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

ANNUAL FINANCIAL REPORT

December 31, 2001 and 2000

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

Release Date 6/12/02

Leroy J. Christy
Certified Public Accountant, APAC

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

**General Purpose Financial Statements
and Independent Auditor's Reports**

**As of and for the Years Ended December 31, 2001 and 2000
With Supplemental Information Schedules**

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying general purpose financial statements of Livingston Parish Ward Two Water District, Denham Springs, Louisiana, component unit of Livingston Parish Government, as of and for the years ended December 31, 2001 and 2000, as listed in the Table of Contents. These general purpose financial statements are the responsibility of Livingston Parish Ward Two Water District's management. My responsibility is to express an opinion on these general purpose financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Legislative Auditor. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Livingston Parish Ward Two Water District as of December 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America .

In accordance with *Government Auditing Standards*, I have also issued a report dated April 26, 2002, on my consideration of Livingston Parish Ward Two Water District's internal control structure and a report dated April 26, 2002, on its compliance with laws and regulations.

Leroy J. Chustz

Leroy J. Chustz
Certified Public Accountant, APAC
April 26, 2002

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

**Livingston Parish Ward Two Water District
Denham Springs, Louisiana**

I have audited the financial statements of Livingston Parish Ward Two Water District, Denham Springs, Louisiana, a component unit of Livingston Parish Government, as of and for the year ended December 31, 2001, and have issued my report thereon dated April 26, 2002. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Livingston Parish Ward Two Water District's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered Livingston Parish Ward Two Water District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving internal control that I have reported to management in a separate letter dated April 26, 2002.

This report is intended solely for the information and use of Livingston Parish Ward Two Water District's management, pass-through entities, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Leroy J. Chustz

Leroy J. Chustz
Certified Public Accountant, APAC
April 26, 2002

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana

BALANCE SHEETS
December 31, 2001 and 2000

ASSETS

	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,881,013	\$ 1,785,198
Accounts receivable (net)	160,102	135,104
Unbilled water sales	128,118	122,223
Prepaid insurance	66,600	49,362
Inventory	<u>140,571</u>	<u>87,592</u>
Total current assets	2,376,404	2,179,479
RESTRICTED ASSETS		
Revenue bond sinking fund	154,487	156,921
Revenue bond reserve fund	336,146	340,109
Depreciation and contingency fund	336,147	340,109
Investment designated for customer deposits	254,417	244,051
Savings designated for customer deposits	<u>104,069</u>	<u>94,779</u>
Total restricted assets	1,185,266	1,175,969
PROPERTY, PLANT, AND EQUIPMENT, AT COST		
Land	129,915	127,415
Construction in progress	4,201,857	1,780,613
Plant, facilities and equipment (net)	<u>8,591,150</u>	<u>6,224,204</u>
Total property, plant, and equipment	12,922,922	8,132,232
OTHER ASSETS		
Deposits	<u>375</u>	<u>375</u>
TOTAL ASSETS	<u><u>\$ 16,484,967</u></u>	<u><u>\$11,488,055</u></u>

See accompanying notes to the financial statements.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana

