

**SOUTHEAST WATERWORKS
DISTRICT NUMBER 2**

Abbeville, Louisiana

Financial Report

Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 business-type activities of the District, as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District 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, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District’s basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
April 30, 2020

BASIC FINANCIAL STATEMENTS

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Net Position
December 31, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 412,775
Interest-bearing deposits	279,726
Accounts receivables, net of allowance for uncollectibles	115,726
Due from other governments	29,639
Accrued interest receivable	695
Prepaid expenses	<u>11,215</u>
Total current assets	<u>849,776</u>

Restricted assets:

Revenue bond sinking account	30,450
Revenue bond reserve account	163,245
Revenue bond contingency account	67,646
Revenue bond short lived asset account	187,368
Revenue bond short lived asset investments	235,181
Customer deposits	<u>29,750</u>
Total restricted assets	<u>713,640</u>

Capital assets, net

7,270,841

Easements

10,760

Total assets

8,845,017

LIABILITIES

Current liabilities (payable from current assets):

Accounts payable	17,878
Accrued liabilities	6,255
Other liabilities	<u>6,417</u>
Total current liabilities (payable from current assets)	<u>30,550</u>

Current liabilities (payable from restricted assets):

Customer deposits	29,750
Accrued interest on bonds	18,367
Current portion of long term debt	<u>128,944</u>
Total current liabilities (payable from restricted assets)	<u>177,061</u>
Total current liabilities	207,611

Noncurrent liabilities:

Revenue bonds payable	<u>5,146,160</u>
Total liabilities	<u>5,353,771</u>

NET POSITION

Net investment in capital assets	2,124,681
Restricted for debt service	46,384
Restricted for equipment acquisition	490,195
Unrestricted	<u>829,986</u>
Total net position	<u>\$ 3,491,246</u>

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2019

Operating revenues:	
Charges for services -	
Water sales	\$ 897,347
Penalties	18,936
Reconnection fees	9,900
Meter fees	18,250
Miscellaneous income	6,472
Total operating revenues	<u>950,905</u>
Operating expenses:	
Salaries	201,771
Payroll taxes	14,764
Group and life insurance	37,597
Retirement	14,157
Insurance	28,313
Supplies	11,124
Telephone and utilities	43,473
Chemicals	79,836
Meter installation and reading	13,790
Depreciation	304,404
Professional fees	19,833
Maintenance and repairs	59,680
Automobile expense	9,147
Printing, postage and publications	11,879
Bank charges	1,351
Other	26,139
Total operating expenses	<u>877,258</u>
Operating income	<u>73,647</u>
Nonoperating revenues (expenses):	
Interest income	8,922
Gain on investments	18,211
Intergovernmental income	7,023
Interest expense	(204,423)
Total nonoperating revenues (expenses)	<u>(170,267)</u>
Change in net position	(96,620)
Net position, beginning	<u>3,587,866</u>
Net position, ending	<u>\$ 3,491,246</u>

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities:	
Receipts from customers	\$ 931,634
Payments to suppliers	(297,251)
Payments to employees and related costs	(267,120)
Miscellaneous income	<u>6,470</u>
Net cash provided by operating activities	<u>373,733</u>
Cash flows from noncapital financing activities:	
Increase in meter deposits	<u>1,200</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(123,806)
Interest paid on long-term debt	(196,268)
Capital grants	4,898
Acquisition and construction of capital assets	<u>(71,903)</u>
Net cash used by capital and related financing activities	<u>(387,079)</u>
Cash flows from investing activities:	
Proceeds of interest-bearing deposits with maturity in excess of ninety days	277,183
Purchase of interest-bearing deposits with maturity in excess of ninety days	(279,726)
Interest income	<u>8,935</u>
Net cash provided by investing activities	<u>6,392</u>
Net change in cash and cash equivalents	(5,754)
Cash and cash equivalents, beginning of period	<u>896,988</u>
Cash and cash equivalents, end of period	<u>\$ 891,234</u>

(continued)

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2019

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 73,647
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	304,404
Provision for bad debts	4,442
Receivables, gross	(17,246)
Other receivables	4
Accounts payable	7,313
Accrued liabilities	1,169
Net cash provided by operating activities	<u>\$ 373,733</u>

Cash and cash equivalents, end of period -

Current	\$ 412,775
Restricted	
Revenue bond sinking account	30,450
Revenue bond reserve account	163,245
Revenue bond contingency account	67,646
Revenue bond short lived asset account	187,368
Customer deposits	29,750
	<u>\$ 891,234</u>

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

The financial statements of Southeast Waterworks District Number 2 (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the District’s accounting policies are described below.

