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Mount Hermon Water District
of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana

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Annual Financial Statements

As of and for the Year Then Ended December 31, 2006
With Supplemental Information Schedules

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

Release Date 8/15/07



BRUCE HARRELL & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

Mount Hermon Water District
Annual Financial Statements
As of and for the Year Ended December 31, 2006
With Supplemental Information Schedules

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Accountant's Compilation Report

To Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Mount Hermon, Louisiana

We have compiled the accompanying financial statements of the business-type activities of the Mount Hermon Water District, Louisiana, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and the accompanying supplementary information, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

We are not independent with respect to the Mount Hermon Water District, Louisiana.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

May 5, 2007

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Management's Discussion and Analysis

Mount Hermon Water District

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Introduction

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

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

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

Financial Highlights

- X At December 31, 2006, total assets were \$1,370,881, and exceeded liabilities in the amount of \$678,314 (i.e., net assets). Of the total net assets, \$83,131 was unrestricted and available to support short-term operations.
- X For the year ended December 31, 2006, user fee revenues (water sales) showed improvement increasing to \$120,204 as compared to \$113,803 for the fiscal year ending December 31, 2005.
- X The District's operating expenses, other than depreciation expense, increased by \$13,415 to \$65,889 as compared to \$52,474 for the prior fiscal year. The increase is due primarily to increases in contract costs of operation and billing.
- X Total long-term debt decreased as a result of payments on principal, decreasing from \$684,806 at December 31, 2005 to \$673,355 December 31, 2006.

Mount Hermon Water District

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

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 Mount Hermon Water District's financial condition and performance.

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

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

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

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

Financial Analysis

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

Mount Hermon Water District

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

**Condensed Balance Sheet
2006 and 2005**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 157,224	\$ 120,325	\$ 36,899	30.67%
Capital Assets	1,213,657	1,253,738	(40,081)	-3.20%
Total Assets	<u>1,370,881</u>	<u>1,374,063</u>	<u>(3,182)</u>	-0.23%
Liabilities:				
Long-Term Debt Outstanding	673,355	684,806	(11,451)	-1.67%
Other Liabilities	19,212	17,428	1,784	10.24%
Total Liabilities	<u>692,567</u>	<u>702,234</u>	<u>(9,667)</u>	-1.38%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	538,180	567,756	(29,576)	-5.21%
Restricted for Capital Activity and Debt Service	57,003	49,878	7,125	14.28%
Unrestricted	83,131	54,195	28,936	53.39%
Total Net Assets	<u>\$ 678,314</u>	<u>\$ 671,829</u>	<u>\$ 6,485</u>	0.97%

The major component of change for "Current and Other Assets" is a \$33,805 increase in cash and cash equivalents.

"Capital Assets" decreased by \$40,081, reflecting the depreciation recorded on capital assets, and "Long-Term Debt Outstanding" decreased by \$11,451 reflecting the total principal payments for the fiscal year ended December 31, 2006.

"Total Net Assets" (total assets less total liabilities) increased by \$6,485 for the fiscal year ending December 31, 2006, primarily because of the increases to "Current and Other Assets" and decreases to "Capital Assets".

Mount Hermon Water District

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2006 and 2005**

	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 141,998	\$ 122,193	\$ 19,805	16.21%
Nonoperating Revenues	4,377	1,652	2,725	164.95%
Total Revenues	<u>146,375</u>	<u>123,845</u>	<u>22,530</u>	18.19%
Expenses:				
Depreciation Expense	40,080	40,080	-	0.00%
Other Operating Expense	65,889	52,474	13,415	25.57%
Nonoperating Expense	33,921	34,438	(517)	-1.50%
Total Expenses	<u>139,890</u>	<u>126,992</u>	<u>12,898</u>	10.16%
Changes in Net Assets	6,485	(3,147)	9,632	306.08%
Beginning Net Assets	671,829	674,976	(3,147)	-0.47%
Ending Net Assets	<u>\$ 678,314</u>	<u>671,829</u>	<u>6,485</u>	0.97%

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

Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) increased by \$19,805 primarily due to an increase of \$6,401 in water sales and \$9,426 in installation fees. Nonoperating Revenues, consisting primarily of interest income, remained fairly constant, increasing by \$2,725.