BALANCE SHEETS
December 31, 2001 and 2000

LIABILITIES AND FUND EQUITY

	<u>2001</u>	<u>2000</u>
CURRENT LIABILITIES		
Accounts payable	\$ 64,411	\$ 46,915
Taxes payable	7,559	6,933
Accrued salaries and leave	8,178	10,208
Accrued Interest Payable - current portion	68,578	21,490
Bond payable - current portion	17,000	17,000
Customer deposits	<u>104,096</u>	<u>80,675</u>
Total current liabilities	269,822	183,221
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)		
Accrued interest payable	52,269	55,441
Bonds payable	125,000	120,000
Customer deposits	<u>358,486</u>	<u>338,830</u>
Total current liabilities (payable from restricted assets)	535,755	514,271
LONG-TERM LIABILITIES		
Bond payable	<u>10,700,892</u>	<u>6,405,733</u>
Total long-term liabilities	<u>10,700,892</u>	<u>6,405,733</u>
Total liabilities	<u>11,506,469</u>	<u>7,103,225</u>
FUND EQUITY		
Retained earnings reserved for revenue bond retirement	313,364	484,559
Retained earnings reserved for system repairs and improvements	336,147	338,669
Contributed capital	479,781	479,781
Retained earnings unreserved, undesignated	<u>3,849,206</u>	<u>3,081,821</u>
Total retained earnings	<u>4,978,498</u>	<u>4,384,830</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 16,484,967</u></u>	<u><u>\$ 11,488,055</u></u>

See accompanying notes to the financial statements.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS**
For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>OPERATING REVENUES</u>		
Water sales	\$ 2,387,524	\$ 2,224,778
Water tap fees	214,443	196,902
Sewer maintenance fees and charges	27,589	28,983
Check valve charges	<u>175</u>	<u>51</u>
Total operating revenues	<u>2,629,731</u>	<u>2,450,714</u>
<u>OPERATING EXPENSES</u>		
DIRECT EXPENSES		
Depreciation	325,929	235,736
Electricity	135,486	137,384
Equipment operation and maintenance	52,298	54,055
System maintenance	367,544	203,007
Meter reading	81,401	75,336
Small tools and supplies	<u>5,562</u>	<u>7,526</u>
Total direct expenses	<u>968,220</u>	<u>713,044</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and Benefits	553,530	443,982
Payroll taxes and group insurance	69,335	52,737
Insurance	118,313	64,826
Interest	439,080	295,432
Office expense	56,177	52,749
Professional fees	65,261	36,558
Telephone	22,650	18,708
Per diem	3,000	3,720
Bad debt expense	35	757
Miscellaneous	<u>16,061</u>	<u>18,843</u>
Total general and administrative expenses	<u>1,343,442</u>	<u>988,312</u>

(Statement B continued on next page.)

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Total operating expenses	\$ <u>2,311,662</u>	\$ <u>1,701,356</u>
<u>NET OPERATING INCOME (LOSS)</u>	<u>318,069</u>	<u>749,358</u>
<u>NON-OPERATING INCOME</u>		
Special Services	53,015	46,865
Forfeited discounts	40,615	37,590
Interest	122,398	111,381
Miscellaneous	20,090	54,484
Gain (Loss) on sale of fixed assets	<u>39,481</u>	<u>1,231</u>
Total non-operating income	275,599	251,551
<u>NET INCOME (LOSS)</u>	<u>593,668</u>	<u>1,000,909</u>
<u>RETAINED EARNINGS AT BEGINNING OF YEAR</u>	<u>4,384,830</u>	<u>3,383,921</u>
<u>RETAINED EARNINGS AT END OF YEAR</u>	<u>\$ 4,978,498</u>	<u>\$ 4,384,830</u>

See accompanying notes to the financial statements.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000
Increase (Decrease) in Cash and Cash Equivalents

