

**FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT**

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
CALCASIEU PARISH POLICE JURY**

December 31, 2018

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GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH

December 31, 2018

COMMISSIONERS

Donald Stinson - President
Freddie Carrier- Commissioner
Stephen Smith - Commissioner
Andy Sonnier - Commissioner
Harry Aucoin - Commissioner

LEGAL COUNSEL

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ALEXIS H. O'NEAL

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish
Vinton, Louisiana

We have audited the accompanying financial statements of Gravity Drainage District No. 2 of Ward Seven of Calcasieu Parish, a component unit of the Calcasieu Parish Police Jury, as of and for the year ended December 31, 2018 and related notes to the financial statements, which collectively comprise of the Gravity Drainage's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish of as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Gravity Drainage has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gravity Drainage District No. 2 of Calcasieu Parish’s basic financial statements. The schedule of compensation, benefits and other payments to agency head is presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to agency head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2019, on our consideration of the Gravity Drainage’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gravity Drainage’s internal control over financial reporting and compliance.

This report is intended solely for the information and use of management, and Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Lake Charles, Louisiana
May 14, 2019

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
December 31, 2018**

ASSETS

Cash and cash equivalents	\$ 78,696
Investments	913,251
Ad valorem tax receivable, net of allowance for doubtful accounts of \$6,330	620,406
Prepaid insurance	11,384
Capital assets, net of accumulated depreciation	<u>429,737</u>
 Total assets	 2,053,474

LIABILITIES

Accounts payable	2,865
Payroll taxes payable	7,906
Pension fund deduction payable	19,502
Long-term liabilities Due after one year	<u>15,042</u>
 Total liabilities	 <u>45,315</u>

NET POSITION

Investment in capital assets	429,737
Unrestricted	<u>1,578,422</u>
 Total net position	 <u><u>\$ 2,008,159</u></u>

The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
For the Year Ended December 31, 2018**

Activities	Expenses	<u>Program Revenues</u> Capital Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:			
Administration	\$ 36,798	\$ -	\$ (36,798)
Drainage	938,842	-	(938,842)
Total program expenses	\$ 975,640	\$ -	(975,640)
General revenues:			
Ad valorem taxes			598,060
State revenue sharing			6,800
Interest income			694
Investment earnings			17,288
Intergovernmental			348,282
		Total general revenues	971,124
		Change in net position	(4,516)
		Net position at beginning of year	2,000,000
		Restatement of beginning net position	12,675
		Net position at beginning of year, as restated	2,012,675
		Net position at end of year	\$ 2,008,159

The accompanying notes are an integral part of this statement.

GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
GOVERNMENTAL FUND
BALANCE SHEET
December 31, 2018

		<u>General Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$	78,696
Investments		913,251
Ad valorem tax receivable, net of allowance for doubtful accounts of \$6,330		620,406
Prepaid insurance		<u>11,384</u>
Total assets	\$	<u><u>1,623,737</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$	2,865
Payroll taxes payable		7,906
Pension fund deduction payable		<u>19,502</u>
Total liabilities		30,273
Fund balance:		
Unassigned		<u>1,593,464</u>
Total liabilities and fund balance	\$	<u><u>1,623,737</u></u>

The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**RECONCILIATION OF FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION
December 31, 2018**

FUND BALANCE OF GOVERNMENTAL FUNDS		\$ 1,593,464
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, not reported in the funds.		
Cost of capital assets	\$ 600,247	
Less - accumulated depreciation	<u>(170,510)</u>	429,737
Long-term liabilities at December 31, 2018:		
Other post retirement benefits		<u>(15,042)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 2,008,159</u>

The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended December 31, 2018**

	<u>General Fund</u>
Revenue:	
Ad valorem taxes	\$ 598,060
Interest income	694
Investment earnings	17,288
State revenue sharing	6,800
Intergovernmental	348,282
Total revenues	971,124
Expenditures:	
Current:	
Administration	36,798
Drainage and flood control:	
Salaries and benefits	256,363
Materials and supplies	178,837
Operating services	452,611
Capital Outlay	125,068
Total expenditures	1,049,677
Excess expenditures over revenues over	(78,553)
Fund balance at beginning of year	1,672,017
Fund balance at end of year	\$ 1,593,464

The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
- GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018**

Total net change in fund balance - governmental fund	\$	(78,553)
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The change in net position reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capital outlays as expenditures

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.

