

**SEVENTH WARD GRAVITY
DRAINAGE DISTRICT NO. 2**

Vermilion Parish, Louisiana

Financial Report

Year Ended December 31, 2018

TABLE OF CONTENTS

| | Page |
|--|-------|
| Independent Auditor's Report | 1-2 |
| BASIC FINANCIAL STATEMENTS | |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS) | |
| Statement of net position | 5 |
| Statement of activities | 6 |
| FUND FINANCIAL STATEMENTS (FFS) | |
| Balance sheet - governmental fund | 8 |
| Reconciliation of the governmental fund balance sheet to the statement of net position | 9 |
| Statement of revenues, expenditures, and changes in fund balance- governmental fund | 10 |
| Reconciliation of the statement of revenues, expenditures, and changes in fund balance of the governmental fund to the statement of activities | 11 |
| Notes to basic financial statements | 12-27 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary comparison schedule: | |
| General Fund | 29 |
| Schedule of employer's share of net pension liability | 30 |
| Schedule of employer contributions | 31 |
| Notes to required supplementary information | 32 |
| INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS | |
| 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 <i>Government Auditing Standards</i> | 34-35 |
| Schedule of current and prior year audit findings and management's corrective action plan | 36-38 |

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Seventh Ward Gravity Drainage District No. 2
Vermilion Parish, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Seventh Ward Gravity Drainage District No. 2, (the District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2018, 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 from 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 and the major fund of the District, as of December 31, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 29-32 be presented to supplement the basic financial statements. Such 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management 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 the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2019, 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 solely 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 effectiveness of the District's 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
June 27, 2019

BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS (GWFS)**

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana
Statement of Net Position
December 31, 2018

ASSETS

| | |
|------------------------------------|------------------|
| Cash and interest-bearing deposits | \$3,327,855 |
| Ad valorem taxes receivable | 480,415 |
| Interest receivable | 238 |
| Due from other governmental units | 12,392 |
| Capital assets, net | 222,907 |
| Net pension asset | <u>14,739</u> |
| Total assets | <u>4,058,546</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|---------------|
| Deferred outflows of resources - pension | <u>33,227</u> |
|--|---------------|

LIABILITIES

| | |
|-----------------------|--------------|
| Accounts payable | 2,219 |
| Capital lease payable | <u>4,839</u> |
| Total liabilities | <u>7,058</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|---|---------------|
| Deferred inflows of resources - pension | <u>45,321</u> |
|---|---------------|

NET POSITION

| | |
|----------------------------------|---------------------------|
| Net investment in capital assets | 218,068 |
| Unrestricted | <u>3,821,326</u> |
| Total net position | <u><u>\$4,039,394</u></u> |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Statement of Activities
For the Year Ended December 31, 2018

| | |
|----------------------------------|---------------------|
| Expenses: | |
| Public works | \$ 637,672 |
| General revenues: | |
| Ad valorem taxes | 482,480 |
| State revenue sharing | 12,256 |
| Interest income | 16,710 |
| Miscellaneous income | 8,338 |
| Gain on Sale of Asset | 2,000 |
| Nonemployer pension contribution | 1,476 |
| Total general revenues | <u>523,260</u> |
| Change in net position | (114,412) |
| Net position, beginning | <u>4,153,806</u> |
| Net position, ending | <u>\$ 4,039,394</u> |

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

FUND FINANCIAL STATEMENTS (FFS)

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Balance Sheet - Governmental Fund
December 31, 2018

ASSETS

| | |
|--------------------------------------|--------------------|
| Cash and interest bearing deposits | \$3,327,855 |
| Ad valorem taxes receivable | 480,415 |
| Interest receivable | 238 |
| Due from other governmental agencies | <u>12,392</u> |
| Total assets | <u>\$3,820,900</u> |

LIABILITIES AND FUND BALANCE

| | |
|------------------------------------|--------------------|
| Liabilities: | |
| Accounts payable | \$ 2,219 |
| Fund balance: | |
| Unassigned | <u>3,818,681</u> |
| Total liabilities and fund balance | <u>\$3,820,900</u> |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
December 31, 2018

| | | |
|---|-----------------|---------------------|
| Total fund balances for governmental funds | | \$ 3,818,681 |
| Capital assets, net | | 222,907 |
| Long-term liabilities: | | |
| Capital lease payable | | (4,839) |
| Pension: | | |
| Net pension liability/asset | \$ 14,739 | |
| Deferred outflows of resources | 33,227 | |
| Deferred inflows of resources | <u>(45,321)</u> | <u>2,645</u> |
| Total net position of governmental activities | | <u>\$ 4,039,394</u> |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Fund
For the Year Ended December 31, 2018