A. Financial Reporting Entity

The District was created under the provisions of Louisiana Revised Statutes 33:3811, for the purpose of providing water to the rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which 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.

Because the Vermilion Parish Police Jury appoints the District’s governing body, the District was determined to be a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the governmental entity with oversight responsibility. The accompanying financial statements present information only on the proprietary fund maintained by the District and do not present information on the Vermilion Parish Police Jury, the general government services provided by that governmental entity, or the other governmental entities that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities and as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board.

C. Fund Accounting

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The District maintains only one fund and it is described below:

Proprietary Fund –

Enterprise Fund

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

D. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The enterprise fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. They are stated at cost, which approximates market.

Investments

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized costs, which approximate fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts. The allowance amount at December 31, 2019 is \$ \$48,648.

Unbilled receivables resulting from services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. They are reported at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 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 assets 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. The total interest expense incurred by the District during the year was \$204,423, none of which was capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Buildings	40 years
Utility System and Improvements	25-50 years
Equipment	5-10 years

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Equity Classifications

Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

- a. Net investment in capital assets – Consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the District’s bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- c. Unrestricted net position – Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

F. Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Use of Estimates

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

(2) Cash and Cash Equivalents

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana.

These deposits are stated at cost, which approximates market. Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or the District will not be able to recover the collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk; however, 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 pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) are as follows:

Bank balances	<u>\$ 1,170,356</u>
Deposits are secured as follows:	
Insured deposits	500,000
Uninsured and collateral held by the pledging bank not in the District's name	<u>670,356</u>
Total	<u>\$ 1,170,356</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(3) Investments

Under state law, the District may invest in direct United States Treasury obligations, bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by federal agencies, provided such obligations are backed by the full faith and credit of the United States of America, bonds, debentures, notes, or other indebtedness issued by the state of Louisiana or any of its political subdivisions or by a state of the United States of America other than Louisiana or any such state's political subdivisions.

The District has investments as follows:

Description	Reported Amount/ Market Value
Restricted	
Government Related	\$ 235,181

The District has adopted a conservative investment policy for other investments. This policy's objective is to generate risk-adjusted returns with investments in government agency bonds with an emphasis on a 1-5 year term area.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the District's debt type investments to this risk, using the segmented time distribution model is as follows:

Description	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-5	6-10
Cash and cash equivalents-				
Restricted				
Money market (Rated AAAM)	\$ 843	\$ 843	\$ -	\$ -
Investments-				
Restricted				
Government Related	\$ 235,181	\$ -	\$ 235,181	\$ -

Credit risk is managed by restricting investments to those authorized by R.S. 33:2955.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Concentrations: The District's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity. Securities from issuers totaling five percent or more of a portfolio are as follows:

	Rating	Percentage
Government related:		
New Jersey Economic Development Authority	AA	100.00%

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District does not have custodial credit risk policies for investments.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are observable inputs such as quoted prices in active markets for identical assets; level 2 inputs are inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; level 3 inputs are unobservable inputs where there is little or no market data, which require the District to develop its own assumptions.

The District has the following recurring fair value measurements:

Asset Class	Total Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents - Restricted				
Money market	\$ 843	\$ 843	\$ -	\$ -
Investments- Restricted				
Government Related	\$ 235,181	\$ -	\$ 235,181	\$ -

(4) Accounts Receivables

Accounts receivables consist of the following:

Accounts receivable	\$ 119,918
Unbilled water	<u>44,456</u>
	164,374
Less allowance for doubtful accounts	<u>(48,648)</u>
Total	<u>\$ 115,726</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The aging of the accounts receivable is as follows:

Current	\$ 64,511
31 - 60 days	6,207
61 - 90 days	552
Over 90 days	<u>48,648</u>
Total	<u>\$ 119,918</u>

(5) Restricted Assets

Restricted assets consisted of the following:

Revenue bond sinking account	\$ 30,450
Revenue bond reserve account	163,245
Revenue bond contingency account	67,646
Revenue bond short lived asset account	187,368
Revenue bond short lived asset investments	235,181
Customer deposits	<u>29,750</u>
Total restricted assets	<u>\$ 713,640</u>

