

**FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT**

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

December 31, 2017

GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
Vinton, Louisiana

FINANCIAL REPORT
December 31, 2017

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

December 31, 2017

COMMISSIONERS

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

LEGAL COUNSEL

Robert S. Kleinschmidt, Jr.

ENGINEER

John Lowery



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

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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, 2017 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, 2017, 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 June 11, 2018, 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.

Joseph, Williams & Co., LLP

Lake Charles, Louisiana
June 11, 2018

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

**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
December 31, 2017**

ASSETS

Cash and cash equivalents	\$ 165,742
Investments	895,963
Ad valorem tax receivable, net of allowance for doubtful accounts of \$6,415	628,731
Prepaid insurance	12,359
Capital assets, net of accumulated depreciation	<u>354,921</u>
 Total assets	 <u>2,057,716</u>

LIABILITIES

Accounts payable	9,636
Payroll taxes payable	1,869
Pension fund deduction payable	19,273
Long-term liabilities Due after one year	<u>26,938</u>
 Total liabilities	 <u>57,716</u>

NET POSITION

Investment in capital assets	354,921
Unrestricted	<u>1,645,079</u>
 Total net position	 <u>\$ 2,000,000</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, 2017**

Activities	Expenses	Program Revenues Capital Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:			
Administration	\$ 40,246	\$ -	\$ (40,246)
Drainage	541,453	-	(541,453)
Total program expenses	\$ 581,699	\$ -	(581,699)
General revenues:			
Ad valorem taxes			603,296
State revenue sharing			6,946
Interest income			916
Investment earnings			8,619
Gain on sale of fixed assets			16,005
Miscellaneous income			20
		Total general revenues	635,802
		Change in net position	54,103
		Net position at beginning of year	1,945,897
		Net position at end of year	\$ 2,000,000

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, 2017**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 165,742
Investments	895,963
Prepaid insurance	12,359
Ad valorem tax receivable, net of allowance for doubtful accounts of \$6,415	628,731
Total assets	\$ 1,702,795
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts payable	\$ 9,636
Payroll taxes payable	1,869
Pension fund deduction payable	19,273
Total liabilities	30,778
Fund balance:	
Unassigned	1,672,017
Total liabilities and fund balance	\$ 1,702,795

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, 2017**

FUND BALANCE OF GOVERNMENTAL FUNDS		\$ 1,672,017
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	\$ 475,179	
Less - accumulated depreciation	<u>(120,258)</u>	354,921
Long-term liabilities at December 31, 2017:		
Other post retirement benefits		<u>(26,938)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 2,000,000</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, 2017**

	<u>General Fund</u>
Revenue:	
Ad valorem taxes	\$ 603,296
Interest income	916
Investment earnings	8,619
State revenue sharing	6,946
Proceeds from sale of fixed assets	52,820
Miscellaneous revenue	20
Total revenues	672,617
Expenditures:	
Current:	
Administration	40,246
Drainage and flood control:	
Salaries and benefits	243,191
Materials and supplies	184,880
Operating services	70,021
Capital Outlay	309,502
Total expenditures	847,840
Excess expenditures over revenues over	(175,223)
Fund balance at beginning of year	1,847,240
Fund balance at end of year	\$ 1,672,017

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, 2017**

Total net change in fund balance - governmental fund \$ (175,223)

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	309,502	
Depreciation expense	<u>(38,185)</u>	271,317

Governmental funds report proceeds from the sales of capital assets. However, in the statement of activities, the gain on the disposal of capital assets is reported. The change in net assets differs from the change in fund balance by the carrying value of capital assets disposed. (36,815)

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>(5,176)</u>
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Change in net position of governmental activities	<u><u>\$ 54,103</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, 2017
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, 2017
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 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.

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.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

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

BASIS OF ACCOUNTING/MEASUREMENT FOCUS – (Continued)

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.

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 \$635,146 as of December 31, 2017. Uncollectible amounts due for ad valorem taxes are recognized as uncollectible using the allowance method. The allowance for uncollectible accounts at December 31, 2017, was \$6,415.