Total expenses increased by \$12,898 from the prior fiscal year. For the category of expense most controllable by the District, "Other Operating Expense", there was a \$13,415 increase from the prior year. "Other Operating Expenses" includes expenditures for operations, other than depreciation expense. The increase was due primarily to a \$13,962 increase in contract costs for operation and billing.

The District showed a profit of \$6,485 (change in net assets) for the fiscal year ending December 31, 2006, reflecting primarily increases noted above for "Operating Revenues" and "Operating Expenses".

Mount Hermon Water District

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Budgetary Highlights

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

Budget vs. Actual - Fiscal Year ended December 31, 2006

	<u>Budget Year ended December 31, 2006</u>	<u>Actual Year ended December 31, 2006</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Operating Revenues	\$ 125,700	\$ 141,998	\$ 16,298
Nonoperating Revenues	3,300	4,377	1,077
Total Revenues	<u>129,000</u>	<u>146,375</u>	<u>17,375</u>
Expenses:			
Depreciation Expense	40,080	40,080	-
Other Operating Expense	58,420	65,889	(7,469)
Nonoperating Expense	34,300	33,921	379
Total Expenses	<u>132,800</u>	<u>139,890</u>	<u>(7,090)</u>
Change in Net Assets	\$ <u>(3,800)</u>	\$ <u>6,485</u>	\$ <u>10,285</u>

Actual revenues exceeded budgeted revenues by \$17,375; whereas actual expenses exceeded budgeted expenses by \$7,090 resulting in a positive change in net assets of \$6,485.

Mount Hermon Water District

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Other Significant Trends and Account Changes

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

General Operating Data

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>	<u>Increase</u> <u>(Decrease)</u>
Customers			
Residential	305	316	(11)
Commercial	28	5	23
Total Customers	<u>333</u>	<u>321</u>	<u>12</u>

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2006 and 2005.

	<u>Year Ended</u> <u>December 31,</u> <u>2006</u>	<u>Year Ended</u> <u>December 31,</u> <u>2005</u>	<u>Increase</u> <u>(Decrease)</u>
Accounts Receivable			
Current	\$ 10,111	\$ 6,776	\$ 3,335
31-60 Days Past Due	759	-	759
61-90 Days Past Due	301	-	301
Over 90 Days Past Due	659	1,823	(1,164)
Subtotal	<u>11,830</u>	<u>8,599</u>	<u>3,231</u>
Allowance for Uncollectible Accounts	-474	-	(474)
Net Accounts Receivable	<u>\$ 11,356</u>	<u>\$ 8,599</u>	<u>\$ 2,757</u>

The above table indicates that the past due accounts receivable is actively managed, with the "Over 90 Days Past Due" category decreasing by \$1,164.

Mount Hermon Water District

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2006, Mount Hermon Water District had \$1,213,657 (net of accumulated depreciation) recorded in capital assets. This includes water systems and improvements, investment for storage for water system equipment and supplies, and land owned by the District. The changes in capital assets are presented in the table below.

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Capital Assets				
Land	\$ 3,890	\$ 3,890	\$ -	0.00%
Utility System	<u>1,603,212</u>	<u>1,603,212</u>	<u>-</u>	0.00%
Subtotal	1,607,102	1,607,102	-	0.00%
Less: Accumulated Depreciation	<u>(393,445)</u>	<u>(353,364)</u>	40,081	11.34%
Net Capital Assets	<u>\$ 1,213,657</u>	<u>\$ 1,253,738</u>	<u>\$ (40,081)</u>	-3.20%

Capital Assets decreased in total by \$40,081, reflecting the depreciation recorded on capital assets for the fiscal year ending December 31, 2006.

Long-Term Debt

The primary source of long-term financing for Mount Hermon Water District water system improvements is a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The sole issue consists of 1996 Water Revenue bonds with a principal balance of \$673,355 at December 31, 2006. These bonds mature on February 6, 2036 and were issued at an interest rate of 5.0%, with a term of 40 years.

Bonds financed for Mount Hermon Water District require a specific debt to net income ratio. Specifically, bond covenants require:

The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such 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, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2006, the bond debt coverage factor was 166%, which is above the percentage required by the bond covenant of 120%, as compared to 167% for the fiscal year ending December 31, 2005.