| | |
|--|---------------------|
| Revenues: | |
| Ad valorem taxes | \$ 482,480 |
| State revenue sharing | 12,256 |
| Interest income | 16,710 |
| Miscellaneous income | 10,338 |
| Total revenues | <u>521,784</u> |
| Expenditures: | |
| Current - | |
| Public works - drainage | 565,137 |
| Capital outlay | 71,273 |
| Debt service - | |
| Principal retirement | <u>9,676</u> |
| Total expenditures | <u>646,086</u> |
| Deficiency of revenues over expenditures | (124,302) |
| Fund balance, beginning | <u>3,942,983</u> |
| Fund balance, ending | <u>\$ 3,818,681</u> |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of the Governmental Fund
to the Statement of Activities
For the Year Ended December 31, 2018

| | | |
|--|-----------------|--------------------|
| Net changes in fund balance per Statement of Revenues, Expenditures, and Changes in Fund Balance | | \$(124,302) |
| Long-term debt: | | |
| Principal payments | | 9,676 |
| Capital assets: | | |
| Capital Outlay | \$ 71,273 | |
| Depreciation expense | <u>(69,405)</u> | 1,868 |
| The effect of recording net pension liability/asset, and the related deferred outflows of resources, and deferred inflows of resources: | | |
| Change in pension expense | (3,130) | |
| Nonemployer pension contribution revenue recognized | <u>1,476</u> | <u>(1,654)</u> |
| Changes in net position per Statement of Activities | | <u>\$(114,412)</u> |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the Seventh Ward Gravity Drainage District No. 2 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of these notes.

A. Financial Reporting Entity

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Oversight responsibility by the Police Jury is determined on the basis of the following criteria:

1. Appointment of governing board
2. Designation of management
3. Ability to significantly influence operations
4. Accountability for fiscal matters
5. Scope of public service

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

The District was created under the authority of Louisiana Revised Statutes 38:1751-1802 and was established for the purpose of opening and maintaining all natural drains in the District. As provided by Louisiana Revised Statute 38:1758, the Seventh Ward Gravity Drainage District No. 2 of Vermilion Parish is governed by five commissioners. These five commissioners are referred to as the Board of Commissioners and are appointed by the parish Police Jury.

B. Basis of Presentation

Government-Wide Financial Statements (GWFS)

The statement of net position and statement of activities display information about the reporting government as a whole. These statements include all the financial activities of the reporting entity. The District has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients for goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements (FFS)

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.

The District maintains only one fund. It is categorized as a governmental fund. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the entity or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The major fund of the District is described below:

Governmental Fund -

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

C. 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.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Measurement Focus

On the government-wide statement of net position and the statement of activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery) and financial position. All assets, deferred outflows or resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with its activities are reported. Government-wide fund equity is classified as net position.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate. The governmental fund utilizes a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on its balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. This fund uses fund balance as its measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statement of net position and statement of activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of state revenue sharing funds. For state revenue sharing funds the period is extended to 150 days after the fiscal period. Expenditures (including capital outlay) generally are recorded when a liability is incurred, as under accrual accounting.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Revenues

Ad valorem taxes are recorded in the year taxes are due and payable. Ad valorem taxes are assessed in November, by the Parish Assessor, based on the assessed value and become due on November 15 of each year. The taxes become delinquent on January 1. An enforceable lien attaches to the property as of January 1. The taxes are generally collected in December, January, and February of the fiscal year. Property tax revenues are accrued at fiscal year-end to the extent that they have been collected but not received by the Vermilion Parish Tax Collector's Office. Such amounts are measurable and available to finance current operations.

The District uses unrestricted resources only when restricted resources are fully depleted.

Interest income on interest-bearing deposits is recorded or accrued as revenues when earned. Substantially all other revenues are recorded when received.

Expenditures

The District's primary expenditures include salaries and insurance, which are recorded when the liability is incurred. Capital expenditures and purchases of various operating supplies are regarded as expenditures at the time purchased.

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

Cash and interest-bearing deposits

For purposes of the statement of net position, cash and interest-bearing deposits include all demand accounts and certificates of deposits of the District.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include ad valorem taxes and state revenue sharing.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. 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, however no formal capitalization policy is maintained.

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.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Depreciation of all exhaustible capital assets is recorded as an expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|----------------------|------------|
| Equipment | 5-15 years |
| Compensated Absences | |

Full time employees of the District with more than one year of service are allowed two weeks of vacation leave each year; full-time employees with one year of service or less are allowed one week of vacation leave each year. Vacation and sick leave does not accumulate from year to year. Sick leave is granted on an individual basis as the need occurs. Vacation and sick leave may not be accumulated and carried into future years. At December 31, 2018, there is no accumulated vacation or sick leave benefits that require accrual or disclosure to conform with generally accepted accounting principles.

Long-term debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of a capital lease.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

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 then.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Equity Classifications

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

- a. Net investment in capital assets – Consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those 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.
- 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.

The District has no restricted net position.

In the fund statements, governmental fund equity is classified as fund balance as follows.

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the District board members. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by Board members.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only Board members may assign amounts for specific purposes.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Board members have provided otherwise in its commitment or assignment actions.

E. Expenditures, and Expenses

In the government-wide financial statements, expenses are classified by character and function. In the fund financial statements, expenditures are classified by character.