(6) Capital Assets

Capital asset activity was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 17,477	\$ -	\$ -	\$ 17,477
Capital assets being depreciated:				
Buildings	182,215	-	-	182,215
Equipment	70,560	33,406	-	103,966
Utility system improvements	10,099,203	<u>38,497</u>	<u>3,832</u>	<u>10,133,868</u>
Total capital assets	<u>10,369,455</u>	<u>71,903</u>	<u>3,832</u>	<u>10,437,526</u>
Less accumulated depreciation	<u>2,866,113</u>	<u>304,404</u>	<u>3,832</u>	<u>3,166,685</u>
Capital assets, net	<u>\$ 7,503,342</u>	<u>\$ (232,501)</u>	<u>\$ -</u>	<u>\$ 7,270,841</u>

Total depreciation expense for the year was \$304,404.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(7) Changes in Long-Term Debt

The following changes occurred in long-term debt:

	Beginning Balance	Additions	Retirements	Ending Balance
Revenue bonds	<u>\$ 5,371,396</u>	<u>\$ 27,514</u>	<u>\$ (123,806)</u>	<u>\$ 5,275,104</u>
Long-term debt payable is composed of the following issues:				
\$721,000 Water Revenue Bonds, Series 1995, issued May 12, 1995, due in monthly installments of \$3,309 over forty years through 2035; interest at 4.50 percent				\$ 437,331
\$73,000 Water Revenue Bonds, Series 1995, issued May 12, 1995, due in monthly installments of \$335 over forty years 2035; interest at 4.50 percent				44,279
\$325,000 Water Revenue Bonds, Series 1998, issued March 16, 1998, due in monthly installments of \$1,554 over forty years through 2038; interest at 4.875 percent				227,328
\$2,717,000 Water Revenue Bonds, Series 2007, issued July 20, 2007, due in monthly installments of \$11,900 over forty years through 2047; interest at 4.25 percent				2,316,645
\$231,000 Water Revenue Bonds, Series 2007 issued July 20, 2007, due in monthly installments of \$1,012 over forty years starting through 2047; interest at 4.25 percent				196,962
\$1,637,000 Water Revenue Bonds, Series 2013 issued August 14, 2013, due in monthly installments of \$5,714 over forty years through October 2053; interest at 2.75 percent				1,501,480
\$800,000 promisory note, series 2018 due to LDH Revolving Water Loan dated February 1, 2018. Amount drawn through December 31, 2019 was \$707,700 with \$92,300 available left to draw. Payments are due in annual installments based on percentages specified in the note and semi-annual installments of interest at 2.45%. Final maturity is March 1, 2038. The agreement provides for 20% principal forgiveness on each principal drawdown so that the maximum amount of principal repayment will be \$640,000				<u>551,079</u>
Total bonds				5,275,104
Less: current portion				<u>(128,944)</u>
Total long-term debt				<u>\$ 5,146,160</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The annual requirements to amortize all debt outstanding is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	128,944	187,899	316,843
2021	138,259	187,550	325,809
2022	142,755	182,388	325,144
2023	148,440	177,029	325,469
2024	153,320	171,466	324,786
2025-2029	851,281	766,106	1,617,387
2030-2034	1,018,012	590,998	1,609,009
2035-2039	918,015	403,531	1,321,546
2040-2044	877,959	239,615	1,117,574
2045-2049	666,003	74,174	740,177
2050-2053	<u>232,115</u>	<u>11,806</u>	<u>243,921</u>
 Total	 <u>\$ 5,275,104</u>	 <u>\$ 2,992,560</u>	 <u>\$ 8,267,664</u>

(8) Flow of Funds: Restrictions on Use - Utility Revenues

Under the terms of the various bond indentures on outstanding Water Revenue Bonds, all income and revenue of every nature, earned or derived from operations of the District are pledged and dedicated to the retirement of said bonds and are to be deposited in funds in the following order of priority and for the following express purposes:

All revenue must be deposited into a "Water Revenue Fund" to be first used for the payment of all reasonable and necessary expenses of operating and maintaining the System.

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose.

Waterworks Reserve Fund - The District is required to set aside \$1,191 monthly until \$285,890 has been accumulated.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$1,191 monthly until \$285,890 has been accumulated in the Waterworks Reserve Fund, then deposits increase to \$2,383 monthly.