Capital asset purchases	\$	125,068	
Depreciation expense		<u>(50,252)</u>	74,816

Government funds do not report changes in long-term liabilities as expenditures. However, the following changes in long-term liabilities to appear in the Statement of Activities since the liabilities are reported on the Statement of Net Position

Change in other post retirement benefits		<u>(779)</u>
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Change in net position of governmental activities	\$	<u><u>(4,516)</u></u>
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The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish (“Gravity Drainage”) is a component unit of the Calcasieu Parish Police Jury (“Police Jury”) and is responsible for maintenance of certain natural drainage laterals located in Ward 7, Calcasieu Parish. The Gravity Drainage is authorized by R.S. 38:1751 to establish policies and regulations for its own government consistent with the laws of the State of Louisiana. The Drainage Board is comprised of 5 members who are appointed by the Calcasieu Parish Police Jury for terms of four years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Gravity Drainage have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Gravity Drainage's more significant accounting policies are described below.

REPORTING ENTITY

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

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

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

Because the police jury financial statements would be misleading if data of the organization were not included because of the nature or significance of the relationship, the Gravity Drainage was determined to be a component unit of the Calcasieu Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the Gravity Drainage and do not present information on the police jury, the general government services provided by that government unit, or the other governmental units that comprise the financial reporting entity

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Gravity Drainage’s basic financial statements include both government-wide and fund financial statements.

BASIS OF PRESENTATION

The Financial statements of the Gravity Drainage have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Gravity Drainage’s more significant accounting policies are described below.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounts of the Gravity Drainage are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A. Government-Wide Financial Statements

The Gravity Drainage’s Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Gravity Drainage accompanied by a total column. Fiduciary activities of the Gravity Drainage are not included in these statements.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Gravity Drainage’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Gravity Drainage are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

B. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Gravity Drainage has presented all major funds that met those qualifications.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

BASIS OF ACCOUNTING/MEASUREMENT FOCUS – (Continued)

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Gravity Drainage, are property tax, intergovernmental revenues, rebates, and grants. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The General Fund is the Gravity Drainage’s operating fund. It accounts for all financial resources of the Gravity Drainage.

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

BUDGET PRACTICES

- a) The proposed budget is prepared and submitted to the Advisory Board for the fiscal year no later than fifteen days prior to the beginning of each fiscal year.
- b) The proposed budget is made available for public inspection.
- c) The budget is legally adopted prior to the commencement of the fiscal year for which the budget is being adopted.
- d) All budgetary appropriations lapse at the end of each fiscal year.
- e) The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted or as finally amended by the Board.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits with an original maturity of three months or less.

AD VALOREM TAX RECEIVABLE

Ad valorem tax receivable totaled \$626,736 as of December 31, 2018. Uncollectible amounts due for ad valorem taxes are recognized as uncollectible using the allowance method. The allowance for uncollectible accounts at December 31, 2018, was \$6,330.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

INVESTMENTS

Louisiana state statutes, as stipulated in R.S. 33:2955, authorize the Gravity Drainage to invest in United States bonds, treasury notes, or certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. The state statutes also authorize the Gravity Drainage to invest in any other federally insured investment, or in mutual or trust fund institutions, which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies. In addition, the Gravity Drainage is authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by the initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investing is performed in accordance with investment policies complying with State Statutes and those adopted by the Board of Commissioners.

Investments, which include U.S. Government agencies and deposits in LAMP, are stated at fair market value.

CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. As of December 31, 2018, all assets are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Gravity Drainage maintains a threshold level of \$500 or more for capitalizing capital assets.

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.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of light and heavy equipment are 3 to 15 years.

LONG-TERM DEBT

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of other post-retirement benefits.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

EQUITY CLASSIFICATION

In the government-wide statements, equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of assets with constraints placed on the use by either (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

FUND BALANCE CLASSIFICATION

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Gravity Drainage is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Gravity Drainage. These amounts cannot be used for any other purpose unless the Gravity Drainage removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Gravity Drainage’s intent to be used for a specific purpose but are neither restricted nor committed.
- Unassigned: includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

ESTIMATES

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

VACATION AND SICK LEAVE

Substantially all employees earn ten to twenty-five days of vacation leave each year depending on length of service with the Gravity Drainage. Vacation leave cannot be accumulated; therefore, no liability has been accrued.