Mount Hermon Water District

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Future Economic Plans

The Mount Hermon Water District's management approach is conservative. The Board of Commissioners actively monitors revenues and expenses and evaluates the costs of proposed expansion projects. At present there are no plans for any distribution line expansion. The board's emphasis is on managing operating expenses. These plans are anticipated to result in lower utility bills for customers and to only approve rate increases when necessary to pay operating expenses and fund water revenue bond requirements.

Financial Statements

**Mount Hermon Water District
Comparative Balance Sheet
As of December 31, 2006 and 2005**

Statement A

	2006	2005
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 72,928	\$ 47,403
Receivables, Net :		
Accounts	11,356	8,599
Unbilled	5,361	5,361
Prepaid Insurance	783	446
Total Current Assets	90,428	61,809
Restricted Assets:		
Restricted Cash and Cash Equivalents		
Customer Deposits	9,573	8,418
Bond Reserve Account - RUS	30,481	26,855
Bond Contingency Account - RUS	26,522	23,023
Total Restricted Assets	66,576	58,296
Property, Plant, and Equipment		
Land	3,890	3,890
Property, Plant and Equipment, Net	1,209,767	1,249,848
Total Property, Plant, and Equipment	1,213,657	1,253,738
Other Assets		
Utility Deposits	220	220
Total Other Assets	220	220
Total Assets	1,370,881	1,374,063
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	6,233	6,704
Other Accrued Payables	1,284	1,130
Total Current Liabilities (Payable From Current Assets)	7,517	7,834
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits	9,573	8,418
Revenue Bonds Payable	9,934	10,422
Accrued Interest Bonds - RUS	2,122	1,176
Total Current Liabilities (Payable From Restricted Assets)	21,629	20,016
Long Term Liabilities:		
Bonds Payable	663,421	674,384
Total Long Term Liabilities	663,421	674,384
Total Liabilities	692,567	702,234
Net Assets		
Invested in Capital Assets, Net of Related Debt	538,180	567,756
Restricted for:		
Capital Projects and Debt Service	57,003	49,878
Unrestricted	83,131	54,195
Total Net Assets	\$ 678,314	\$ 671,829

See accompanying notes and accountant's report.

Statement B

Mount Hermon Water District
Comparative Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Water Sales	\$ 120,204	\$ 113,803
Installation Fees	14,170	4,744
Penalties	2,991	3,356
Other	4,633	290
Total Operating Revenues	<u>141,998</u>	<u>122,193</u>
Operating Expenses		
Operations and Maintenance - Contract	48,661	34,699
Depreciation	40,080	40,080
Insurance	3,897	2,791
Mileage	4,500	4,500
Other	428	366
Professional Fees	3,300	3,300
Repairs and Maintenance	-	2,114
Utilities	5,103	4,704
Total Operating Expenses	<u>105,969</u>	<u>92,554</u>
Operating Income (Loss)	<u>36,029</u>	<u>29,639</u>
Nonoperating Revenues (Expenses)		
Interest Income	4,377	1,652
Interest Expense	(33,921)	(34,438)
Total Nonoperating Revenues (Expenses)	<u>(29,544)</u>	<u>(32,786)</u>
Change in Net Assets	6,485	(3,147)
Total Net Assets, Beginning	<u>671,829</u>	<u>674,976</u>
Total Net Assets, Ending	<u>\$ 678,314</u>	<u>\$ 671,829</u>

See accompanying notes and accountant's report.

Mount Hermon Water District
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 117,447	\$ 118,912
Received for Meter Deposit Fees	1,155	640
Other Receipts	21,794	-
Payments for Operations	<u>(66,543)</u>	<u>(51,726)</u>
Net Cash Provided by Operating Activities	<u>73,853</u>	<u>67,826</u>
 Cash Flows From Capital and Related Financing Activities		
Principal Proceeds from (Repayments for) Long Term Debt	(11,451)	(8,410)
Interest Payments for Long Term Debt	<u>(32,974)</u>	<u>(36,016)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(44,425)</u>	<u>(44,426)</u>
 Cash Flows From Investing Activities		
Receipt of Interest	<u>4,377</u>	<u>1,652</u>
Net Cash Provided by Investing Activities	<u>4,377</u>	<u>1,652</u>
 Net Cash Increase (Decrease) in Cash and Cash Equivalents	33,805	25,052
Cash and Cash Equivalents, Beginning of Year	105,699	80,647
Cash and Cash Equivalents, End of Year	<u>\$ 139,504</u>	<u>\$ 105,699</u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents, Unrestricted	\$ 72,928	\$ 55,821
Cash and Cash Equivalents, Restricted	<u>66,576</u>	<u>49,878</u>
Total Cash and Cash Equivalents	<u>\$ 139,504</u>	<u>\$ 105,699</u>

(Continued)

See accompanying notes and accountant's report.

