingston Parish Council, on behalf of the District.
- *Footnote 13 Flood Expenses.* This footnote states that the District incurred \$397,600 of flood expenses related to the August flood disaster. The District has received \$97,034 in FEMA assistance as of the date of this audit report, with the balance of request for assistance now pending.
- *Footnote 14 Subsequent Events.* This footnote first describes the results of the election November 8, 2016, in which the voters of Livingston Parish authorized the consolidation of Livingston Parish Sewer District Number Two and Livingston Parish Sewer District Number One. The merger of the two Districts occurred on January 1, 2017. Secondly, this footnote describes the progress of the District in completing the Series 2016 Construction Expansion program. The District has incurred \$14,009,404 in construction costs as of fiscal year end, and plans to finalize all contracts under this project, during the first half of 2017.

The Livingston Parish Sewer District Number Two's management approach is conservative. The Board actively monitors revenues and expenses and evaluates the costs of proposed expansion projects. The actions of the board since Hurricane Gustav have resulted in major improvements to the sewerage system that will enable the District to continue to provide services in the event of a natural disaster. The Board's emphasis is on providing services at the lowest cost available and to actively pursue projects that result in better service for customers.

Requests for Information

This financial report is designed to provide a general overview of Livingston Parish Sewer District Number Two's finances and to demonstrate the District's accountability. If you have questions regarding this report or need additional information, contact the District's accountant, Randy Smith at 277 East Railroad Avenue, Suite A, Denham Springs, LA 70726, at (225) 664-7579.

Financial Statements

Livingston Parish Sewer District Number Two
Statement of Net Position
As of December 31, 2016
(with 2015 summarized comparative information)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 845,283	\$ 821,597
Receivables, Net :		
Accounts	5,046	6,047
Due From FEMA	97,034	1,050
Prepaid Insurance	22,648	45,524
Total Current Assets	<u>970,011</u>	<u>874,218</u>
Restricted Assets:		
Restricted Cash and Cash Equivalents	3,537,938	5,222,294
Total Restricted Assets	<u>3,537,938</u>	<u>5,222,294</u>
Property, Plant, and Equipment		
Land	138,134	138,134
Construction in Progress	14,020,507	12,078,658
Property, Plant and Equipment, Net	6,864,596	7,171,087
Total Property, Plant, and Equipment	<u>21,023,237</u>	<u>19,387,879</u>
Other Assets		
Prepaid Bond Insurance Costs, Net	197,662	194,311
Meter Deposits	2,109	2,109
Total Other Assets	<u>199,771</u>	<u>196,420</u>
Total Assets	<u>25,730,957</u>	<u>25,680,811</u>
Deferred Outflows of Resources		
Refunding of Debt	45,556	47,183
Total Deferred Outflows of Resources	<u>45,556</u>	<u>47,183</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	146,840	72,774
Other Accrued Payables	11,191	6,106
Due To Other Governments	-	-
Total Current Liabilities (Payable From Current Assets)	<u>158,031</u>	<u>78,880</u>
Current Liabilities (Payable From Restricted Assets):		
Construction Payable	201,640	284,058
Accrued Interest Payable	310,647	316,030
Revenue Bonds Payable	561,000	529,000
Total Current Liabilities (Payable From Restricted Assets)	<u>1,073,287</u>	<u>1,129,088</u>
Long Term Liabilities:		
Bonds Payable	21,233,037	19,537,000
Total Long Term Liabilities	<u>21,233,037</u>	<u>19,537,000</u>
Total Liabilities	<u>22,464,355</u>	<u>20,744,968</u>
Net Position		
Net Investment in Capital Assets	1,188,182	3,091,168
Restricted for:		
Capital Projects and Debt Service	1,268,309	1,136,975
Unrestricted	855,667	754,883
Total Net Position	<u>\$ 3,312,158</u>	<u>\$ 4,983,026</u>

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

Statement B

**Livingston Parish Sewer District Number Two
Statement of Revenues, Expenses, and Changes in Net Position**

**For the year ended December 31, 2016
(with 2015 summarized comparative information)**

	2016	2015
Operating Revenues		
Sewer Fees	\$ 2,860,624	\$ 2,658,050
Sewer # 1 Maintenance Revenue	357,436	394,856
Permits & Inspection Fees	14,575	14,025
User & Hook-up Fees	20,495	18,109
Impact Fees	138,260	90,452
Other Operating Income	889	7,889
Total Operating Revenues	3,392,279	3,183,381
Operating Expenses		
Salaries and Wages	501,084	499,613
Payroll Taxes & Group Insurance	108,732	105,314
Per Diem	6,500	6,400
Amortization-Prepaid Bond Insurance	10,508	7,397
Bad Debts	3,629	3,056
Depreciation	410,995	401,723
Fuel/Oil-Trucks	43,358	46,330
Insurance	124,726	105,526
Licenses & Permits	6,851	3,295
Office Expense	6,764	7,973
Other	35,591	25,425
Professional Fees	102,450	78,551
Repairs and Maintenance	460,382	349,025
Supplies	134,800	133,870
Telephone	24,313	19,857
Uniform Expense	17,111	14,734
Utilities	263,801	226,128
Total Operating Expenses	2,261,595	2,034,217
Operating Income (Loss)	1,130,684	1,149,164
Nonoperating Revenues (Expenses)		
Interest Income	3,976	2,868
FEMA Reimbursement	97,034	4,131
Sewer #1 Series 2012 Debt Payments - Net of Interest Expense	150,971	126,711
Interest Expense	(286,607)	(256,781)
Bond Issuance Cost	(92,914)	-
Transfer for Parish Council Debt Obligation	(122,850)	(118,531)
Flood Expense	(397,600)	-
Transfer to Other Governments	(2,276,245)	-
Transfer in from Other Governments	122,683	-
Other Income	-	-
Total Nonoperating Revenues (Expenses)	(2,801,552)	(241,602)
Change in Net Position	(1,670,868)	907,562
Total Net Position, Beginning	4,983,026	4,075,464
Total Net Position, Ending	\$ 3,312,158	\$ 4,983,026

The accompanying notes are an integral part of this statement.