All Gravity Drainage employees earn twelve days of sick time per year with a maximum of eighteen days accumulated. Upon retirement, the maximum number of days compensated will be eighteen days, as earned service.

Upon resignation, unused sick leave is forfeited and unused vacation leave must be taken and may not be settled in cash. Because these liabilities will not be settled in cash, they are not included in the financial statements.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended June 30, 2018, the Gravity Drainage adopted GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*” the statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This statement replaces the requirements Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2017, GASB issued Statement No. 87, “*Leases.*” The statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions of GASB Statement No. 87 are effective for fiscal years beginning after December 15, 2019. The effect of implementation on the Gravity Drainage's financial statements has not yet been determined.

GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS

Under state law, the Gravity Drainage may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state, or the laws of the United States. The Gravity Drainage may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At December 31, 2018, the Gravity Drainage has cash and cash equivalents (book balances) totaling \$78,696.

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, 2018, the Gravity Drainage has \$68,467 in deposits (collected bank balances). These deposits are secured from risk by \$68,467 of federal deposit insurance and \$515,945 of pledged securities held by the custodial banks in the name of the fiscal agent bank (GASB Category 3).

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

NOTE 3 - INVESTMENTS

Deposits held by LAMP at December 31, 2018, consist of \$913,251 in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool (see Summary of Significant Accounting Policies). In accordance with GASB Statement No. 3, the investment in LAMP is not categorized in the three risk categories provided by GASB Statement No. 3 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 administrated by LAMP, Inc., a non-profit 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 Officers Association of Louisiana, and the Society of Louisiana CPA's. 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.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – INVESTMENTS – (Continued)

LAMP is an investment pool that, to the extent practical, invest in a manner consistent with GASB Statement No. 79. The following facts are relevant for investment pools:

- Credit risk: LAMP is rated AAAm by Standard & Poor's.
- Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
- Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.
- Interest rate risk: LAMP is designed to be highly liquid to give its participants immediate access to their account balances. LAMP prepares its own interest rate risk disclosure using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days or 762 days for U.S. Government floating/variable rate investments. The WAM for LAMP's total investments is (NUMBER- days) (from LAMP's monthly Portfolio Holdings) as of (DATE – month-end).
- Foreign currency risk: Not applicable.

The investments in LAMP are stated at fair value. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the net asset value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

At December 31, 2018, the weighted-average yield on the deposits at LAMP was 2.35% and the weighted-average maturity was less than 60 days. LAMP is rated AAAm with Standard and Poors.

NOTE 4 - AD VALOREM TAXES

Accounting principles generally accepted in the United State of America for government prescribe a modified accrual basis to be applied to property tax revenues. An assessment is made to finance the budget of a particular period and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was provided (budgeted) and for which the collections are reasonably available.

Expected collections and collections of the 2018 levy are accrued as receivable and as revenue in the current year (2018). For budget purposes, property taxes collected in 2018 are designated as revenue appropriable in the 2018 budget year.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - AD VALOREM TAXES – (Continued)

For the year ended December 31, 2018, taxes of 10.00 mills were levied on property with assessed valuations totaling approximately \$62,171,704. Total taxes levied for the year ended December 31, 2018 were \$621,717.

During the year, the tax assessor decreased previous year taxpayer valuations and wrote down a total of \$20,331 worth of taxes. This amount was deducted from current year ad valorem taxes. Management deemed necessary to adjust their allowance for uncollectible for \$85.

Property tax millage rates are adopted in July for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31. Property taxes not paid by the end of February are subject to lien.