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.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

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

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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 consist of other post retirement benefits.

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.

BUDGETS

Under GASB No. 34, budgetary comparison information is required to be presented for the general fund with a legally adopted budget. For further information regarding the Gravity Drainage's budget process see Note 8.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank accounts and short-term investments. At December 31, 2017, the Gravity Drainage has cash and cash equivalents (book balances) totaling \$165,742.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the Gravity Drainage's deposits may not be returned. Deposits are exposed to custodial credit risk if they are either (a) uninsured and uncollateralized or (b) uninsured and collateralized with securities held by the pledging financial institution or its trust department/agent but not in the name of the Gravity Drainage. The Gravity Drainage's cash and investment policy, as well as state law, require that deposits be fully secured by federal deposit insurance or the pledge of securities owned by the bank. The fair value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount of deposit with the bank.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH AND CASH EQUIVALENTS – (Continued)

Custodial Credit Risk – Deposits – (Continued)

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, 2017, the Gravity Drainage has \$160,964 in deposits (collected bank balances) that were secured from risk by \$250,000 of federal deposit insurance and \$603,880 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

NOTE 3 - INVESTMENTS

Deposits held by LAMP at December 31, 2017, consist of \$895,963 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 administered by LAMP Inc., a non-profit corporation organized under the laws of the state of Louisiana. Only local government entities 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 in accordance with LSA – R.S. 33:2955.

Effective August 1, 2001, LAMP’s investment guidelines were amended to permit the investment in government-only money market funds. In its 2001 Regular Session, the Louisiana Legislature (Senate Bill No. 512, Act 701) enacted LSA – R.S. 33:2955(A)(1)(h) which allows all municipalities, parishes, school boards, and any other political subdivisions of the State to invest in “investment grade (A-1P-1) commercial paper domestic United States corporations”.

Effective October 1, 2001, LAMP’s Investment Guidelines were amended to allow the limited investment in A-1 or A-1+ commercial paper.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. 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 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, 2017, the weighted-average yield on the deposits at LAMP was 1.23% and the weighted-average maturity was less than 90 days. LAMP is rated AAAM with Standard & Pools.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

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 2017 levy are accrued as receivable and as revenue in the current year (2017). For budget purposes, property taxes collected in 2017 are designated as revenue appropriable in the 2017 budget year.

For the year ended December 31, 2017, taxes of 9.73 mills were levied on property with assessed valuations totaling approximately \$63,415,356. Total taxes levied for the year ended December 31, 2017 were \$617,034.

During the year, the tax assessor decreased previous year taxpayer valuations and wrote down a total of \$13,061 worth of taxes. This amount was deducted from current year ad valorem taxes. Management deemed necessary to adjust their allowance for uncollectible for \$474.

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, 2017, was as follows:

	Balance 1/1/17	Additions	Deletions	Balance 12/31/17
Governmental activities:				
Leasehold improvements	\$ 6,156	\$ 19,078	\$ -	\$ 25,234
Equipment	298,699	290,424	139,178	449,945
Total at historical cost	<u>304,855</u>	<u>309,502</u>	<u>139,178</u>	<u>475,179</u>
Less accumulated depreciation:				
Leasehold improvements	1,573	1,130	-	2,703
Equipment	182,862	37,055	102,362	117,555
Total accumulated depreciation	<u>184,435</u>	<u>38,185</u>	<u>102,362</u>	<u>120,258</u>
Governmental activities capital assets, net	<u>\$ 120,420</u>	<u>\$ 271,317</u>	<u>\$ 36,816</u>	<u>\$ 354,921</u>

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS – (Continued)

Depreciation expense as of December 31, 2017 was charged to governmental activities as follows:

Governmental activities		
Administration		\$ -
Drainage		38,185
Total depreciation - Governmental activities		\$ 38,185

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS

In 2008, the Police Jury implemented Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). 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.