Livingston Parish Sewer District Number Two
Statement of Cash Flows
Proprietary Fund Type
For the year ended December 31, 2016
(with 2015 summarized comparative information)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 3,034,955	\$ 2,779,541
Other Receipts	359,375	536,650
Payments for Operations	(1,130,508)	(1,068,803)
Payments to Employees	(607,557)	(603,699)
Net Cash Provided by Operating Activities	<u>1,656,265</u>	<u>1,643,689</u>
Cash Flows From Capital and Related Financing Activities		
(Payments for) Flood Expenses	(397,600)	-
Proceeds from FEMA Reimbursements	-	4,131
(Payments for) Livingston Parish Council Debt Obligation	(122,850)	(118,531)
(Payments for) Capital Acquisitions	(2,128,771)	(2,786,453)
Principal Proceeds from (Repayments for) Long Term Debt	1,728,037	(473,000)
Transfer to Other Funds for Refunding	(2,153,562)	
Deferred Outflows for Refunding	1,627	1,627
Debt Issue Cost Payments	(92,914)	-
Prepaid Bond Insurance Payments	(13,859)	-
Interest Payments for Long Term Debt	(141,019)	(273,273)
Net Cash (Used) by Capital and Related Financing Activities	<u>(3,320,911)</u>	<u>(3,645,499)</u>
Cash Flows From Investing Activities		
Receipt of Interest	3,976	2,868
Proceeds from sale (Payments) for Investments	-	-
Net Cash Provided (Used) by Investing Activities	<u>3,976</u>	<u>2,868</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	(1,660,670)	(1,998,942)
Cash and Cash Equivalents, Beginning of Year	6,043,891	8,042,833
Cash and Cash Equivalents, End of Year	<u>\$ 4,383,221</u>	<u>\$ 6,043,891</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:		
Cash and Cash Equivalents, Unrestricted	\$ 845,283	\$ 821,597
Cash and Cash Equivalents, Restricted	3,537,938	5,222,294
Total Cash and Cash Equivalents	<u>\$ 4,383,221</u>	<u>\$ 6,043,891</u>

(Continued)

The accompanying notes are an integral part of this statement.

Livingston Parish Sewer District Number Two
Statement of Cash Flows
Proprietary Fund Type
For the year ended December 31, 2016
(with 2015 summarized comparative information)

Statement C
(Continued)

	2016	2015
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 1,130,684	\$ 1,149,164
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	421,503	409,120
(Increase) decrease in Accounts Receivable	1,001	(1,095)
(Increase) decrease in Prepaid Insurance	22,876	(26,764)
(Increase) decrease in Other Assets	1,050	7,194
(Increase) decrease in Due (to) and from Other Governments	-	126,711
Increase (decrease) in Accounts Payable	74,066	(19,456)
Increase (decrease) in Accrued Expenses	5,085	(1,185)
Net Cash Provided by Operating Activities	\$ 1,656,265	\$ 1,643,689

(Concluded)

The accompanying notes are an integral part of this statement.

Basic Financial Statements

Notes to the Financial Statements

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

Introduction

Livingston Parish Sewer District Number Two (the District) was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3811, et, seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The board is composed of a maximum of five board members appointed by the Livingston Parish Council. Board members are compensated for meeting attendance at the rate of \$100 per meeting.

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

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

1. Summary of Significant Accounting Policies

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

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as described in the following paragraphs.

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statement periods ending after December 15, 2012, provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined *Deferred Outflows of Resources* as a consumption of net assets by the government that is applicable to a future reporting period, and *Deferred Inflows of Resources* as an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB Concepts Statement 4 identifies

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The definition and reporting of net position is further described in *Footnote 1, Section J – Net Position*. As required by the Governmental Accounting Standards Board (GASB), the District implemented GASB Statement No. 63 during the year ending December 31, 2012. The District did not have any deferred inflows at December 31, 2016. The District did record \$45,556 of deferred outflows of resources due to debt refundings during the year ending December 31, 2014.

The District has also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The application of this standard to long-term debt offerings of the District is more fully described in *Footnote 1, Section I – Long-Term Debt Obligations*.

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

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

Proprietary funds distinguish operating revenues and expenses from 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 and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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.

B. Cash and Cash Equivalents and Investments

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

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

C. Investments

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

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

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- There is no involuntary participation in an external investment pool.

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

As of December 31, 2016 the District had no investments.

D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year. Inventories are valued at cost using the first-in, first-out method. As of December 31, 2016, the District had no significant inventory.

E. Prepaid Items

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

F. Restricted Assets

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

G. Capital Assets

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

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
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All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure Assets	40 Years
Land Improvements	40 Years
Buildings and Building Improvements	40 Years
Furniture and Fixtures	5 - 10 Years
Vehicles	5 Years
Equipment	3 - 10 Years

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

Employees of the District can earn leave based on the number of hours worked each pay period. At this time the District has no provision for leave carryover; therefore a leave accrual was not recorded in the financial statements.

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

I. Long-Term Debt Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are now expensed in the period incurred under GASB 65.

The District has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and with the implementation of GASB 65, the recognition of bond-related costs, including the costs related to issuance and refunding of debt, are revised. This standard was intended to compliment GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are now expensed in the period incurred under GASB 65.

GASB Statement 23, as amended, establishes accounting and financial reporting for current refundings and advance refundings resulting in defeasance of debt. Refundings involve the issuance of new debt whose proceeds are used to repay previously issued ("old") debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding). As described in paragraphs 3 and 4 of GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, an advance refunding may result in the in-substance defeasance of the old debt provided that certain criteria are met.

Livingston Parish Sewer District Number Two
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For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Paragraph 187 of GASB Statement 62 establishes standards of accounting and financial reporting for debt issuance costs. Paragraph 12 of Statement 7 indicates that debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (such as rating agency fees), and other related costs (such as printing, legal, administrative, and trustee expenses). Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

There were no bond issue costs for the fiscal year ended December 31, 2016.

J. Net Position

GASB Statement No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments, required reclassification of net assets into three separate components. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, revised the terminology by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB Statement No. 63 requires the following components of net position:

- **Net Investment in Capital Assets Component of Net Position** - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
- **Restricted Component of Net Position** - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- **Unrestricted Component of Net Position** - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

K. Comparative Data/Reclassifications

The financial statements are presented with certain prior year summarized information. Such information does not include sufficient detail 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, 2015, from which the summarized information was derived.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. All prior period adjustments recorded in the current period have been reflected in prior period data presented wherever possible.

L. Extraordinary and Special Items

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

M. Estimates

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

2. Cash and Cash Equivalents

At December 31, 2016, the District has cash and cash equivalents (book balances) as follows:

	December 31, 2016
Demand Deposits	\$ 1,622,128
Trust Funds	2,761,093
	\$ 4,383,221

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

At December 31, 2016, the District has \$4,659,541 in cash and cash equivalent deposits (collected bank balances), consisting of \$2,389,912 in demand deposits and \$2,269,629 in Trust Funds. The demand deposits are held in two banks. Demand deposits in one bank are secured from risk by \$250,000 of federal deposit insurance and \$2,009,036 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3). The \$2,009,036 is exposed to custodial credit risk because while the amount is secured by pledged securities, such securities are held by the custodial bank in the name of the fiscal agent bank (GASB Category 3). The demand deposits in the second bank of \$130,875

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

are fully secured by federal deposit insurance. The \$2,269,629 of Trust Funds is fully collateralized by the Trust Fund department of the participating bank.