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 318,069	\$ 749,358
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	325,929	235,736
Amortization	21,252	21,252
(Increase) decrease in accounts receivable	(24,998)	(23,001)
(Increase) decrease in unbilled water sales	(5,895)	(27,328)
(Increase) decrease in prepaid expenses	(17,238)	(5,987)
(Increase) decrease in inventory	(52,979)	
Increase (decrease) in accounts payable	17,497	(6,659)
Increase (decrease) in accrued liabilities	<u>85,589</u>	<u>49,125</u>
Net cash provided (used) by operating activities	<u>667,226</u>	<u>992,496</u>
Cash flows from investing activities:		
Cash payments for acquisition of property	(5,116,620)	(2,254,195)
Investment in Edward D. Jones	<u>(10,366)</u>	<u>(19,773)</u>
Net cash provided (used) by investing activities	<u>(5,126,986)</u>	<u>(2,273,968)</u>
Cash flows from capital financing activities:		
Principal payments	(137,000)	(131,000)
Delinquent charges	53,015	46,865
Forfeited discounts	40,615	37,590
Interest	122,398	111,381
Miscellaneous revenue	59,571	54,484
Proceeds from Debt Obligations	<u>4,415,908</u>	<u>2,616,573</u>
Net cash provided (used) by capital financing activities	<u>4,554,507</u>	<u>2,735,893</u>
Net increase (decrease) in cash and equivalents	<u>94,747</u>	<u>1,454,421</u>
Cash and cash equivalents, beginning of year	<u>2,717,115</u>	<u>1,262,694</u>
Cash and cash equivalents, end of year	<u>\$ 2,811,862</u>	<u>\$ 2,717,115</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 374,124	\$ 255,532
Income taxes	-0-	-0-

See accompanying notes to the financial statements.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Denham Springs, Louisiana
Notes to the Financial Statements
For the Years Ended December 31, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. In November of 1984, the GASB issued a codification of governmental accounting and financial reporting standards. This codification is recognized as generally accepted accounting principles for state and local government. The District has elected to apply GASB statements issued after November 30, 1989.

GASB Codification Section 2100 established criteria for determining the governmental reporting entity and component units which should be included within the reporting entity. The reporting entity for Livingston Parish includes the component unit with oversight responsibility, and other governmental entities within the parish for which the Council has oversight responsibility. Oversight responsibility is determined on the basis of the following criteria:

1. Financial interdependency
2. Selection of governing authority
3. Designation of management
4. Ability to significantly influence operations
5. Accountability for fiscal matters
6. Scope of public service
7. Special financing relationship

Based on the previous criteria, the Livingston Parish Council has determined that Ward Two Water District is part of the reporting entity based on Criteria 2, 4, and 6.

The accounting policies of Ward Two Water District conform to generally accepted accounting principles. The following is a summary of the significant policies.

A. *FUND ACCOUNTING - PROPRIETARY FUND TYPE*

The Ward Two Water District is an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

B. *FIXED ASSETS AND LONG-TERM LIABILITIES*

All fixed assets are valued at historical costs. It is the policy of the Water District to capitalize interest costs incurred during the period of construction. No interest costs have been capitalized during the years 2001 and 2000.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary funds balance sheets or notes to the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives for plant and facilities is forty years, seven years for equipment, and four years for vehicles.

C. *BASIS OF ACCOUNTING*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. *CASH*

Cash includes demand deposits and interest bearing demand deposits which are fully secured through the pledge of bank-owned securities or federal deposit insurance. For purposes of the statement of cash flows, the Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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 and national banks having their principal offices in Louisiana. At December 31, 2001 and 2000, the District had cash and cash equivalents (book balances) totaling \$ 2,676,373 and \$2,792,115 respectively as follows:

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
Cash on hand	\$ 650	\$ 650
Demand deposits	612,561	561,262
Time deposits	<u>2,063,162</u>	<u>2,230,203</u>
Total	<u>\$ 2,676,373</u>	<u>\$ 2,792,115</u>

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 of 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. Deposits (bank balances) at December 31, 2001 and 2000 secured as follows:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
Bank balances	<u>\$ 3,059,293</u>	<u>\$ 3,027,202</u>
Federal deposit insurance	\$ 275,000	\$ 375,000
Pledged securities	<u>2,780,225</u>	<u>2,652,202</u>
Total insurance and securities	<u>3,055,225</u>	<u>3,027,202</u>
Unsecured deposits at 12/31	<u>\$ 4,068</u>	<u>\$ -0-</u>

Deposits are collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.

E. *INVENTORY*

The District follows FASB Pronouncements to account for supply inventory. Inventory is valued at cost using the first in first out method.