The parish bills and collects its property taxes using the assessed values determined by the Calcasieu Parish Tax Assessor.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 1/1/18	Additions	Deletions	Balance 12/31/18
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Leasehold improvements	\$ 25,234	\$ -	\$ -	\$ 25,234
Equipment	449,945	125,068	-	575,013
Total at historical cost	<u>475,179</u>	<u>125,068</u>	<u>-</u>	<u>600,247</u>
Less accumulated depreciation:				
Leasehold improvements	2,703	1,682	-	4,385
Equipment	117,555	48,570	-	166,125
Total accumulated depreciation	<u>120,258</u>	<u>50,252</u>	<u>-</u>	<u>170,510</u>
Governmental activities capital assets, net	<u>\$ 354,921</u>	<u>\$ 74,816</u>	<u>\$ -</u>	<u>\$ 429,737</u>

Depreciation expense as of December 31, 2018 was charged to governmental activities as follows:

Governmental activities	
Administration	\$ -
Drainage	50,252
Total depreciation - Governmental activities	<u>\$ 50,252</u>

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

General Information about the OPEB Plan

In 2018, the Police Jury implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." the statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This statement replaces the requirements Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement addresses the fact that certain postemployment benefits other than pensions, which for the Police Jury consist of healthcare benefits only, are related to employee services and salaries received presently but that will benefit the employee in the future - upon retirement and whose costs will be borne by the Police Jury in the future. This Statement attempts to quantify the future "retirement" costs that have been earned by the employee during his active years of employment. The Police Jury will finance the postemployment benefits on a "pay-as-you-go" basis. Accordingly, a liability is recognized in the financial statements for the actuarial determined amount of postemployment benefits that are associated with the normal costs of benefits attributable to service in the current year as well as an amortization of any unfunded actuarial accrued liability for costs of benefits associated with prior years of employment.

In addition to the option to participate in the group health, dental and life plans during employment, at retirement, employees who have twenty (20) years of cumulative service will be eligible for certain retiree benefits if hired after January 1, 2007. Employees hired prior to January 1, 2007 must have ten (10) years of cumulative service to be eligible for any retiree benefits. The Gravity Drainage currently offers its retirees the option to elect to participate in the health, dental and life plans. While there is no specific written plan or trust for the Gravity Drainage OPEB plan alone and therefore no separate annual report is issued, the Gravity Drainage has reported this plan information based on communications to plan members via the written health plan maintained by the Police Jury. Any amendments to the general health plan as related to types of benefits offered are required to be approved by Police Jury management before being distributed to Plan members.

Plan Description: The Gravity Drainage's OPEB Plan is a single employer defined benefit "substantive" plan as understood by the employer and its employees. All of the employees of the Gravity Drainage's primary government and the following discretely presented component units may at their option participate in the employee's group health, dental and life insurance programs sponsored and administered by the Police Jury in conjunction with its third-party insurance providers and administrative agents. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Funding Policy: The contribution requirements of the retirees and the participating employers are established in the annual operating budget and may be amended in subsequent years with the approval of Police Jury management. As stated previously, the required contribution is based on projected "pay-as-you-go" financing requirements. The employer contribution to the OPEB plan for 2018 was (\$462) for the Gravity Drainage. There is no retiree contribution to the OPEB plan other than the retiree shares of insurance premiums paid monthly which for 2018 consisted of \$502 per month if under age 65, \$375 per month if subject to Medicare Supplement Part A, or \$262 per month if subject to Medicare Supplements Parts A & B.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – (Continued)

Employees covered by benefit terms – At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	3
	3
 Total	3

Total OPEB Liability

The Gravity Drainage’s total OPEB liability of \$15,042 was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2018.

Actuarial Assumptions and other inputs – The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.5%, including inflation		
Discount rate	3.9%, net of OPEB plan investment expense, including inflation		
Healthcare cost trend rates	Year one Trend	January 1, 2020	8.0%
	Ultimate Trend	January 1, 2026 & later	5.0%
	Grading per year		0.5%

The selected discount rate is based on the prescribed discount interest rate methodology under GASB No. 74/75 using an average of three 20-year bond indices (e.g., Bond Buyer-20 Bond GO - 4.24%, S&P Municipal Bond 20 Year High Grade Rate Index - 3.64%, and Fidelity GA AA 20 Years - 3.83%) as of September 30, 2018.