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

3. Receivables

At December 31, 2016, the District recorded \$5,046 in customer accounts receivable. Billing services for the District are contracted with Ward 2 Water District of Livingston Parish and the City of Denham Springs. Accounts receivable at fiscal year-end includes the amounts collected but not yet remitted to the District. Customer accounts are written off as deemed uncollectible and any allowance for uncollectible accounts is deemed immaterial at fiscal year end.

4. Restricted Assets

The following is a summary of restricted assets at December 31, 2016:

	December 31, 2016
Restricted Cash and Cash Equivalents	
Bond Reserve Account	\$ 300,294
Bond Contingency Account	191,170
Bond Sinking Account	692,498
Impact Fee Fund	84,347
Construction Expansion Fund	2,269,629
Total Restricted Assets	\$ 3,537,938

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

5. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2016 is as follows:

	Beginning Balance 12/31/15	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance 12/31/16
Capital Assets Being Depreciated				
Buildings	\$ 407,823	\$ 4,800	\$ -	\$ 412,633
Machinery and Equipment	1,159,039	90,232	(2)	1,249,269
Utility System	12,222,075	-	-	12,222,065
Vehicles	152,478	9,474	-	161,952
Total Capital Assets Being Depreciated	13,941,415	104,506	(2)	14,045,919
Less Accumulated Depreciation	(6,770,328)	(410,995)	-	(7,181,323)
Capital Assets Being Depreciated, Net	7,171,087	(306,489)	(2)	6,864,596
Land	138,134	-	-	138,134
Construction in Progress	12,078,658	1,941,849	-	14,020,507
Total Capital Assets, Net	\$ 19,387,879	\$ 1,635,360	\$ (2)	\$ 21,023,237

Depreciation expense for the fiscal year ending December 31, 2016, totaled \$410,995. Total additions of \$104,506 were for machinery and equipment. Construction in Progress expenditures of \$1,941,849 were for project costs related to the Ward Two Sewer District Expansion project financed by Series 2012 Revenue Bonds issued at \$15,900,000 on November 14, 2012. The construction expenditures for the Series 2012 Expansion included a total of \$208,092 of interest expense capitalized during the current fiscal year ended.

6. Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended December 31, 2016:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
Revenue Refunding Bonds, Series 2012	\$ 446,000	\$ -	\$ (44,000)	\$ 402,000	\$ 46,000
Sewer Expansion Bonds, Series 2012	15,045,000	-	(385,000)	14,660,000	395,000
Revenue Refunding Bonds, Series 2014	4,575,000	-	(100,000)	4,475,000	105,000
Revenue Refunding Bonds, Series 2016	-	2,200,000	-	2,200,000	15,000
Total Long-Term Debt	20,066,000	2,200,000	(529,000)	21,737,000	561,000
Plus:					
Unamortized Premium	-	58,532	(1,495)	57,037	2,563
Total Long-Term Debt	\$ 20,066,000	\$ 2,258,532	\$ (530,495)	\$ 21,794,037	\$ 563,563

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
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Bonds Payable as of December 31, 2016 is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenue Refunding Bonds \$ 572,000 Sewer Revenue Bonds, Series 2012 Dated 6/28/2012 due in annual installments of principal and semi-annual installments of interest - varying from \$56,804 to \$53,755 interest at 2.85%, with bonds maturing 3/1/2024.	\$ 402,000	\$ 446,000
Sewer Expansion Bonds \$ 15,900,000 Sewer Expansion Bonds, Series 2012 Dated 11/21/2012 due in annual installments of principal and semi-annual installments of interest - varying from \$853,230 to \$847,960 interest from 2.0% to 3.6%, with bonds maturing 3/1/2042.	14,660,000	15,045,000
Revenue Refunding Bonds \$ 4,625,000 Sewer Revenue Bonds, Series 2014 Dated 7/22/2014 due in annual installments of principal and semi-annual installments of interest - varying from \$261,300 to \$226,099 interest from 2.0% to 4.0%, with bonds maturing 3/1/2044.	4,475,000	4,575,000
Revenue Refunding Bonds \$ 2,200,000 Sewer Revenue Bonds, Series 2016 Dated 5/16/2016 due in annual installments of principal and semi-annual installments of interest - varying from \$66,000 to \$149,894 interest from 1.25% to 4.0%, with bonds maturing 3/1/2039.	2,200,000	-
	<u>\$ 21,737,000</u>	<u>\$ 20,066,000</u>

The annual requirements to amortize all debt outstanding as of December 31, 2016, including interest payments of \$11,232,944 are as follows:

Year Ending <u>12/31/16</u>	Series 2012 Revenue Refunding Bonds <u>\$ 572,000</u>	Series 2012 Sewer Expansion Bonds <u>\$15,900,000</u>	Series 2012 Revenue Refunding Bonds <u>\$ 4,625,000</u>	Series 2016 Revenue Refunding Bonds <u>\$ 2,200,000</u>	<u>Total</u>
2017	\$ 56,802	\$ 851,205	\$ 260,288	\$ 80,416	\$ 1,248,711
2018	56,476	848,305	258,188	85,197	1,248,166
2019	56,123	850,305	261,038	84,947	1,252,413
2020	56,726	852,105	258,188	149,291	1,316,310
2021	56,287	848,705	261,301	148,080	1,314,373
2022 to 2026	166,840	4,255,625	1,289,615	732,786	6,444,866
2027 to 2031	-	4,255,750	1,286,598	727,100	6,269,448
2032 to 2036	-	4,256,475	1,291,078	731,574	6,279,127
2037 to 2041	-	4,255,510	1,285,900	441,600	5,983,010
2042 to 2044	-	849,520	764,000	-	1,613,520
	<u>\$ 449,254</u>	<u>\$ 22,123,505</u>	<u>\$ 7,216,194</u>	<u>\$ 3,180,991</u>	<u>\$ 32,969,944</u>

By contractual agreement, as described in *Footnote 12 – Other Commitments and Contingencies*, Livingston Sewer District Number One pays 33% of the bond interest and principal installments for the Series 2012, \$15,900,000 Sewer Expansion Bonds. As described in *Subsequent Events* footnote, Livingston Sewer District No. 2 and Livingston Sewer District No. 1 will be consolidated effective January 1, 2017.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