F. *BUDGET POLICY*

Each year the District adopts an annual operating cash basis budget. Periodic comparisons of budget to actual data are made. The budget is amended as required by the circumstances. Encumbrance accounting is not utilized. Appropriations lapse at year end.

G. *USE OF ESTIMATES*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

2. INVESTMENTS

A summary of investments is as follows:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
Cost	\$ 254,417	\$ 244,051
Market	\$ 261,013	\$ 245,765

3. ACCOUNTS RECEIVABLE

Customer accounts receivable are as follows:

	<u>2001</u>	<u>2000</u>
Accounts receivable (gross)	\$ 161,350	\$ 136,277
Insufficient funds checks receivable	1,581	1,656
Other	-0-	-0-
Less: Allowance for uncollectible accounts	<u>(2,829)</u>	<u>(2,829)</u>
Accounts receivable (net)	<u>\$ 160,102</u>	<u>\$ 135,104</u>

4. RESERVE REQUIREMENTS

The District is required to maintain the following reserves as a condition of the loans made to the Water District and/or bond covenants.

A. RESERVE BOND SINKING FUND

The funding of the "Sinking Fund" (hereinafter called the "Sinking Fund") amounts sufficient to pay when due the principal of and interest on the Bonds, Unrefunded Bonds and Parity Bonds issued as hereafter provided by this Resolution. On or before the 20th day of each month there shall be transferred from the Revenue Fund to the Sinking Fund, (i) beginning on December 20, 1993, a sum equal to one-fourth (1/4) of the interest falling due on the next interest payment date and beginning April 20, 1994, and thereafter, a sum equal to one-sixth (1/6) of the interest falling due on the next interest payment date, and (ii) beginning April 20, 1994, and thereafter, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sum, if any, as may be required to pay said principal and interest as the same respectively become due.

B. REVENUE BOND RESERVE FUND

The funding of a "Reserve Fund" (the "Reserve Fund"), in the amount of not less than the Reserve Requirement, (\$335,143), with an initial deposit as provided in the Supplemental Resolution at the time of delivery of the Bonds and subsequent annual deposits in the Reserve Fund of one-fifth (1/5th) of the amount required to establish and maintain the Reserve Requirement in the Reserve Fund within a period of five (5) years; provided that if any monies are withdrawn from the Reserve Fund to pay principal and /or interest on the Bonds, Unrefunded Bonds or Parity Bonds, such monies shall be restored from monies remaining in the Revenue Fund, after making the

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

payments required by paragraphs (a) and (b) of this Section. Monies in the Reserve Fund may be appropriated and expended from time to time by the Board solely for the purpose of paying principal of and interest on the Bonds, Unrefunded Bonds and Parity Bonds payable from the Sinking Fund as to which there would otherwise be a default.

C. DEPRECIATION AND CONTINGENCY FUND

The funding of a "Depreciation and Contingency Fund" (the "Depreciation and Contingency Fund") by transferring from the Revenue Fund on or before the 20th day of each month, commencing with the first full month after delivery of the Bonds, after making the deposits referred to in (a) and (b) above, a sum equal to 5% of Gross Revenues of the System, until such time as the Depreciation and Contingency Fund contains \$335,143. 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 to the System; and the costs of improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Sinking Fund or the Reserve Fund are deficient, 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 Sinking Fund and the Reserve Fund. If at any time it shall be necessary to use monies in the Depreciation and Contingency Fund provided for the purpose of paying principal of or interest on Bonds, Unrefunded Bonds or Parity Bonds payable from the Sinking Fund or the Reserve Fund as to which there would otherwise be default, then the monies so used shall be replaced from the revenues first thereafter received which are not herein above required to be used for current expenses or for Sinking Fund and Reserve Fund requirements, it being the intention hereof that there shall be on deposit in the Depreciation and Contingency Fund at all times, as nearly as possible, the amount herein specified.