RP 2014 Healthy Male and Female Tables are based on the Employee and Healthy Annuitant Tables for both pre & post retirement projected with mortality improvements using the most current Society of Actuaries Mortality Improvement Scale MP-2018.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of ongoing evaluations of the assumptions from January 1, 2018 to December 31, 2018.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – (Continued)

Changes in Total OPEB Liability

Balance as of December 31, 2017	\$ 26,938
Prior period adjustment - GASB 75	(12,675)
Balance as of December 31, 2017, restated	14,263
 Changes for the year:	
Service cost	694
Interest	547
Difference between expected and actual experience	-
Benefit payments and net transfers	(462)
 Net change in total OPEB liability	 779
 Balance as of December 31, 2018	 \$ 15,042

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the Gravity Drainage, as well as what the Gravity Drainage’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.9%) or 1-percentage-point higher (4.9%) than the current discount rate:

	1% Decrease 2.90%	Current Discount Rate 3.90%	1% Increase 4.90%
Total OPEB liability	\$ 18,897	\$ 15,042	\$ 12,334

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the Gravity Drainage, as well as what the Gravity Drainage’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current healthcare trend rates:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Total OPEB liability	\$ 11,942	\$ 15,042	\$ 19,432

For the year ended December 31, 2018, the Gravity Drainage recognized OPEB expense of (\$642). At December 31, 2018, the Gravity Drainage reported no deferred inflows or outflows of resources.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Gravity Drainage has health and dental insurance coverage through the Calcasieu Parish Police Jury. Employees of the Gravity Drainage are paid in full and families of employees are deducted from employee's payroll checks.

NOTE 8 - SCHEDULE OF COMMISSIONERS' COMPENSATION

Comissioner:	
Harry Aucoin	\$ 1,100
Stephen Smith	900
Donald Stinson	1,200
Freddie Carrier	900
Andy Sonnier	<u>1,000</u>
Total	<u><u>\$ 5,100</u></u>

Commissioners are compensated at the rate of \$100 per meeting attended and \$200 a meeting for the Secretary.

NOTE 9 - OPERATING LEASE

The Gravity Drainage leases various pieces of equipment under operating leases throughout the year. These leases are month to month and none longer than 12 months. Rent expense under these leases totaled \$10,285 for the year ended December 31, 2018.

NOTE 10 - RISK MANAGEMENT

The Gravity Drainage is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Gravity Drainage maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Gravity Drainage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 – PRIOR PERIOD NET POSITION ADJUSTMENT

During the fiscal year ended December 31, 2018, the Gravity Drainage adopted GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This resulted in a restatement of previously reported net positions, as follows:

Total Net Position, December 31, 2017, as previously stated	\$	26,938
Prior period adjustment:		
Change in accounting principle;		
Net effect of recording total OBEP liability		(12,675)
Total Net Position, December 31, 2017, restated	\$	14,263

NOTE 12 - SUBSEQUENT EVENTS

The Gravity Drainage is not aware of any subsequent events through the date of the independent auditors’ report, the date the financial statements were available to be issued, for events requiring to be recorded or disclosed in the financial statement.

Required Supplemental Information

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE (GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL - GENERAL FUND
Year Ended December 31, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenue:				
Ad valorem taxes	\$ 525,000	\$ 570,000	\$ 598,060	\$ 28,060
Interest income	-	-	694	694
Investment earnings	-	-	17,288	17,288
State revenue sharing	4,500	4,500	6,800	2,300
Intergovernmental	-	348,282	348,282	-
Total revenues	529,500	922,782	971,124	48,342
Expenditures:				
Current:				
Administration	16,900	22,650	36,798	(14,148)
Drainage and flood control:				
Salaries and benefits	264,050	269,800	256,363	13,437
Materials and supplies	208,000	187,800	178,837	8,963
Operating services	40,030	435,079	452,611	(17,532)
Capital outlay	-	-	125,068	(125,068)
Total expenditures	528,980	915,329	1,049,677	(134,348)
Excess of expenditures over revenues	520	7,453	(78,553)	(86,006)
Fund balance at beginning of year	1,672,017	1,672,017	1,672,017	-
Fund balance at end of year	\$ 1,672,537	\$ 1,679,470	\$ 1,593,464	\$ (86,006)

The accompanying notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
For the Year Ended December 31, 2018**