7. Flow of Funds, Restrictions on Use

On February 28, 1984, the District issued \$1,047,000 of United States Farmer's Home Administration (referred to as USDA) Sewer Revenue Bonds. The bonds were issued at an annual interest rate of 5.0%, and were due in installments of \$62,077 through February 28, 2024. These bonds were refunded by the Livingston Parish Sewer District # 2 Revenue Refunding Bonds, Refunding Series 2012, issued on June 28, 2012, at an issue amount of \$572,000. The Series 2012 Refunding Bonds of \$572,000 bonds were issued at an annual interest rate of 2.85%, and are due in annual installments of principal and semi-annual installments of interest expense, with the bonds maturing on March 1, 2024. The proceeds derived from the sale of the Bonds in the amount of \$572,000, along with certain other proceeds of the District as issuer in the amount of \$5,300, provided funding of \$556,154 for the Paying Agent to redeem in full the Series 1984 Bonds, and \$21,146 to pay the costs of issuance of the Bonds. The bond issuance costs totaling \$21,146 were recorded in the fiscal year ending December 31, 2012, as an expense in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Series 2012 Refunding Bonds were issued in parity with the \$4,950,000 Series 2004 Sewerage System Revenue Bonds, and in parity with the Issuer's outstanding obligations under a Local Services Agreement dated December 22, 2009, by and between the Issuer and Parish of Livingston, State of Louisiana, executed in accordance with the issuance by the Local Government Environmental Facilities and Community Development Authority of its \$2,500,000 Revenue Bonds.

On July 21, 2004, the District approved a resolution for issuance of \$4,950,000 in Sewer Revenue Bonds, at interest rates varying from 1.625% to 5.2%, with the bonds maturing on March 1, 2044. Series 2004 Sewer Revenue Bonds were originally issued in parity with the 1984 USDA Bonds, refunded by the Series 2012, and the Series 1977-B Bonds, were paid off in 2012. The Series 2004 Sewer Revenue Bonds were refunded by issuance of the Sewerage System Refunding Bonds, Series 2014, dated July 22, 2014.

On November 14, 2012, the District issued \$15,900,000 of Ward Two Sewer District Expansion revenue bonds. These bonds were intended to extend services to a minimum of 2,484 additional customers, and will provide for construction expenditures that benefit Livingston Sewer District No. 1, and Livingston Sewer District No. 2. Cooperative agreements between the two sewer districts are further described in *Footnote 12 – Other Commitments and Contingencies*. The bonds were issued at annual interest rates ranging from 2 to 3.6% and are due in annual installments of principal and interest beginning on March 31, 2013, with bond maturity date on March 1, 2042. These bonds are secured by Net Revenues on a parity with the Issuer's outstanding \$4,625,000 Sewerage System Refunding Bonds, Series 2014, outstanding \$572,000 Revenue Refunding Bonds, Series 2012, and obligations under a Local Services Agreement dated December 22, 2009, by and between the Issuer and Parish of Livingston, State of Louisiana, executed in accordance with the issuance by the Local Government Environmental Facilities and Community Development Authority of its \$2,500,000 Revenue Bonds.

On July 22, 2014, the District issued Sewerage System Refunding Bonds, Series 2014, in the amount of \$4,625,000. This refunding issue provided for refunding of the Series 2004 Sewer Revenue Bonds, originally issued at \$4,950,000. At the time of closing, the Series 2014 bond issue refunded the outstanding principal balance of \$4,295,000 of the Series 2004 bonds. The Series 2014 issued at \$4,625,000 is payable in annual installments of principal, and semi-annual interest installments with interest rates ranging from 2% to 4%, with principal and interest installments beginning on March 1, 2015, to maturity on March 1, 2044.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
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The Series 2014 Refunding is categorized as an Advance Refunding since the new debt proceeds were placed with an escrow agent and invested until they are used to pay principal and interest on the debt at a future time. An in-substance defeasance for accounting and reporting purposes is deemed to have occurred since the debtor irrevocably placed cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. The trust is restricted to owning only monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal. For the Advance Refunding, the District must report the difference between the reacquisition price and the net carrying amount as a deferred outflow or deferred inflow of resources and recognize the difference as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. Footnote 9 of GASB Statement 62 provides a definition of reacquisition price for an Advance Refunding as the amount that is placed in escrow that, together with interest earnings, is necessary to pay interest and principal on the old debt and call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price but, instead is a separate item related to and amortized over the life of the new debt. Net Carrying Amount is the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt. For the Series 2014 Refunding, the District recognized a Deferred Outflow of \$49,488, consisting of Reacquisition Price of \$4,483,229 placed in escrow plus less Carrying Amount of \$4,295,000 less reserve funds of \$138,741 applied to the refunding transaction.

On May 19, 2016, the District issued \$2,200,000 of Revenue Refunding Bonds, Series 2016. The Series 2016 bonds issued at \$2,200,00 are payable in annual installments of principal, and semi-annual interest installments with interest rates ranging from 1.25% to 4%, with principal and interest installments beginning on May 19, 2016, to maturity on March 1, 2039. With the issuance of the Series 2016 bonds, the District incurred bond issuance costs of \$92,914. Also incurred were Prepaid Insurance Costs of \$12,056, and \$58,535 related to bond premium, which are amortized over the life of the bond.

These Series 2016 bonds were issued to accomplish a partial refunding of the Series 2009 bonds issued at \$2,500,000 by the Livingston Parish Council. Concurrent with the issuance of the bonds, Livingston Sewer District also recorded \$122,683 as a transfer in from the Livingston Parish Council for debt reserve funds of Series 2009 bond issue for funds used to pay bond issuance costs, and a transfer to the Livingston Parish Council in the amount of \$2,276,245 for refunding of the Series 2009 bonds of the Livingston Parish Council. The Series 2009 bonds of the Livingston Parish Council were an issuance by the Livingston Parish Council pursuant to the Local Government Environmental Facilities and Community Development Authority. As noted above, Livingston Sewer District No. 2 and Livingston Sewer District No. 1, executed cooperative agreements dated December 22, 2009, for the payment of debt installments due on the Series 2009 bonds of the Livingston Parish Council. Not refunded by the Series 2016 bond issue were debt installments through year 2019 of the Series 2009 bond issue of the Livingston Parish Council, and these debt installments remain an obligation of Livingston Sewer District No. 2. The remaining obligations of the Series 2009 bond issue were \$137,041 for 2016, with remaining obligations consisting of \$60,900 for 2017, \$63,600 for 2018, and \$61,200 for 2019.