The general obligation bonds are secured by an authorized ad valorem tax. The District has not levied the ad valorem tax, but has paid the general obligation bond requirements out of operating revenues.

5. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in fixed assets.

	BALANCE <u>12/31/99</u>	ADDITIONS	DELETIONS	BALANCE <u>12/31/00</u>
Land	\$ <u>46,315</u>	\$ <u>81,1000</u>	\$ <u>-0-</u>	\$ <u>127,415</u>
Buildings	\$ 169,351	\$ 8,817	\$ -0-	\$ 178,168
Capital lease assets	64,404	-0-	-0-	64,404
Equipment	335,179	15,518	39,419	311,278
Furniture and fixtures	12,648	163	-0-	12,811
Vehicles	135,353	33,320	-0-	168,673
Plant and facilities	<u>7,063,922</u>	<u>994,539</u>	<u>-0-</u>	<u>8,058,461</u>
Total	<u>\$ 7,780,857</u>	<u>\$ 1,052,357</u>	<u>\$ 39,419</u>	<u>\$ 8,793,795</u>

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

Less: Accumulated depreciation	2,569,591
Plant and facilities (net)	<u>\$ 6,224,204</u>

	BALANCE <u>12/31/00</u>	ADDITIONS	DELETIONS	BALANCE <u>12/31/01</u>
Land	<u>\$ 127,415</u>	<u>\$ 2500</u>	<u>\$ -0-</u>	<u>\$ 129,915</u>
Buildings	\$ 178,168	\$ -0-	\$ -0-	\$ 178,168
Equipment	375,682	414,025	149,926	639,781
Furniture and fixtures	12,811	-0-	-0-	12,811
Vehicles	168,673	93,620	61,270	201,023
Plant and facilities	<u>8,058,461</u>	<u>2,195,716</u>	<u>-0-</u>	<u>10,254,177</u>
Total	<u>\$ 8,793,795</u>	<u>\$ 2,703,361</u>	<u>\$ 211,196</u>	<u>\$ 11,285,960</u>
Less: Accumulated depreciation				2,694,810
Plant and facilities (net)				<u>\$ 8,591,150</u>

Depreciation expense was \$325,929 for 2001 and \$235,736 for 2000.

6. CHANGES IN LONG-TERM DEBT

The following is a summary of loan transactions of the Water District for the years ending December 31, 2001 and 2000:

	REVENUE <u>BONDS</u>	GENERAL OBLIGATION <u>BONDS</u>	<u>TOTAL</u>
Bonds payable at December 31, 1999	\$ 4,000,000	\$ 445,000	\$ 4,445,000
Bonds retired	<u>115,000</u>	<u>16,000</u>	<u>131,000</u>
Bonds payable at December 31, 2000	<u>\$ 3,885,000</u>	<u>\$ 429,000</u>	<u>\$ 4,314,000</u>
	REVENUE <u>BONDS</u>	GENERAL OBLIGATION <u>BONDS</u>	<u>TOTAL</u>
Bonds payable at December 31, 2000	\$ 3,885,000	\$ 429,000	\$ 4,314,000
Bonds retired	<u>120,000</u>	<u>17,000</u>	<u>137,000</u>
Bonds payable at December 31, 2001	<u>\$ 3,765,000</u>	<u>\$ 412,000</u>	<u>\$ 4,177,000</u>

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

Long-term debt at December 31, 2001, consists of two bond issues. General obligation bonds in the amount of \$429,000 bear interest of five per cent per annum. The 1995 Parity Bonds issued in the amount of \$3,885,000 bear interest at rates varying from 3.35 per cent to 8.75 per cent.

Repayment is to be made as follows:

A. \$4,225,000 REVENUE PARITY BONDS OF 1994

The bonds will mature on April 1 in the principal amounts from \$40,000 to \$195,000 and will bear interest from April 1, 1994, payable on April 1 and October 1 of each year, commencing October 1, 1994, at the rates per annum from 3.35% to 5.65%.