Total OPEB Liability	
Service cost	\$ 694
Interest	547
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(462)
Net change in total OPEB liability	779
Total OPEB liability - beginning as restated	14,263
Total OPEB liability - ending	\$ 15,042
Covered-employee payroll	\$ 170,500
Net OPEB liability as a percentage of cover-employee payroll	8.82%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and the accompanying notes to the required supplemental information.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2018
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. BUDGET PRACTICES

- a) The proposed budget is prepared and submitted to the Advisory Board for the fiscal year no later than fifteen days prior to the beginning of each fiscal year.
- b) The proposed budget is made available for public inspection.
- c) The budget is legally adopted prior to the commencement of the fiscal year for which the budget is being adopted.
- d) All budgetary appropriations lapse at the end of each fiscal year.
- e) The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted or as finally amended by the Board.

2. OPEB PLAN

Change in benefit terms –

There were no changes of benefit terms for the year ended December 31, 2018.

Changes in assumptions –

There were no changes of assumptions for the year ended December 31, 2018.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of the Governmental Accounting Standards Board Statement No. 75 to pay related benefits.

Other Supplemental Information

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH**

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO AGENCY HEAD
For the Year Ended December 31, 2018**

Agency Head Name: Donald Stinson

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 0
Benefits	0
Per Diem	1,200
Travel	0
Other	0
	<u>\$ 1,200</u>



Langley, Williams & Company, L.L.C.

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

Board of Commissioners
Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish
Vinton, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise of the Gravity Drainage's basic financial statements and have issued our report thereon dated May 14, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The deficiencies are identified as 18-01(IC) and 18-02(IC).

Board of Commissioners
Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gravity Drainage's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 18-01(C).

Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish Response to Findings

The Gravity Drainage's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Gravity Drainage's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Gravity Drainage's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gravity Drainage's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lake Charles, Louisiana
May 14, 2019

Gravity Drainage District No. 2 of Ward 7 of Calcasieu Parish
Vinton, Louisiana

Summary Schedule of Current and Prior Year Audit Findings
and Corrective Action Plan

For the Year Ended December 31, 2018

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Planned	Name of Contact Person	Anticipated Completion Date
Current year (12/31/18)						
Internal Control:						
18- 01 (IC)	Unknown	Gravity Drainage District No. 2 did not have adequate segregation of duties within the accounting system.	No	The District's management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible. No plan is considered necessary.	Mary Vice	NA
18- 02 (IC)	2007	Gravity Drainage District No. 2 does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including related notes.	No	The District's management has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with (GAAP) and determine that it is in the best interest of the government to outsource this task to its independent auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.	Mary Vice	NA
Compliance:						
18-01 (C)	2018	For the year ended December 31, 2018, actual expenditures exceeded budgeted expenditures by more than 5%. State law requires that actual expenditures fall within 5% of budget	Yes	Monitor budget process carefully to account for the differences between actual and budgeted.	Mary Vice	5/14/2019
Prior year (12/31/17)						
Internal Control:						
		Same as current year.				
Compliance:						
		There were no matter involving compliance to be reported.				



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Gravity Drainage District No. 2 of Calcasieu Parish
Lake Charles, Louisiana

We have performed the procedures enumerated below, which were agreed to by Gravity Drainage District No. 2 of Calcasieu Parish ("District") and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period from January 1, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Exception: We obtained the entity's written policies and procedures for the fiscal period. However, the entity did not have a policy regarding "Receipts/Collections", "Credit Cards" or "Ethics".

Management's response: Management will implement formal written policies and procedures that will cover all exceptions noted above.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

The board met on a monthly basis for the fiscal period with a quorum in attendance at all meetings.

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds.

There were no exceptions noted as a result of applying this procedure.

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Per the prior year audit report the unrestricted fund balance in the general fund did not have a negative ending balance; therefore, this procedure is not applicable.

Bank Reconciliations

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

We obtained a list of bank accounts from management and management's representation that the list was complete. Once obtained we randomly selected the month of May for testing for all accounts.

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

There were no exceptions noted as a result of applying this procedure.

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

There were no exceptions noted as a result of applying this procedure.

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

Exception: In reviewing the selected reconciliation, LWC noted two outstanding checks that were outstanding for more than 12 months with no documentation reflecting that it has been researched into.