The bond restrictions were revised with the issuance of the 2014 Sewer Revenue Bond Issue at \$4,625,000, and the Series 2012 Refunding Bonds at \$572,000, and the issuance of the Series 2016 Refunding Bonds, with variations noted below. The \$15,900,000 Series 2012 Ward Two Sewer Expansions Bonds, and the Series 2016 Refunding Bonds, were also issued in parity with these bonds, but the provisions described below for the Reserve Fund and the Depreciation and Contingency Fund, as listed below, do not apply to the \$15,900,000 Series 2012 Bonds or the Series 2016 Refunding Bonds. The Reserve Fund for these bonds was funded by insurance at the time of bond closing, and the bond documents do not specify a requirement for a Depreciation and Contingency Fund. Bond restrictions are described below:

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

Sewerage System Bond and Interest Sinking Fund (the Sinking Fund): Each month the District shall transfer from the Sewer Revenue Fund to the regularly designated fiscal agent bank of the Issuer (which must be a member of the Federal Deposit Insurance Corporation), monthly in advance on or before the 20th day of each month of each year a sum equal to 1/12 of the principal and interest falling due on the next principal and interest payment date, together with such additional proportionate sum as may be required to pay said principals and interest as the same respectively become due. The \$15,900,000 Series 2012 bonds specify a required payment by the 25th of each month to the Sinking Fund in an amount sufficient in amount to make the principal and interest payments due on the Bonds. Money in the Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal and interest on the bond and parity bonds. Said fiscal agent shall make available from the revenue bond sinking fund to the paying agent such funds as are available from the Sinking Fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principal and interest so falling due on such date.

At fiscal year end, all required deposits were made to the Sinking Fund, and the Sinking Fund was fully funded.

Sewerage System Revenue Bond Reserve Fund (the Reserve Fund): Each month the District must transfer into the Reserve fund, monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent of the sum required by applicable bond covenants, such payments to continue until an amount has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements for any succeeding twelve (12) month period on such bonds payable from the Reserve Fund. The amount that must be deposited each month to the Reserve Fund is equal to 5% of the required monthly interest and principal installments for outstanding parity bonds.

The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and interest on bonds payable from the Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds. The Series 2014 bond refunding required a \$261,300 deposit to the Debt Service Reserve Fund. Required deposits, as detailed above, supplement the \$261,300 deposit. For the fiscal year ending December 31, 2016, the required deposits of \$15,626 were made and the Reserve Fund was fully funded.

The Series 2014 bond covenants also note that the obligations of the issuer pursuant to the 2009 LSA (the Series 2009 obligations which are an obligation of the Livingston Parish Council) are secured by a separate reserve fund, and the Series 2012 bonds, issued at \$15,900,000, are secured by a Reserve Fund Alternate Investments. In no event shall funds in the Reserve Fund be used to make payments on the 2009 LSA or the Series 2012 \$15,900,000 bond issue.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

Sewerage System Depreciation and Contingency Fund (the Depreciation and Contingency Fund): Each month the District shall transfer from the Sewerage System Revenue Fund an amount monthly in advance on or before the 20th day of each month of each year beginning with the first month following completion of the improvements and extensions to the System financed with the proceeds of the Bonds, the sum equal to five percent of the amount, for each parity bond, to be paid monthly into the Sinking Fund. All monies in the Depreciation and Contingency Fund may be drawn on and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and Reserve Fund. The required balance of the Depreciation and Contingency totaled \$143,790, for the prior fiscal year end, with \$15,942 required in deposits for the fiscal year ended, with a total balance of \$159,918 required at December 31, 2014. For the fiscal year-end December 31, 2016, all required Depreciation and Contingency Fund monthly deposits totaling \$15,626 for the District had been made as required, and the Depreciation and Contingency Fund was fully funded.

Bond Debt Coverage Factor: With the issuance of the parity bonds, the District (the Issuer) covenants to fix, establish, maintain and collect, so long as any principal and interest is unpaid on the Bonds, such rates, fees, rents or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, as will always provide revenues in each fiscal year sufficient to (i) pay the reasonable and necessary expenses of operating and maintaining the System in each fiscal year; (ii) to provide Net Revenues in an amount sufficient to make deposits in the Sinking Fund and the Reserve Fund established by the Prior Bond Resolutions and maintained by the Bond Resolution for the payment of the principal and interest on the bonds, the Parity Bonds, and any Additional Parity Obligations issued hereafter; (iii) provide Net Revenues in an amount equal to one hundred twenty-five percent (125%) of the required deposits to the Sinking Fund for the security and payment of the Bonds and the Parity Bonds; (iv) make all other payments required by the Bond Resolution; and (v) pay all other obligations or indebtedness payable out of the Revenues for such fiscal year. The Issuer further covenants 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 such purposes.

For the fiscal year ending December 31, 2016, the computation for the bond debt coverage ratio (Net Revenues to bond deposit requirements) was in compliance with bond provisions requiring the 125% ratio. The bond debt coverage ratio was calculated net of the effects of the Series 2016 refunding of the Series 2009 of the Livingston Parish Council, since the transactions to record the sources and uses of bond proceeds are non-recurring and not connected to the continuing operation of the District.

8. Restricted and Designated Net Position

At December 31, 2016, Livingston Parish Sewer District Number Two recorded \$1,188,182 in Restricted Net Position (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

9. Intergovernmental Agreements

Billing services for the District are contracted to the City to Denham Springs and Ward Two Water District of Livingston Parish. In addition, the District provides sewer maintenance services, primarily with Livingston Parish Sewer District One, and recorded a total of \$357,436 in sewer maintenance revenue for the fiscal year ending December 31, 2016.

Also, see the footnote following for *Other Commitments and Contingencies* for a description of intergovernmental agreement between Livingston Parish Sewer District Number Two and Livingston Parish Sewer District No. 1, and the footnote following on *Subsequent Events* for a description of the consolidation of Livingston Sewer District No. 2 and Livingston Sewer District No. 1, to occur on January 1, 2017.

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 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.

11. Litigation

According to the District's legal counsel, there is no pending litigation against Livingston Parish Sewer District Number Two.

12. Other Commitments and Contingencies

Long-Term Commitment for Payment of Bonds of the Livingston Parish Council:

On August 18, 2009, the Board of Commissioners of the District voted to adopt a resolution requesting the Livingston Parish Council (the Council) proceed with a bond issue not to exceed \$2,500,000 through the Louisiana Local Government Environmental Facilities and Community Development Authority. The bonds would be issued in the name of the Livingston Parish Council but would fund improvements for the District to acquire, construct, extend and improve the sewer system of the District. The Board also voted to authorize a Local Services Agreement with the Livingston Parish Council, in accordance with provisions of Louisiana Revised Statutes 33:1321-1337, which defines the District's responsibility for payment of annual principal and interest installments. On December 22, 2009, an additional Local Services Agreement was issued between and Livingston Parish Sewer District No. 1 that further defined the responsibility for payment of annual principal and interest payments, with the Livingston Parish Sewer District Number Two currently paying 73% of the required monthly installments and the Livingston Parish Sewer District No. 1 paying the remaining 27% of the installments. For the fiscal year ending December 31, 2016, the District was in compliance with bond covenants requiring payment by the two sewer districts, with Livingston Sewer District No. 2 paying \$122,850, and Livingston Sewer District No. 1 paying \$45,438.