B. \$255,000 UNREFUNDED WATERWORKS REVENUE REFUNDING BONDS OF 1989

Interest on the bonds is payable semiannually on April 1st in the amounts varying from \$25,350 to \$22,625 through the year 1999 and are issued as fully registered certificated bonds each in the denomination of \$5,000 or any integral multiple thereof.

C. \$7,032,481 DEQ LOAN

The District has a loan commitment of up to \$9,000,000. Presently the loan is in the interim construction phase. The interim phase will conclude after May 15, 2002. At that time, the loan will be converted to permanent financing and the repayment term will be 20 years at 3.45% interest.

The annual requirements to amortize all long-term debt outstanding except the DEQ loan, at December 31, 2001, including interest of \$2,387,230 and at December 31, 2000, including interest of \$2,647,911, are as follows:

<u>2000</u>	<u>REVENUE BONDS</u> 1994 <u>PARITY BONDS</u>		<u>GENERAL OBLIGATION BONDS</u>		
<u>YEAR ENDED</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2001	\$ 120,000	\$ 211,898	\$ 17,000	\$ 21,025	\$ 369,923
2002	125,000	206,078	17,000	20,175	368,253
2003	135,000	199,703	18,000	19,300	372,003
2004	140,000	192,722	19,000	18,375	370,097
2005	150,000	185,143	20,000	17,400	372,543
2006 Through					
Maturity	<u>3,215,000</u>	<u>1,444,792</u>	<u>338,000</u>	<u>111,300</u>	<u>5,109,092</u>
Total	<u>\$3,885,000</u>	<u>\$2,440,336</u>	<u>\$ 429,000</u>	<u>\$ 207,575</u>	<u>\$6,961,911</u>

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

2001

	<u>REVENUE BONDS</u>		<u>GENERAL</u>		
	1994		OBLIGATION		
	<u>PARITY BONDS</u>		<u>BONDS</u>		
<u>YEAR ENDED</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2002	125,000	206,078	17,000	20,388	368,466
2003	135,000	199,703	18,000	19,525	372,228
2004	140,000	192,722	19,000	18,612	370,334
2005	150,000	185,143	20,000	17,650	372,793
2006	155,000	177,099	21,000	16,638	369,737
2007 Through					
Maturity	<u>3,060,000</u>	<u>1,237,695</u>	<u>317,000</u>	<u>95,978</u>	<u>4,710,673</u>
Total	<u>\$ 3,765,000</u>	<u>\$ 2,198,439</u>	<u>\$ 412,000</u>	<u>\$ 188,791</u>	<u>\$ 6,564,229</u>

On April 1, 1995, the District issued \$4,225,000 in Waterworks Revenue Bonds with an average interest rate of 5.8 percent to advance refund \$1,820,000 of outstanding 1989 series bonds with an average interest rate of 8.6 percent. The District purchased United States Government Securities valued at \$2,063,413 and deposited them into an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$1,820,000 of 1989 series bonds. As a result, \$1,820,000 of the 1989 series bonds are considered to be defeased and the liability for the bonds has been removed from the District's books. \$255,000 of 1989 series bonds were not advance refunded and remain on the District's books.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$531,288. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by \$187,382.50 and to obtain economic gain of \$115,344.57.

7. CONTRIBUTED CAPITAL

Contributed capital is comprised of funding from a grant provided by the State of Louisiana in the amount of \$479,781.

8. PER DIEM PAID TO BOARD MEMBERS

Board members are appointed by the Livingston Parish Council and serve at the pleasure of the Council. There are no set terms of office. Board members are paid \$60 per diem for each meeting they attend.