The notes to the financial statements contain other required disclosure information such as the estimated costs today of providing the postemployment benefits to all of your current employees once they retire not just the liability referred to above that is actually recognized in the Statement of Net Position. The Plan is required to have an actuarial valuation conducted every two years. The Police Jury contracted with a third party consultant to perform the actuarial valuation required by GASB Statement No. 45 as of January 1, 2016. Since GASB Statement No. 45 requires valuations every other year for plan memberships exceeding 200, the actuarial valuations prepared will be utilized for the two year periods with the inclusion of the appropriate second year adjustments.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – (Continued)

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.

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 2016 was \$5,086 for the Gravity Drainage. There is no retiree contribution to the OPEB plan other than the retiree share of insurance premiums paid monthly which for 2016 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.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, the actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used for the January 1, 2016 actuarial valuations. Because the government currently finances OPEB using a “pay-as-you-go” approach, the discount rate is based on the historical and future investment yields that are expected to be used in financing the payment of benefits. The actuarial assumptions for all four valuations included a 4% investment rate of return, compounded annually. Life expectancies for the 2016 actuarial valuation report were based on the RP 2000 Male and Female Tables which is consistent previous valuation reports. Turnover rates for both valuation reports were based on the Parish’s historical data and modified based on years of employment.

For the January 1, 2016 actuarial valuation, claim costs were developed for pre-65 and post-65 retirees’ costs. Costs were developed based on the current fully insured equivalency rates with costs adjusted for aging since the underlying premium rates are not community rated. This basis was used for the calculation of the present value of total benefits to be paid for retiree coverage. The 2016 actuarial valuation assumed a healthcare cost inflation rate of 10% decreasing to an ultimate rate of 5% in 2019 and beyond. A 1% inflation factor was utilized each year. The 2016 actuarial valuation also assumes that (1) the member’s current marital status and whether spousal coverage is elected will remain unchanged at retirement, (2) female spouses are assumed to be three years younger than male employees and male spouses are assumed to be three years older than female employees, (3) employees electing single coverage as active employees are assumed to continue with single coverage at retirement and employees electing family coverage as active employees are assumed to continue family coverage as retirees and (4) 100% of employees will elect Medicare coverage when they are first eligible. The amortization method for the plan is level

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – (Continued)

dollar with a thirty-year open amortization period. The remaining amortization period at January 1, 2016 was twenty-one years.

Annual OPEB Cost and Net OPEB Obligation: The Gravity Drainage’s annual OPEB cost (expense) was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over the actuarial amortization period. Trend information has been disclosed below for 2017. The ARC was calculated as part of the January 1, 2016 actuarial valuations performed by outside actuary consultants.

The following table shows the components of the Gravity Drainage’s annual OPEB costs for the current year and the amount actually contributed to the plan during the year:

	12/31/2017
Annual required contribution	\$ 3,315
Interest on Net OPEB Obligation	870
Adjustment to ARC	991
Annual OPEB Cost	5,176
Less: Contributions	-
Increase in Net OPEB Obligation	5,176
Beginning Net OPEB Obligation, December 31, 2016	21,762
Ending Net OPEB Obligation, December 31, 2017	\$ 26,938

The Gravity Drainage’s annual OPEB cost contributed to the plan using the pay-as-you-go method and the net OPEB obligation for the fiscal year ended December 31, 2017 was as follows:

Fiscal Year End	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2017	\$ 5,176	0.00%	\$ 26,938
December 31, 2016	\$ 9,366	54.30%	\$ 21,762
December 31, 2015	\$ 3,614	0.00%	\$ 17,482

Funding Status and Funding Progress: During the fiscal year 2017, the Gravity Drainage did not establish a fund for trusts to accumulate and invest assets necessary to pay for the accumulated liability; these financial statements assume the pay-as-you-go funding will continue. Since no contributions were made, the Gravity Drainage’s entire actuarial accrued liability of \$96,472 was unfunded.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – (Continued)

The funded status of the plan, as determined by an actuary as of December 31, 2016 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a %age of Covered Payroll
12/31/2016	\$ -	\$ 96,472	\$ 96,472	0.00%	\$ 189,716	50.85%
12/31/2014	\$ -	\$ 86,637	\$ 86,637	0.00%	\$ 166,754	51.95%

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	1,100
Donald Stinson	1,000
Freddie Carrier	800
Andy Sonnier	<u>1,200</u>
Total	<u><u>\$ 5,200</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 \$53,202 for the year ended December 31, 2017.