The Bonds, Livingston Sewer District No. 2, Series 2009, were originally issued to the Livingston Parish Council on December 22, 2009. As described in *Footnote 6 – Long-Term Obligations*, on May 16, 2016, Livingston Parish Sewer District No. 2, issued bonds dated May 16, 2016, in the amount of \$2,200,000, for a partial refunding of the Series 2009 Bonds of the Livingston Parish Council. An obligation remains for the Livingston Parish Sewer District No. 2, to pay obligations not refunded of the Series 2009

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

Livingston Parish Council bond issue. Remaining obligations of the Series 2009 bond issue total \$60,900 for 2017, \$63,600 for 2018, and \$61,200 for 2019.

Cooperative Agreements Related to the \$15,900,000 Series 2012 Revenue Bonds:

On November 14, 2012, Livingston Sewer District No. 2 secured financing for \$15,900,000 of Revenue Bonds. The Series 2012 Ward Two Sewer District Expansion bonds provide financing for construction improvements for both Livingston Sewer District No. 2 and Sewer District No. 1. Construction improvements for this project totaled \$14,009,004 at December 31, 2016, and it was originally anticipated that 33% of the construction expenditures will benefit Livingston Sewer District No. 1. By cooperative agreement, Livingston Sewer District No. 1 assumed responsibility for payment of debt installments in proportion to the construction costs benefitting each district. However, with the consolidation of the two Districts, as described in the “*Subsequent Events*” following, this debt will be included as debt of the two merged sewer districts.

13. Flood Expenses

As of December 31, 2016, the District incurred \$397,600 in expenses related to the August 2016 Flood disaster. These expenses were incurred to repair sewerage facilities and to facilitate continuing operation of these facilities during the disaster. Expenses incurred relate to overall operation of the sewerage system and efforts to provide continuing services to major sewer treatment facilities including sewer plant facilities added at a cost of \$4,851,517 on January 1, 1986, a wastewater plant added at a cost of \$4,890,900 on July 1, 2015, and to construction in progress expenditures totaling \$14,009,404 at December 31, 2016, for the Series 2012 Construction Expansion Program. As such, an impairment loss cannot be calculated.

The District, as of the date of this audit report, has received a total of \$97,034 from FEMA for disaster assistance. The District has a total of \$400,165 in requests pending for disaster assistance, and if the Project Worksheets (PWs) are deemed eligible, the District would qualify for a maximum reimbursement of 90% of flood expenses incurred.

Livingston Parish Sewer District Number Two
Notes to the Financial Statements
As of and for the Year Ended December 31, 2016
(with 2015 summarized comparative information)

14. Subsequent Events

Subsequent events have been evaluated by management through June 30, 2017, the date the financial statements were available to be issued and these financial statements considered subsequent events through such date. No events were noted that require recording or disclosure in the financial statements for the fiscal year ending December 31, 2016, other than those noted in the following paragraph.

On November 8, 2016, voters authorized the consolidation of operations of Sewerage District No. 1 of Livingston Parish and Sewerage District No. 2 of Livingston Parish. The proposition stated that in order to consolidate operations, achieve maximum budget efficiency and reduce the costs of operations, that the two Districts be granted the authority to merge in accordance with Article VI, Section 16 of the Constitution of the State of Louisiana of 1974. On December 15, 2016, the District, after consultation with legal services and the Louisiana Legislative Auditor, approved a motion to approve the merger, effective January 1, 2017.

During the fiscal year ending December 31, 2016, the District incurred an additional \$1,941,849 in construction costs related to the Series 2012 Expansion Program, for a total of \$14,009,404 incurred in construction costs as of fiscal year end. This project is funded by Series 2012 Expansion Bonds, dated November 21, 2012, at an issue amount of \$15,900,000. All contracts funds by the Series 2012 Expansion Bonds are anticipated to be completed and construction recorded as final during the first half of year 2017. Any funds remaining within the bond issue are anticipated to be expended for needed system improvements connected with the expansion.

Other Supplemental Information

Livingston Parish Sewer District Number Two
Schedule of Revenues, Expenses, and Changes in Net Position-Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2016
(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 Budget	2016 Actual	Variance Favorable (Unfavorable)	2015 Actual
Operating Revenues				
Sewer Fees	\$ 2,866,000	\$ 2,860,624	\$ (5,376)	\$ 2,658,050
Sewer # 1 Maintenance Revenue	357,000	357,436	436	394,856
Permits & Inspection Fees	15,000	14,575	(425)	14,025
User & Hook-up Fees	20,000	20,495	495	18,109
Impact Fees	122,700	138,260	15,560	90,452
Other Operating Income	400	889	489	7,889
Total Operating Revenues	<u>3,381,100</u>	<u>3,392,279</u>	<u>11,179</u>	<u>3,183,381</u>
Operating Expenses				
Salaries and Wages	520,000	501,084	18,916	499,613
Payroll Taxes & Group Insurance	104,000	108,732	(4,732)	105,314
Per Diem	5,400	6,500	(1,100)	6,400
Amortization	7,400	10,508	(3,108)	7,397
Bad Debts	3,800	3,629	171	3,056
Depreciation	460,000	410,995	49,005	401,723
Fuel/Oil-Trucks	44,000	43,358	642	46,330
Insurance	104,000	124,726	(20,726)	105,526
Licenses & Permits	9,000	6,851	2,149	3,295
Office Expense	7,500	6,764	736	7,973
Other	179,500	35,591	143,909	25,425
Professional Fees	100,000	102,450	(2,450)	78,551
Repairs and Maintenance	578,000	460,382	117,618	349,025
Supplies	134,000	134,800	(800)	133,870
Telephone	25,000	24,313	687	19,857
Uniform Expense	21,000	17,111	3,889	14,734
Utilities	290,000	263,801	26,199	226,128
Total Operating Expenses	<u>2,592,600</u>	<u>2,261,595</u>	<u>331,005</u>	<u>2,034,217</u>
Operating Income (Loss)	<u>788,500</u>	<u>1,130,684</u>	<u>342,184</u>	<u>1,149,164</u>
Nonoperating Revenues (Expenses)				
Interest Income	3,500	3,976	476	2,868
FEMA Reimbursement	-	97,034	97,034	4,131
Sewer #1 Series 2012 Debt Payments - Net of Interest Expense	-	150,971	150,971	126,711
Interest Expense	(300,000)	(286,607)	13,393	(256,781)
Bond Issuance Cost	-	(92,914)	(92,914)	-
Transfer for Parish Debt Obligation	(122,000)	(122,850)	(850)	(118,531)
Flood Expense	(370,000)	(397,600)	(27,600)	-
Transfer to Other Governments	-	(2,276,245)	(2,276,245)	-
Transfer in from Other Governments	-	122,683	122,683	-
Total Nonoperating Revenues (Expenses)	<u>(788,500)</u>	<u>(2,801,552)</u>	<u>(2,013,052)</u>	<u>(241,602)</u>
Change in Net Position	<u>-</u>	<u>(1,670,868)</u>	<u>(1,670,868)</u>	<u>907,562</u>
Total Net Position, Beginning	4,983,026	4,983,026	-	4,179,964
Prior Period Adjustments	-	-	-	(104,500)
Adjusted Net Position, Beginning	<u>4,983,026</u>	<u>4,983,026</u>	<u>-</u>	<u>4,075,464</u>
Total Net Position, Ending	<u>\$ 4,983,026</u>	<u>\$ 3,312,158</u>	<u>\$ (1,670,868)</u>	<u>\$ 4,983,026</u>