Waterworks Short-lived Assets Fund- The District is required to deposit \$6,303 per month into this fund. Monies in this fund shall be used to pay for the maintenance and replacement of short-lived assets of the system.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Under the agreement with LDH, the District will be required to make deposits until a specific amount of reserve has been accumulated. These amounts and timing of the requirements will be determined when the loan has been fully drawn.

All the revenues received in any fiscal year and that are not required to be paid into any of the above noted funds in such fiscal year shall be regarded as surplus and may be used for any lawful purpose.

All required transfers were made for the year ended December 31, 2019.

(9) Retirement Commitments

All full-time employees participate in a SEP-IRA defined contribution plan after six months of service. The District contributes 7.5 percent of each participant's gross pay. All amounts are vested immediately, and the plan does not allow employee contributions. Total contributions was \$14,157.

(10) Compensation of Board Members

The following is a list of the commissioners and compensation paid.

<u>Commissioner</u>	<u>Term expiration date</u>	<u>Compensation</u>
Clint Dugas 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	April 17, 2020	\$ 1,050
Sandra C Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 7, 2021	675
Kelly Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	February 5, 2020	975
Susan Wilhelm 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 8, 2023	450
Byron Perry 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 4, 2023	750
Shelby Bernard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 2, 2020	<u>825</u>
		<u>\$ 4,725</u>

Clint Dugas serves as the Board Chairman. No compensation benefits, or other payments, have been made to him beyond those listed above.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(11) Risk Management

The District is exposed to risks of loss in the areas of general liability, property hazards and worker's compensation. All these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

(12) Pending Litigation

The District is subject to various lawsuits and claims, many of which arise in the normal course of business. Although their outcome is not presently determinable, it is the opinion of legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

SUPPLEMENTARY INFORMATION

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Number of Utility Customers and Water Rates
December 31, 2019

Records maintained by the Southeast Waterworks District Number 2 indicated the following number of customers were being serviced during the month of December, 2019:

Residential	2,164
Commercial	<u>81</u>
	<u>2,245</u>

The water rates of the District are as follows:

Residential rates:

\$16.00 per month for the first 2,000 gallons, then
\$ 4.40 per 1,000 gallons over 2,000 gallons

Commercial rates:

\$21.00 per month for the first 2,000 gallons, then
\$ 4.40 per 1,000 gallons over 2,000 gallons

Penalty for paying water bill after due date:

Additional ten percent (10%) of total water charge

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Insurance in Force
December 31, 2019

Coverage Provided For	Limits of Coverage (in dollars)	Expiration Date
Workers Compensation	Statutory	07/01/20
Employee Fidelity Bond		10/03/20
Board President	\$ 310,000	
Vice-President	\$ 310,000	
Secretary	\$ 310,000	
Office Manager	\$ 310,000	
Plant Manager	\$ 310,000	
Office Secretary	\$ 310,000	
Automobile Liability (Each Accident)	\$ 1,000,000	07/01/20
General Premises Liability		07/01/20
Each Occurrence	\$ 1,000,000	
General Aggregate	\$ 3,000,000	
Blanket Building and Contents	\$ 1,379,683	07/01/20
Commercial Flood Coverage		05/26/20
Buildings	\$ 404,100	
Contents	\$ 500,000	

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Net Position
December 31, 2019 and 2018

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	\$ 412,775	\$ 436,664
Interest-bearing deposits	279,726	277,182
Accounts receivables, net of allowance for uncollectibles	115,726	102,922
Due from other governments	29,639	10,625
Accrued interest receivable	695	709
Prepaid expenses	11,215	11,215
Total current assets	849,776	839,321
Restricted assets:		
Revenue bond sinking account	30,450	30,420
Revenue bond reserve account	163,245	162,266
Revenue bond contingency account	67,646	43,028
Revenue bond short lived asset account	187,368	196,060
Revenue bond short lived asset investment	235,181	216,970
Customer deposits	29,750	28,550
Total restricted assets	713,640	677,294
Capital assets, net	7,270,841	7,503,342
Easements	10,760	10,760
Total assets	8,845,017	9,030,717
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	17,878	10,565
Accrued liabilities	6,255	5,086
Contract payable	-	10,625
Total current liabilities (payable from current assets)	24,133	26,276
Current liabilities (payable from restricted assets):		
Customer deposits	29,750	28,550
Accrued interest on bonds	18,367	10,212
Current portion of long term debt	128,944	123,801
Other Liabilities	6,417	6,417
Total current liabilities (payable from restricted assets)	183,478	168,980
Total current liabilities	207,611	195,256
Noncurrent liabilities:		
Revenue bonds payable	5,146,160	5,247,595
Total liabilities	5,353,771	5,442,851
NET POSITION		
Net investment in capital assets	2,124,681	2,255,747
Restricted for debt service	46,384	58,673
Restricted for equipment acquisition	490,195	456,058
Unrestricted	829,986	817,388
Total net position	\$ 3,491,246	\$ 3,587,866