Mount Hermon Water District
Comparative Statement of Cash Flows
Proprietary Fund Type
For the year ended December 31, 2006

	<u>12/31/06</u>	<u>12/31/05</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)		
by Operating Activities		
Operating Income (Loss)	\$ 36,029	\$ 29,643
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided		
by Operating Activities:		
Depreciation	40,080	40,080
(Increase) decrease in Accounts Receivable	(2,757)	(3,299)
(Increase) decrease in Prepaid Insurance	(337)	(129)
Increase (decrease) in Accounts Payable	(471)	755
Increase (decrease) in Accrued Expenses	154	136
Increase (decrease) in Customer Deposits	1,155	640
Net Cash Provided by Operating Activities	<u>\$ 73,853</u>	<u>\$ 67,826</u>

(Concluded)

See accompanying notes and accountant's report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Introduction

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a 5-member governing board of commissioners appointed by the Washington Parish Council.

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

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 2006, serves 333 water customers. The District contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

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 Mount Hermon Water District is considered a component unit of the Washington Parish Council.

1. Summary of Significant Accounting Policies

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

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

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

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

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

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

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

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

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

B. Cash and Cash Equivalents and Investments

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

C. Investments

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

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

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

At December 31, 2006, Mount Hermon Water District had no investments.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

D. Inventories

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

E. Prepaid Items

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

F. Restricted Assets

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

The District also holds cash for customer meter deposits and records an equal liability for these amounts.

G. Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
Utility System	20 to 40 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

At December 31, 2006, the District did not have employees that accumulate or vest benefits.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

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

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

K. Comparative Data/Reclassifications

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

L. Extraordinary and Special Items

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

M. Estimates

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

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

2. Cash and Cash Equivalents

At December 31, 2006, the District has cash and cash equivalents (book balances) totaling \$139,504, as follows:

Demand Deposits	\$ 23,186
Louisiana Asset Management Pool (LAMP)	<u>116,318</u>
	<u>\$ 139,504</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 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, 2006, the district has \$23,100 in deposits (collected bank balances), consisting of demand. These deposits are secured from risk by \$23,100 of federal deposit insurance.

In accordance with GASB Codification Section 150.165, the assets held in LAMP at December 31, 2006, is not categorized in the three investment risk categories provided by GASB Codification Section 150.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Therefore, LAMP is considered a cash equivalent.

3. Investments

Investments are categorized into these three categories of credit risk:

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

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value when held, with the estimated fair market value based on quoted market prices. The District did not hold any investments at December 31, 2006.

4. Receivables

The following is a summary of receivables at December 31, 2006 and 2005:

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 10,111	\$ 6,776	\$ 3,335
31-60 Days Past Due	759	-	759
61-90 Days Past Due	301	-	301
Over 90 Days Past Due	659	1,823	(1,164)
Subtotal	<u>11,830</u>	<u>8,599</u>	<u>3,231</u>
Allowance for Uncollectible Accounts	-474	-	(474)
Net Accounts Receivable	<u>\$ 11,356</u>	<u>\$ 8,599</u>	<u>\$ 2,757</u>

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

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. At December 31, 2006, accrued billings amounts were \$5,361.

5. Restricted Assets

Restricted assets were applicable to the following at December 31, 2006:

Customer Deposits	\$ 9,573
Louisiana Asset Management Pool (LAMP) - Bond Reserve	30,481
Louisiana Asset Management Pool (LAMP) - Bond Contingency	<u>26,522</u>
	<u>\$ 66,576</u>

See footnote 8 sections c and d for descriptions of the LAMP Bond Reserve and LAMP Bond Contingency accounts.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2006 is as follows:

	Beginning Balance <u>12/31/05</u>	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance <u>12/31/06</u>
Capital Assets				
Land	\$ 3,890	\$ -	\$ -	\$ 3,890
Utility System	<u>1,603,212</u>	<u>-</u>	<u>-</u>	<u>1,603,212</u>
Total Capital Assets	1,607,102	-	-	1,607,102
Less Accumulated Depreciation	<u>(353,364)</u>	<u>(40,080)</u>	<u>-</u>	<u>(393,445)</u>
Total Capital Assets, Net	<u>\$ 1,253,738</u>	<u>\$ (40,080)</u>	<u>\$ -</u>	<u>\$ 1,213,657</u>

Depreciation expense for the fiscal year ending December 31, 2006, totaled \$40,080.00

7. Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended December 31, 2006:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
1996 Water Revenue Bond	\$ 684,806	\$ -	\$ (11,451)	\$ 673,355	\$ 9,934
Total Long-Term Debt	<u>\$ 684,806</u>	<u>\$ -</u>	<u>\$ (11,451)</u>	<u>\$ 673,355</u>	<u>\$ 9,934</u>

Bonds Payable as of December 31, 2006 is as follows:

	Bonds Payable End of Year	Due Within One Year
Revenue Bond \$ 754,000 1996 Water Revenue Utility Bonds		
Dated 02/08/96 due in monthly installments of principal and interest of		
\$ 3,702 through 02/06/36 interest at 5.0%	\$ 673,355	\$ 9,934
	<u>\$ 673,355</u>	<u>\$ 9,934</u>

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments of \$622,374 are as follows:

<u>Year Ending</u> <u>12/31/06</u>	<u>1996 RUS Water</u> <u>Revenue Bonds</u>
2007	\$ 44,425
2008	44,425
2009	44,425
2010	44,425
2011	44,425
2012 to 2016	222,125
2017 to 2021	222,125
2022 to 2026	222,125
2027 to 2031	222,125
2032 to 2036	185,104
	<u>\$ 1,295,729</u>

8. Flow of Funds, Restrictions on Use

As of December 31, 2006, Mount Hermon Water District, had one Rural Utilities Service (RUS) Revenue Bond. The total bond amount of \$754,000 was issued February 8, 1996, at an interest rate of 5.0%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such 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, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2006, the bond debt coverage factor was 166%, which is above the percentage required by the bond covenant of 120%.

- b) The establishment and maintenance of a "Water Bond and Interest Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The actual creation of a sinking fund was not required since the District pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 2006, Mount Hermon Water District had made the required monthly installments.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

- c) The establishment of the "Water Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20th of each month a sum at least equal to five per cent of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 2006, per the RUS Letter of Conditions, was a total of \$185 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1996 Revenue Bonds became revenue producing during March, 1997.

The District made all of the required deposits to the Reserve Fund, maintaining a balance of \$30,481, at December 31, 2006.

- d) The establishment and maintenance of the "Water Depreciation and Contingency Fund" (the Contingency Fund) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20th of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

The District made all of the required deposits to the Depreciation and Contingency Fund, maintaining a balance of \$26,522, at December 31, 2006.

- e) The District, in the original bond resolution also obligated itself to abide by the following covenants:
1. The District will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
 2. A ten percent penalty will be charged on all delinquent accounts, and interest at a reasonable rate as established by the District, as well as payment of a reasonable reconnect charge for the resumption of services.
 3. The District agrees to maintain the System in first class repair and working order and condition.
 4. The District will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
 5. The District will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

6. The District will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the District may dispose of property that in its judgment is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
7. The District will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefore.
8. That, to the extent permitted by law, the District will not grant a franchise to any utility for operation within the boundaries of the District.
9. In operation of the System, the District will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.

The current rate schedule, the schedule of insurance coverage (Item # 4) and fidelity bond coverage (Item # 9) are disclosed in the "Supplemental Information" schedules included as a part of this report.

9. Restricted and Designated Net Assets

At December 31, 2006, Mount Hermon Water District recorded \$57,003 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants. Restricted Net Assets are recorded net of any liability relating to those assets. 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.