See independent auditor's report.

Schedule 3

**Livingston Parish Sewer District Number Two
Schedule of Compensation Paid to Board of Commissioners
For the year ended December 31, 2016**

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
J. Kyle Parker, Chairman (225) 572-7817	36426 Lucas Drive Denham Springs, LA 70706	1,800	Until Re-appointed
Thomas M. Hall (225) 454-2500	8602 R. Dawes Drive Denham Springs, LA 70706	1,700	Until Re-appointed
Michael Dougay (225) 791-8295	36375 Page Davis Denham Springs, LA 70706	1,600	Until Re-appointed
Asa Faulkner (225) 287-8518	8562 Beechwood Drive Denham Springs, LA 70706	1,000	Until Re-appointed
Thomas Terral (225) 412-1084	8009 Darlene Ave Denham Springs, LA 70706	400	Resigned March 2016
		<u>\$ 6,500</u>	

Schedule 4

**Livingston Parish Sewer District Number Two
Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the year ended December 31, 2016**

Agency Head Name: J. Kyle Parker, Chairman

<u>Purpose</u>	<u>Amount</u>
Board Member Per Diem	1,800
	<u>\$ 1,800</u>

See independent auditor's report.

Livingston Parish Sewer District Number Two
Schedule of Customers and Schedule of Sewer Rates
For the year ended December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Customers	4,729	4,679	50
Total Customers	<u>4,729</u>	<u>4,679</u>	<u>50</u>

Tap Fee is \$300.98 (plus road bore)
plus additional Impact Fee as indicated
below:

<u>Sewer Fees (Effective June 1, 2015)</u>	<u>Impact Fee</u>	<u>Size Tap</u>
Residential Sewer Rates:	\$ 1,702	3/4" Tap
\$ 32.50 - First 2,000 Gallons	1,762	1" Tap
3.75 - All Over 2,000 Gallons, per Thousand	5,253	1 & 1/2" Tap
32.50 - Residential With Own Well - Flat Rate	21,915	2" Tap
	23,429	3" Tap
Commercial Sewer Rates:	56,818	4" Tap
\$ 48.50 - Plus \$4.25 Per Thousand Gallons Flat Rate Plus Usage	120,919	6" Tap
48.50 - Flat Rate Only. Commercial W/own Well.	346,301	8" Tap
48.50 - \$48.50 Per Unit Plus \$4.25 Per Thousand Gallons. Commercial With Multiple Connections Having a Single Water Meter		

See independent auditor's report.

**Livingston Parish Sewer District Number Two
Schedule of Findings and Questioned Costs
As of and for the year ended December 31, 2016**

Part I: Summary of Auditor’s Results

Financial Statements

Type of Auditor’s Report Issued: Unmodified.

Internal Control Over Financial Reporting:

Material Weakness(es) Identified:	No
Significant Deficiency(ies) that are not considered to be Material Weaknesses:	Yes
Noncompliance Material to the Financial Statements:	No

Federal Awards

There were no Major Programs for the District for the fiscal year ended December 31, 2016

Part II: Findings which are required to be reported in accordance with generally accepted *Governmental Auditing Standards*. These findings are included within the *Summary Schedule of Prior Year Audit Findings*, and the *Corrective Action Plan for Current Year Audit Findings*, with current year findings categorized as follows:

A. Compliance Findings –

No compliance findings.

B. Internal Control Findings -

Internal control findings within the *Corrective Action Plan for Current Year Audit Findings* include findings 2016-I1 and 2016-I3, classified as significant deficiencies not constituting material weaknesses.

Part III: Findings and Questioned Costs for Federal Awards which include audit findings as defined in Section 510(a) of Uniform Circular:

N/A.

Part IV: Management Letter Items:

There were no management findings for the District for the fiscal year ending December 31, 2016.

**Livingston Parish Sewer District Number Two
Summary Schedule of Prior Year Audit Findings
As of and for the year ended December 31, 2016**

Compliance Findings (Reported in Accordance with Government Auditing Standards)

No compliance findings.

Internal Control Findings (Reported in Accordance with Government Auditing Standards)

Reference Number: 2015-I1 (Lack of segregation of duties)

Year Initial Finding Occurred: Fiscal Year Ending December 31, 2010

Type Finding: Significant deficiency not constituting a material weakness.

Description of Finding:

The prior year finding noted that Livingston Parish Sewer District Number Two must demonstrate that activities relating to the receipt and disbursement of funds are properly segregated. We recommended that the District continue to implement compensating controls to ensure the integrity of financial operations.

Corrective Action Taken:

Corrective action is listed as partial, since when there is a limited number of personnel, positive steps must be taken by management and the board of commissioners to control the initial recording and reporting of financial transactions. This finding is continued as Finding 2016-I1 in the *Corrective Action Plan for Current Year Audit Findings*.

Description of Corrective Action Taken:

Since proper segregation of duties is a continuing issue of small agencies, this finding is expected to be continued.

Contact Person:

Michael David Dougay, Chairman
36375 Page Drive
Denham Springs, LA 70706
(225) 791-8295

Reference Number: 2015-I3 (Account Receivable Documentation)

Year Initial Finding Occurred: Fiscal Year Ending December 31, 2011

Type Finding: Significant deficiency constituting a material weakness.