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues:		
Charges for services -		
Water sales	\$ 897,347	\$ 893,718
Penalties	18,936	20,188
Reconnection fees	9,900	13,300
Meter fees	18,250	18,295
Miscellaneous income	6,472	18,554
Total operating revenues	950,905	964,055
Operating expenses:		
Salaries	201,771	162,316
Payroll taxes	14,764	11,774
Group and life insurance	37,597	29,312
Retirement	14,157	11,820
Insurance	28,313	18,736
Supplies	11,124	15,947
Telephone and utilities	43,473	43,788
Chemicals	79,836	80,880
Meter installation and reading	13,790	40,113
Depreciation	304,405	262,557
Professional fees	19,833	13,247
Maintenance and repairs	59,680	46,694
Automobile expense	9,147	7,684
Printing, postage and publications	11,879	11,596
Bank charges	1,351	2,179
Other	26,138	23,187
Total operating expenses	877,258	781,830
Operating income	73,647	182,225
Nonoperating revenues (expenses):		
Interest income	8,922	2,935
Gain on investments	18,211	5,467
Intergovernmental income	7,023	133,485
Loss on disposal of assets	-	(125,136)
Interest expense	(204,423)	(187,821)
Total nonoperating revenues (expenses)	(170,267)	(171,070)
Change in net position	(96,620)	11,155
Net position, beginning	3,587,866	3,576,711
Net position, ending	\$ 3,491,246	\$ 3,587,866

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT AUDITORS' 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
Southeast Waterworks District
Number 2
Abbeville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 30, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 current and prior year audit findings and management's corrective action plan as items 2019-001 and 2019-002, which we consider to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Finding

The District's responses to the findings identified in our audit is described in the accompanying schedule of current and prior year audit findings and management's corrective action plan. The District'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

This 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
April 30, 2020

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended December 31, 2019

Part I: Current Year Findings and Management's Corrective Action Plan

A. Internal Control Over Financial Reporting

2019-001 Inadequate Segregation of Accounting Functions

CONDITION: The District did not have adequate segregation of functions within the accounting system.

CRITERIA: AU-C §315.04, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, defines internal control as follows:

“Internal control is a process, affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.”

CAUSE: The cause of the condition is the fact that the District does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Management should reassign incompatible duties among different employees to ensure that a single employee does not have control of more than one of the following responsibilities: (1) authorization; (2) custody; (3) recordkeeping; and (4) reconciliation.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board of Commissioners concurs with the audit finding. Due to size of staffing, the achievement of adequate segregation of duties is desirable, but cost prohibitive. All efforts are given to segregate duties where feasible. In an effort to establish more sound controls the Board of Commissioners monitors activity and balances in all fund accounts.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2019

2019-002 Application of Generally Accepted Accounting Principles (GAAP)

Fiscal year finding initially occurred: Unknown

CONDITION: Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to governmental entities in the financial statement preparation process.

CRITERIA: The District's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statement, including the ability of its management and staff to detect potential misstatements that may exist in the financial statements and related disclosures.

CAUSE: The cause of the condition results from a reliance on the external auditor as part of the internal control process.

EFFECT: Financial statements and related supporting transactions may reflect a departure from generally accepted accounting principles.

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

CORRECTIVE ACTION PLAN: We evaluated the cost vs. benefit of establishing enhanced controls over financial reporting and determined that it would not be cost effective to enhance these controls. Currently, our financial staff receive annual training related to their job duties. Additionally, we carefully review the financial statements, related notes and all proposed journal entries. All questions are adequately answered by our Auditors to allow us to appropriately supervise these functions. We feel that we have taken appropriate steps to reduce the financial statement risk cause by this finding.