10. Water System Management

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

Other Supplemental Information

Mount Hermon Water District
Budgetary Comparison Schedule
For the year ended December 31, 2006
With comparative amounts for the fiscal year ended December 31, 2005

	2006 Budget	2006 Actual	Variance Favorable (Unfavorable)	2005 Actual
Operating Revenues				
Water Sales	\$ 110,000	\$ 120,204	\$ 10,204	\$ 113,803
Installation Fees	10,000	14,170	4,170	4,744
Penalties	3,600	2,991	(609)	3,356
Other	2,100	4,633	2,533	290
Total Operating Revenues	<u>125,700</u>	<u>141,998</u>	<u>16,298</u>	<u>122,193</u>
Operating Expenses				
Operations and Maintenance - Contract	40,000	48,661	(8,661)	34,699
Depreciation	40,080	40,080	-	40,080
Insurance	3,000	3,897	(897)	2,791
Mileage	4,500	4,500	-	4,500
Other	920	428	492	366
Professional Fees	3,600	3,300	300	3,300
Repairs and Maintenance	1,000	-	1,000	2,114
Utilities	5,400	5,103	297	4,704
Total Operating Expenses	<u>98,500</u>	<u>105,969</u>	<u>(7,469)</u>	<u>92,554</u>
Operating Income (Loss)	<u>27,200</u>	<u>36,029</u>	<u>8,829</u>	<u>29,639</u>
Nonoperating Revenues (Expenses)				
Interest Income	3,300	4,377	1,077	1,652
Interest Expense	(34,300)	(33,921)	379	(34,438)
Total Nonoperating Revenues (Expenses)	<u>(31,000)</u>	<u>(29,544)</u>	<u>1,456</u>	<u>(32,786)</u>
Change in Net Assets	(3,800)	6,485	10,285	(3,147)
Total Net Assets, Beginning	671,829	671,829	-	674,976
Total Net Assets, Ending	<u>\$ 668,029</u>	<u>\$ 678,314</u>	<u>\$ 10,285</u>	<u>\$ 671,829</u>

See accountant's report.

Schedule 2

Mount Hermon Water District
Schedule of Insurance
For the year ended December 31, 2006

<u>Insurance Company / Policy Number</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>	
America First Insurance - Policy # CBP9686642	General Aggregate Limit (other than Products / Completed Operations)	\$ 200,000	02/01/06 to	02/01/07
	Products / Completed Operations Aggregate Limit	200,000		
	Personal and Advertising Injury	100,000		
	Each Occurrence Limit	100,000		
	Fire Damage Limit	100,000		
	Medical Expenses	5,000		
Columbia Casualty Bond # 68463190	Public Official Position Schedule Bond: President	50,000	01/02/06 to	01/02/07
	Secretary-Treasurer	50,000		
America First Insurance - Policy # CBP9686642	Building	9,964	02/01/06 to	02/01/07
	Personal Property	79,900		
America First Insurance - Policy # IM8174357	Equipment Floater for Water Pump and Generator - as Scheduled	80,000	07/19/06 to	07/19/07

See accountant's report.

Schedule 3

Mount Hermon Water District
Schedule of Compensation Paid to Board Members
For the year ended December 31, 2006

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Bill Estes, President (985) 877-5933	38009 Bennie Morris Road Mount Hermon, LA 70450	\$ -	12/31/08
Avant Vernon, Vice President (985) 877-5824	27285 Mt. Pisgah Road Mount Hermon, LA 70450	-	12/31/08
Buddy Holmes, Board Member (985) 877-4691	35093 Highway 38 Mount Hermon, LA 70450	-	12/31/08
Gary Fenner, Board Member (985) 877-5058	35483 Dock Butler Road Mount Hermon, LA 70450	-	12/31/08
Rochelle Brumfield, Board Member (985) 839-6144	37770 Thomas Cryer Road Mount Hermon, LA 70450	-	12/31/08

See accountant's report.

Schedule 4

Mount Hermon Water District
 Schedule of Water Rates
 For the year ended December 31, 2006

Water	
Residential Rates	Commercial Rates
\$ 15.00 - First 3,000 Gallons	\$ 30.00 - First 20,000 Gallons
3.25 - Per 1,000 Gallons of Water over 3,000 Gallons	3.25 - Per 1,000 Gallons of Water over 20,000 Gallons

As of December 31, 2006 and 2005, the district had the following number of customers:

	December 31, 2006	December 31, 2005	Increase (Decrease)
Customers			
Residential	305	316	(11)
Commercial	28	5	23
Total Customers	<u>333</u>	<u>321</u>	<u>12</u>

See accountant's report.