Description of Finding:

The prior year finding noted that Livingston Parish Sewer District Number Two must obtain adequate support from the third-party billing agents to determine that accounts receivable and sewer service revenue are reasonably valued.

Corrective Action Taken:

Corrective action is listed as partial, although the District took the steps in 2015 and 2016 to obtain from the primary billing agent detail payment registers, registers to verify billings, and reports to verify account activity, including the addition of new customers. For 2016, reports provided by the primary billing agent were sufficient for effective management of billings and

(Continued)

**Livingston Parish Sewer District Number Two
Summary Schedule of Prior Year Audit Findings
As of and for the year ended December 31, 2016**

payments. The part of the finding relating to reporting by the primary agent is considered resolved. However, since the smaller secondary billing agent provides only a summary sheet for monthly payment totals, and does not provide detail for billings and charges, this part of the finding is continued as Finding 2016-I3 within the *Corrective Action Plan for Current Year Audit Findings*.

Description of Corrective Action Taken:

Since proper support is required for the smaller secondary billing agent, and recommendations are still being implemented, this finding is continued.

Contact Person:

Michael David Dougay, Chairman
36375 Page Drive
Denham Springs, LA 70706
(225) 791-8295

Internal Control Findings for Federal Programs.

This section does not apply.

Management Findings

No management findings.

(Concluded)

**Livingston Parish Sewer District Number Two
Corrective Action Plan for Current Year Audit Findings
As of and for the year ended December 31, 2016**

Compliance Findings (Reported in Accordance with Government Auditing Standards)

No compliance findings.

Internal Control Findings (Reported in Accordance with Government Auditing Standards)

Reference Number: 2016-I1 (Lack of segregation of duties) – Continued from Finding 2014-I1.

Type Finding: Significant deficiency not constituting a material weakness.

Date Finding First Occurred: Fiscal Year Ending December 31, 2010

Criteria:

The Livingston Parish Sewer District Number Two must demonstrate that activities relating to the receipt and disbursement of funds are properly segregated.

Condition:

With all smaller agencies, there will be limited personnel for recording receipts and disbursements and for reporting financial transactions. The District has implemented the following compensating controls:

- 1) Direct approval by the board for all key financial transactions.
- 2) Maintenance of detail registers to support all disbursements.
- 3) Monthly reconciliation and reporting by an outside accountant.
- 4) Approval and signing of checks by board members.

Effect:

Having a limited number of personnel increases the need to closely review financial transactions. The District compensates for the lack of personnel with outside reporting.

Cause:

This is characteristic of a small agency.

Recommendations:

The District must continue to implement compensating controls to ensure the integrity of financial operations.

Response by Management

We will continue to closely monitor financial operations.

Description of Action Taken: Partial

Anticipated Completion Date: Controls are implemented and will continue to be monitored.

Contact Person:

Michael David Dougay, Chairman
36375 Page Drive
Denham Springs, LA 70706
(225) 791-8295

(Continued)

**Livingston Parish Sewer District Number Two
Corrective Action Plan for Current Year Audit Findings
As of and for the year ended December 31, 2016**

Reference Number: 2016-I3 (Accounts Receivable Documentation)

Type Finding: Significant deficiency not constituting a material weakness

Date Finding First Occurred: Fiscal Year Ending December 31, 2011

Criteria:

The District relies on third-party billing agents to process the utility billings for sewer services since the sewer accounts are included in customer accounts that provide water and sewer, and sometimes gas service billings. Documentation provided by the billing agents must be sufficient to determine that accounts receivable and sewer service revenue are reasonably valued. Since the primary objective of the billing agent utility system software is to provide services to its own customers, the District often has to work with the billing agent to obtain utility billing software program changes necessary for reporting transactions of the District.

Condition:

The District took the steps in 2015 and 2016 to obtain from the primary billing agent detail payment registers, registers to verify billings, and reports to verify account activity, including the addition of new customers. For changes in accounts, new accounts or transfers of accounts to new customers, the District receives a "Tap Sheet" that must be completed to verify changes. Because of the reports provided by the primary billing agent, reporting is sufficient to permit effective management of the billing and payment process, and findings as they relate to the primary billing agent are considered resolved. However, since reports provided by the smaller secondary billing agent consist of only a summary payment sheet, this part of the finding is continued in 2016.

Effect:

Sufficient documentation is necessary to determine that receivables are complete and that sewer service revenues are correctly stated.

Findings:

Currently only a summary payment sheet is provided by the secondary billing agent. Sufficient reporting is required for effective management of the billing and payment process, and for ensuring that all sewer customers are billed. This requires at a minimum, detailed payment sheets, detailed billing registers, and reports that identify changes in customer accounts, including new accounts and changes in service for customer accounts.

Recommendations:

We recommend that the District obtain from the smaller secondary billing agent, reports similar to those obtained from the primary billing agent. This should include, at a minimum, detailed payment registers, billing registers, and reports necessary to verify account billings and account changes.

Response by Management

We will contact our secondary billing agents to increase the level of documentation for sewer payments and billings.

Description of Action Taken:

Action by the District is pending completion.

**Livingston Parish Sewer District Number Two
Corrective Action Plan for Current Year Audit Findings
As of and for the year ended December 31, 2016**

Anticipated Completion Date: September 30, 2017.

Contact Person:

Michael David Dougay, Chairman
36375 Page Drive
Denham Springs, LA 70706
(225) 791-8295

Internal Control and Compliance Material to Federal Awards

There were no findings related to federal awards.

Management Letter

No management findings.

(Concluded)

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Livingston Parish Sewer District Number Two
Denham Springs, Louisiana 70438

We have audited, 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, the financial statements of the business-type activities of the Livingston Parish Sewer District Number Two, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Livingston Parish Sewer District Number Two's basic financial statements and have issued our report dated June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Livingston Parish Sewer District Number Two's internal control over financial reporting 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 Livingston Parish Sewer District Number Two's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston Parish Sewer District Number Two'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 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.

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
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To Members of the Board of Commissioners
Livingston Parish Sewer District Number Two
Livingston Parish Council
Page 2

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying *Corrective Action Plan for Current Year Audit Findings* as Findings 2016-II and 2016-I3 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Livingston Parish Sewer District Number Two's, financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

Livingston Parish Sewer District Number Two's Response to Findings

Livingston Parish Sewer District Number Two's response to the findings identified in our audit is described in the accompanying *Corrective Action Plan for Current Year Audit Findings*. The Livingston Parish Sewer District Number Two's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results 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.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

Kentwood, Louisiana
June 30, 2017