**GRAVITY DRAINAGE DISTRICT NO. 2
OF WARD 7 OF CALCASIEU PARISH
December 31, 2017
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

On or before the last meeting of each year, the budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The appropriated budget is prepared by fund and function. The proposed budget is presented to the Gravity Drainage's Board of Commissioners for review. The board holds a public hearing and may add to, subtract from, or change appropriations, but may not change form of the budget. Any changes in the budget must be within the revenues and reserves estimated.

Expenditures may not legally exceed budgeted appropriations by more than five percent.

Encumbrance accounting is not used.

NOTE 11 - 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.

NOTE 12 - SUBSEQUENT EVENTS

The Gravity Drainage is not aware of any subsequent events through June 11, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2017.

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, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenue:				
Ad valorem taxes	\$ 505,000	\$ 526,000	\$ 603,296	\$ 77,296
Interest income	-	-	916	916
Investment earnings	-	-	8,619	8,619
State revenue sharing	4,200	4,700	6,946	2,246
Proceeds from sale of fixed assets	-	-	52,820	52,820
Miscellaneous income	-	-	20	20
Total revenues	509,200	530,700	672,617	141,917
Expenditures:				
Current:				
Administration	17,100	23,675	40,246	(16,571)
Drainage and flood control:				
Salaries and benefits	266,500	268,500	243,191	25,309
Materials and supplies	157,500	170,000	184,880	(14,880)
Operating services	54,350	66,495	70,021	(3,526)
Capital outlay	-	285,556	309,502	(23,946)
Total expenditures	495,450	814,226	847,840	(33,614)
Excess of expenditures over revenues	13,750	(283,526)	(175,223)	108,303
Fund balance at beginning of year	1,847,240	1,847,240	1,847,240	-
Fund balance at end of year	\$ 1,860,990	\$ 1,563,714	\$ 1,672,017	\$ 108,303

The accompanying notes are an integral part of this statement.

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, 2017**

Agency Head Name: Donald Stinson

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 0
Benefits	0
Per Diem	1,000
Travel	0
Other	0
	<u>\$ 1,000</u>



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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, 2017, 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 June 11, 2018.

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 17-01(IC) and 17-02(IC).

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
June 11, 2018

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, 2017

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 (12/31/17)						
Internal Control:						
17- 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
17- 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:		There were no matter involving compliance to be reported.				
Prior year (12/31/16)						
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 January 1, 2017 through December 31, 2017. 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 the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - 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**, including receiving, recording, and preparing deposits

- 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, and (5) monitoring card usage
- 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. Note: Ethics requirements are not applicable to nonprofits.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Obtained written policies and procedures from management.

Exception: The policies and procedures received from management only addressed Payroll/Personnel. The other sections were not addressed in the documentation received from management.

Management's response: Management will implement a set of formal written policies and procedures that will cover all sections not covered from above.

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

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

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

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

- If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

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

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

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

Bank Reconciliations

- 3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

We obtained a list of bank accounts from our bank confirmations and management's representation that the list was complete.

- 4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

- a) Bank reconciliations have been prepared;

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

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

Exception: In reviewing the bank reconciliations and bank statements for the selected accounts for the fiscal year, we found that there was no evidence that management had reviewed the bank reconciliations once they were completed.

Management's response: Management will prepare monthly bank reconciliations and once completed the reconciliations will be brought to the board for review and approval.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Exception: In reviewing the bank reconciliations, there was no evidence of management's research into items that have been outstanding for 6 months or more.