B. Compliance

There are no compliance findings to the report.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2019

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2018-001 Inadequate Segregation of Accounting Functions

CONDITION: The District did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Management should reassign incompatible duties among different employees to ensure that a single employee does not have control of more than one of the following responsibilities: (1) authorization; (2) custody; (3) recordkeeping; and (4) reconciliation.

CURRENT STATUS: Unresolved. See item 2019-001.

2018-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The District 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 the related notes.

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

CURRENT STATUS: Unresolved. See item 2019-002

B. Compliance

There were no compliance findings to the report.

SOUTHEAST WATERWORKS
DISTRICT NUMBER 2
Abbeville, Louisiana

Statewide Agreed-Upon Procedures

Fiscal period
January 1, 2019 through December 31, 2019

KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Commissioners of
Southeast Waterworks District Number 2
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Southeast Waterworks District Number 2 (District) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2019 through December 31, 2019. The District's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - 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.
- k) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Board or Finance Committee

- 2. We obtained and inspected 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) We observed 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.
 - b) For those entities reporting on the governmental accounting model, we observed 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. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

- c) For governmental entities, we obtained the prior year audit report and we observed 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, we 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.

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:
 - 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);
 - 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
 - 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.

Collections (excluding EFTs)

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

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.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - 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).
 - e) Trace the actual deposit per the bank statement to the general ledger.

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

[Note: Exceptions to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); should not be reported.]
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.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

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.
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 (or electronically approved), 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.]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
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). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

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:
 - 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. We obtained 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. We obtained management's representation that the listing is complete. We randomly selected 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:
 - a) Observed that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - b) Observed that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
 - c) If the contract was amended (e.g. change order), observed that the original contract terms provided for such an amendment.
 - d) Randomly selected one payment from the fiscal period for each of the 5 contracts, obtained the supporting invoice, agreed the invoice to the contract terms, and observed that the invoice and related payment agreed to the terms and conditions of the contract.

Payroll and Personnel

16. We obtained a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. We randomly selected 5 employees/officials, obtained related paid salaries and personnel files, and agreed paid salaries to authorized salaries/pay rates in the personnel files.
17. We randomly selected one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, we obtained attendance records and leave documentation for the pay period, and:
 - a) Observed that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).
 - b) Observed that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observed that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
18. We obtained a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. We randomly selected two employees/officials, obtained related documentation of the hours and pay rates used in management's termination payment calculations, agreed the hours to the employee/officials' cumulate leave records, and agreed the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
19. We obtained 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.

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.
 - 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.

Debt Service

21. We obtained a listing of bonds/notes issued during the fiscal period and management’s representation that the listing is complete. We selected all bonds/notes on the listing, obtained supporting documentation, and observed that State Bond Commission approval was obtained for each bond/note issued.
22. We obtained a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. We randomly selected one bond/note, inspected debt covenants, obtained supporting documentation for the reserve balance and payments, and agreed actual reserve balances and payments to those required by debt covenants.

Other

23. We obtained a listing of misappropriations of public funds and assets during the fiscal period and management’s representation that the listing is complete. We selected all misappropriations on the listing, obtained supporting documentation, and observed that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. We observed 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.

Findings

In accordance with the Statewide Agreed-Upon Procedures, certain categories may be excluded from testing. Therefore, the following categories were not tested this year: Board or Finance Committee, Bank Reconciliations, Disbursements, Travel and Expense reimbursement, Contracts, Payroll and Personnel, Ethics, Debt Service and Other.

No exceptions were found as a result of applying the procedures above except:

Collections

Employees that are responsible for cash collections share cash drawers/registers.

Employees that are responsible for cash collections are responsible for preparing/making bank deposits.

Employees that are responsible for cash collections are responsible for posting collections to the general ledger or subsidiary ledger.

Employees that are responsible for cash collection are responsible for reconciling the bank account to the general ledger.

We were unable to test whether prenumbered receipts are sequentially numbered. Receipts are given only to those customers paying in cash without a copy of their bill stub.

We were unable to test whether deposits are made timely. The system reports do not note the date the collection is made.

Management's Response:

Management of the Southeast Waterworks District Number 2 concurs with the exceptions and is working to address the deficiencies identified.

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.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
April 30, 2020