2001

<u>BOARD MEMBER</u>	<u>MEETINGS ATTENDED</u>	<u>PER DIEM</u>
Theodore Graham - President 33580 Cane Market Road Walker, Louisiana 70785-4102 (225) 664-9189	10	\$ 600

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

Tyrus Cobb - Vice President 10660 Dunmark Road Denham Springs, Louisiana 70726-1113 (225) 664-9291	11	660
Stanley Spillman - Secretary-Treasurer P.O. Box 692 Watson, Louisiana 70786 (225) 665-2669	12	720
John Easterly 37917 La. Hwy. 16 Denham Springs, Louisiana 70726-0337 (225) 664-8923	11	660
Melvin Meyers 7637 Curry Davis Drive Denham Springs, Louisiana 70726	6	360
Total		<u>\$ 3,000</u>

2000

<u>BOARD MEMBER</u>	<u>MEETINGS ATTENDED</u>	<u>PER DIEM</u>
Theodore Graham - President 33580 Cane Market Road Walker, Louisiana 70785-4102 (225) 664-9189	15	\$ 900
Tyrus Cobb - Vice President 10660 Dunmark Road Denham Springs, Louisiana 70726-1113 (225) 664-9291	14	840
Stanley Spillman - Secretary-Treasurer 33725 La. Hwy. 16 Denham Springs, Louisiana 70726-0969 (225) 665-2669	14	840

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Notes to the Financial Statements
December 31, 2001 and 2000

John Easterly 37917 La. Hwy. 16 Denham Springs, Louisiana 70726-0337 (225) 664-8923	15	900
Danny Turner 7805 Denham Drive Denham Springs, Louisiana 70726-1334 (225) 665-8029	4	<u>240</u>
Total		<u>\$3,720</u>

9. INCOME TAXES

Ward Two Water District is exempt from all federal and state income taxes.

10. LITIGATION

According to legal counsel, Ward Two Water District is the defendant in a contract dispute in which a construction contractor claims additional monies are due in connection with a water line extension. The contractor is seeking a settlement \$450,000; however, according to the District's legal counsel, there is a relatively low likelihood of an outcome unfavorable to the Water District.

There is also a personal injury action brought as a class action alleging injury to users of the Ward Two water system resulting from the presence of coliform bacteria in the water. According to legal council, there is a relatively low likelihood of an outcome unfavorable to the Water District.

11. RETIREMENT PLAN

Ward Two Water District does not belong to a retirement system; however, the District contributes to the Social Security System as required by law. The District adopted a self-employed retirement plan (SEP) during 1996. The District contributed \$10,422 into the SEP during 2001 and \$10,528 for 2000. Employees are fully vested when the contribution is made by the District.

SUPPLEMENTAL INFORMATION

4

LIVINGSTON PARISH WARD TWO WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2001

I have audited the financial statements of Livingston Parish Ward Two Water District as of and for the year ended December 31, 2001, and have issued our report thereon dated April 26, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of December 31, 2001, resulted in an unqualified opinion.

Section I Summary of Auditor's Results

YES NO N/A

Financial Statements

Internal control over financial reporting:

Material weakness(es)

X

Reportable condition(s)

X

Noncompliance material to the financial statements

X

Federal Awards

Internal control over major programs:

Material weakness(es) identified

X

Reportable condition(s) identified

X

Type of auditor's report on compliance for major programs

X

Any findings required to be reported by Section 510(a) of Circular A-133

X

Identification of Major Programs:

CFDA Number(s) Name of Federal Program (or Cluster)

Not applicable

Dollar threshold used to distinguish between Type A and Type B Programs: \$ N/A

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☐ No ☐ N/A

LIVINGSTON PARISH WARD TWO WATER DISTRICT
Schedule of Findings and Questioned Costs, Continued
December 31, 2001

Section II Financial Statement Findings

Current Year Findings

Finding 2001-1

State statutes require that public funds on deposit with financial institutions be fully collateralized by the financial institution. The District's deposited balance at AmSouth Bank is collateralized with only FDIC coverage. The District's balance at December 31, 2001 was \$104,066.36 which leaves a balance of \$4,068.36 uncollateralized. The District should take steps to ensure that all deposits are fully collateralized at all times.