Management's response: Both outstanding checks were voided in 2019 and re-issued. Management has and will continue to monitor any long outstanding amounts.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

Obtained a listing of all deposit sites for the fiscal period and management's representation that the listing is complete.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

Each employee responsible for cash collections does not share cash drawers/registers.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

Exception: The person responsible for collecting cash is responsible for preparing/making bank deposits, posting collection entries to the general ledger and reconciling cash collections to the general ledger.

Management's response: Management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible and the board reviews all financial documents at their monthly board meetings.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

All employees who have access to cash are bonded.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

The entity only receives money from advalorem taxes and other periodic payments; therefore, they will not have a system in place to issue sequentially pre-numbered receipts thus making this procedure not applicable.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

There were no exceptions noted as a result of applying this procedure.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

There were no exceptions noted as a result of applying this procedure.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Exception: Since LWC could not note documentation to support the actual deposit of the amounts tested, we could only note the date the deposit was recorded per the General Ledger and compare that to the date the amount cleared the bank per the bank statement which for one date tested exceeded 10 days.

Management's response: Management will implement a formal written procedure that will cover this procedure.

- e) Trace the actual deposit per the bank statement to the general ledger.

There were no exceptions noted as a result of applying this procedure.

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

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

Per discussion with management, LWC noted only one location processes payments for the fiscal period.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

There were no exceptions noted as a result of applying this procedure.

- b) At least two employees are involved in processing and approving payments to vendors.

There were no exceptions noted as a result of applying this procedure.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

Exception: LWC noted the employee responsible for processing payments is responsible for adding or modifying vendor files without a periodic review of those files.

Management's response: Management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible and the board reviews all financial documents at their monthly board meetings.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

Exception: LWC noted the employee responsible for processing payments is responsible for mailing the payments.

Management's response: Management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible and the board reviews all financial documents at their monthly board meetings.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

- a) Observe that the disbursement matched the related original invoice/billing statement.

There were no exceptions noted as a result of applying this procedure.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

There were no exceptions noted as a result of applying this procedure.

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

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

We obtained a listing of active credit cards, bank debit cards, fuel cards, and P-cards for the fiscal period and management's representation that the listing is complete.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]

There were no exceptions noted as a result of applying this procedure.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

There were no exceptions noted as a result of applying this procedure.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

The District only has one fuel card with no other credit cards; therefore, this procedure is not applicable

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

There were no travel and travel-related expense reimbursements incurred by the entity during the fiscal period making this procedure not applicable.

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

We obtained an active vendor list from management and management's representation that the listing is complete.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

None of the selected contracts were subject to the Louisiana Public Bid Law. Therefore, this procedure is not applicable.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

There were no exceptions noted as a result of applying this procedure.

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

There were no amendments during the fiscal period.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

There were no exceptions noted as a result of applying this procedure.

Payroll and Personnel

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

We obtained a listing of all employees during the fiscal period and management's representation that the listing is complete.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

Exception: LWC noted for one of the employees tested there was no documentation of daily attendance. The entity does not have paid leave for the one part time employee with the exception noted making this portion of the procedure not applicable.

Management's response: Management will implement a procedure that will insure all employees document daily attendance.

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

There were no exceptions noted as a result of applying this procedure.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

There were no exceptions noted as a result of applying this procedure.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

The entity does not issue any termination payments; therefore, this procedure is not applicable.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

There were no exceptions noted as a result of applying this procedure.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:
- a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Exception: LWC noted one of the five employees selected for testing did not complete the required ethics training during the fiscal period.

Management's response: Management will implement a procedure that will insure that each employee will complete the required ethics training for each fiscal period.

- b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Exception: Due to the entity not having a written ethics policy, employees are not able to read the policy for the fiscal period.

Management's response: Management will implement a procedure that will insure that each employee read the entity's ethics policy each year.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

No debt was issued during the fiscal period. Therefore, this procedure is not applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

No debt was outstanding during the fiscal period. Therefore, this procedure is not applicable.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Management has asserted that the entity did not have any misappropriations of public funds or assets.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

The District has posted on its premises the notice required by R.S. 24:523.1.

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

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

Langley, Williams & Co., LLC

Langley, Williams & Co. LLC
Lake Charles, Louisiana
May 14, 2019