Management's response: Management will implement a process to begin researching items that are outstanding for 6 months or more.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

We obtained a listing of cash collection locations and management's representation that the list was complete.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* **For each cash collection location selected:**

- a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

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

2) **Exception: The person responsible for collecting cash is responsible for depositing the cash and reconciling the account.**

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.

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

- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

Exception: The entity does not have a formal process to reconcile cash collections to the general ledger.

Management’s response: Management will implement a set of formal written policies and procedures that will cover this procedure.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

<u>Location</u>	<u>Number of Receipts</u>	<u>Number of Days from Collection to Deposit</u>
Gravity Drainage District No. 2	1	2-7 days

Exception: The entity does not keep a complete record of daily cash collections. As a result of this we were not able to accurately determine the number of days between the day of collection and the day of deposit for the week selected.

Management’s response: Due to the low volume of receipts collected during the week at the noted collection site and limited number of employees, it is not economically feasible for employees to travel to the bank. Deposits not made within one day of collection will be kept in a locked deposit bag until taken to the bank.

- Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

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

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

Exception: There is no formal written procedure that determines the completeness of all collections.

Management's response: Management will implement a set of formal written policies and procedures that will cover this procedure.

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

We obtained a listing of disbursements and management's representation that the list was complete.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

We were unable to perform the above prescribed procedures for the 25 transactions because the entity does not utilize a requisition/purchase order system. However, we noted that invoices were present for all transactions, matched the associated payments and board approval was made for the payment of the invoice.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

Exception: The person responsible for processing payments does have access to adding vendors to the entity's purchasing/disbursement system.

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.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

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

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

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

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

The entity does not use a signature stamp or signature machine, therefore making this procedure not applicable.

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

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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 fuel cards and management's representation that the list was complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation 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.]]

Exception: On the month tested for each card, evidence was not available to support that the supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

Management's response: Management will bring monthly credit card statement and individual receipts to monthly board meetings for board member's review and approval.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

No finance charges and/or late fees were assessed on the selected statements.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:
- An original itemized receipt (i.e., identifies precisely what was purchased)

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

For all credit cards tested, there were original itemized receipts for all transactions, there was written evidence of the documentation of the business purpose of the transactions and per discussion with management there is nothing else required.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

Exception: We were not able to compare transaction details to the entity's written policies due to the lack of formal written policies for purchasing/disbursements, however, none of the transactions tested were subject to Louisiana Public Bid Law

Management's response: Management will implement a set of formal written policies and procedures that will cover this procedure.

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

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

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

There were no travel or expense reimbursements during the year under audit making this procedure not applicable.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

There were no travel or expense reimbursements during the year under audit making this procedure not applicable.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

There were no travel or expense reimbursements during the year under audit making this procedure not applicable.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

There were no travel or expense reimbursements during the year under audit making this procedure not applicable.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

We obtained a listing of all contracts in effect during the fiscal period and management's representation that the list is complete.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

Exception: Of the five vendors selected, only one vendor had a formal written contract.

Management's response: Management will implement procedures that will require the acquisition of a formal written contract for all services arrangements entered into by the entity.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)

One of the five contracts selected was subject to Louisiana Public Bid Law or Procurement Code and complied with all legal requirements.

- If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

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

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

None of the contracts selected were amended during the current fiscal period.

- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

Payments made on each contract were made within the terms and conditions of the contract and or invoice.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

All contracts entered into by the District are approved by the board in the board minutes.

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

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

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

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

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

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

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether 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.)

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

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

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

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

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

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

The District does not pay any termination payments per policy making this procedure not applicable.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

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

Ethics (excluding nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

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

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Management has asserted that they have not received any allegations of ethics violations during the fiscal period.

Debt Service (excluding nonprofits)

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

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

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

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

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

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

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation 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.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.lla.la.gov/hotline) concerns 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.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

There were no exceptions noted as a result of applying these procedures.

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
June 11, 2018