Finding 2001-2

The Code of Ethics for Public Officials prohibits a governmental entity from doing business with officials and employees of the governmental entity. During the year 2001, the District purchased \$7,725 of fill dirt from Atlas Corporation. Public records at the Louisiana Secretary of State show that John Easterly, a member of the Board of Ward Two Water, was the incorporator and director of Atlas Corporation. This appears to be a violation of the Code of Ethics for Public Officials. The District should take immediate steps to correct or remedy this situation.

Prior Year Findings

No findings to report.

Section III Federal Award Findings and Questioned Costs

No findings to report.

LIVINGSTON PARISH WARD TWO WATER DISTRICT

MANAGEMENT'S CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For the Year Ended December 31, 2001

Section I-Internal Control and Compliance Material to the Financial Statements:

Management's response was not available at the time of the issuance of this report.

Section II-Internal Control and Compliance Material to Federal Awards:

No findings reported.

Section III-Management Letter:

Management's response was not available at the time of the issuance of this report..

LEROY J. CHUSTZ, CPA, APAC

P.O. BOX 158
DENHAM SPRINGS, LA 70727
225/667-2700
Fax: 225/667-3553

Livingston Parish
Ward Two Water District
Denham Springs, Louisiana

In planning and performing my audit of the financial statements of Livingston Parish Ward Two Water District, for the year ended December 31, 2001, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit I became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiencies, and reducing expenses. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. I previously reported on the District's internal control in my report dated April 26, 2002. A separate report dated April 26, 2002, contains my report on reportable conditions in the District's compliance with laws and regulations. This letter does not affect my report dated April 26, 2002, on the financial statements of Ward Two Water District.

I will review the status of these comments during my next audit engagement. I have already discussed these comments with the various District personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yours very truly,

Leroy J. Chustz

Leroy J. Chustz
Certified Public Accountant, APAC
April 26, 2002

Livingston Parish
Ward Two Water District
Management Comments
December 31, 2001

1. *Work Order-Receipt Combination*

Presently the District uses a receipt book to document the payment of special fees and a separate work order document to initiate the process of providing those special services to customers. Consequently there is no connection between the collection of those fees and the scheduling of services. Under the present system, a work order could be created and the service department be directed to provide services which have either not been paid for or for which the fees have been diverted. The District should consider creating a multi-part document which will serve as both a receipt and a work order. This document should be sequentially numbered and produced in such a way that no employee could recreate the document by using a computer.

2. *Control over Sewer Service Fees*

The Water District is contractually responsible for billing and collecting for Sewer Districts Number One and Two. As part of that responsibility, the District is responsible for collecting a \$25.00 service fee for sewer services billed by the City of Denham Springs. Under the present system, sewer customers who arrange for water and sewer services with the City of Denham Springs are requested to pay the \$25.00 service fee at Ward Two Water. There is no cross check of new sewer customers added by the City of Denham Springs and service fees paid to Ward Two Water. I recommend that someone be responsible for making a periodic comparison of new sewer customers added and service fees collected.

3. *End of Day Teller Balancing Procedures*

The end of the day balancing and close out procedures for tellers needs to be improved. Tellers should be required to maintain records of the method of each payment received (either cash or check) and the end of the day balancing procedures should be modified to include a reconciliation of payments received by check and by cash to the total of checks and cash to be deposited for that day's business. There should also be an independent verification, by another employee, of each teller's end of the day close out report. The above improved procedure will require that checks not be cashed out of the tellers' drawers for employees or other individuals.

4. *Fixed Asset Accounting*

During our examination of the property, plant, and equipment accounts, we found that there were several assets which were still listed on the detail asset listing that were disposed of in prior years. I recommend that procedures for updating fixed asset records be improved. One possible solution would be an annual inventory of all assets to be conducted by supervisory level personnel.