F. Use of Estimates

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

G. Pensions

The net pension liability/asset, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, (described in more detail in Note 6), has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. Non-employer contributions are recognized as revenues in the government-wide financial statements. In the governmental fund financial statements contributions are recognized as expenditures when due.

(2) Cash and Interest-Bearing Deposits

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 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 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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

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 secured as follows:

| | |
|--|---------------------|
| Bank balances | <u>\$ 3,345,845</u> |
| Deposits are secured as follows: | |
| Federal deposit insurance | 250,000 |
| Uninsured and collateral held by the pledging bank, not in the District's name | <u>3,095,845</u> |
| Total | <u>\$ 3,345,845</u> |

(3) Capital Assets

A summary of changes in capital assets follows:

| | Balance Beginning | Additions | Deletions | Balance Ending |
|-----------------------------------|----------------------|-----------------|---------------|-------------------|
| Capital assets being depreciated: | | | | |
| Equipment | \$ 748,925 | \$ 71,273 | \$ (19,481) | \$ 800,717 |
| Less accumulated depreciation: | | | | |
| Equipment | <u>(527,886)</u> | <u>(69,405)</u> | <u>19,481</u> | <u>(577,810)</u> |
| Net capital assets | <u>\$ 221,039</u> | <u>\$ 1,868</u> | <u>\$ -</u> | <u>\$ 222,907</u> |

Depreciation expense of \$69,405 was charged to the public works function.

(4) Compensation, Benefits, and Other Payments to Supervisor

A detail of compensation, benefits, and other payments paid to President Donald Sagrera is as follows:

| Purpose | Amount |
|---------|----------|
| Salary | \$ 1,650 |

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

(5) Compensation Paid Board of Commissioners

A summary of compensation paid to the board of commissioners is as follows:

| | |
|-------------------|-----------------|
| Scott Griffin | \$ 1,650 |
| Allen McLain | 1,350 |
| Eddie Lege | 1,800 |
| Thomas Harry Lege | <u>1,650</u> |
| Total | <u>\$ 6,450</u> |

(6) Pension Plan

The employer pension schedules for the Parochial Employees' Retirement System of Louisiana are prepared using the accrual basis of accounting. Members' earnable compensation, for which the employer allocations are based, is recognized in the period which the employee is compensated for services performed. For purposes of measuring the net pension liability/asset, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Substantially all of the District's employees are covered under the Parochial Employees' Retirement System of Louisiana. Details concerning the plan are:

Plan Description: The Parochial Employees' Retirement System of Louisiana (the System) is a cost-sharing, multiple-employer defined benefit pension plan established by Act 205 of the 1952 regular session of the Legislature of the State of Louisiana to provide retirement benefits to all employees of any parish in the State of Louisiana or any governing body or a parish which employs and pays persons serving the parish.

Act 765 of the year 1979, established by the Legislature of the State of Louisiana, revised the System to create Plan A and Plan B to replace the "regular plan" and the "supplemental plan." Plan A was designated for employers out of Social Security. Plan B was designated for those employers that remained in Social Security on the revision date. Employees of the District are members of Plan A.

The Parochial Employees' Retirement System of Louisiana has issued a stand-alone report on their financial statements. Access to the report can be found on the Louisiana Legislative Auditor's website, www.lila.la.gov.

Eligibility Requirements: All permanent parish government employees (except those employed by Orleans, Lafourche and East Baton Rouge Parishes) who work at least 28 hours a week shall become members on the date of employment. New employees meeting the age and Social Security criteria have up to 90 days from the date of hire to elect to participate.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

As of January 1997, elected officials, except coroners, justices of the peace, and parish presidents may no longer join the System.

Retirement Benefits: Any member of Plan A can retire providing he/she meets one of the following criteria:

For employees hired prior to January 1, 2007:

1. Any age with thirty (30) or more years of creditable service.
2. Age 55 with twenty-five (25) years of creditable service.
3. Age 60 with a minimum of ten (10) years of creditable service.
4. Age 65 with a minimum of seven (7) years of creditable service.

For employees hired after January 1, 2007:

1. Age 55 with 30 years of service.
2. Age 62 with 10 years of service.
3. Age 67 with 7 years of service.

Generally, the monthly amount of the retirement allowance of any member of Plan A shall consist of an amount equal to three percent of the member's final average compensation multiplied by his/her years of creditable service. However, under certain conditions, as outlined in the statutes, the benefits are limited to specified amounts.

Survivor Benefits: Upon the death of any member of Plan A with five (5) or more years of creditable service who is not eligible for retirement, the plan provides for benefits for the surviving spouse and minor children, as outlined in the statutes.

Any member of Plan A, who is eligible for normal retirement at time of death, the surviving spouse shall receive an automatic Option 2 benefit, as outlined in the statutes.

A surviving spouse who is not eligible for Social Security survivorship or retirement benefits, and married not less than twelve (12) months immediately preceding death of the member, shall be paid an Option 2 benefit beginning at age 50.

Deferred Retirement Option Plan: Act 338 of 1990 established the Deferred Retirement Option Plan (DROP) for the Retirement System. DROP is an option for that member who is eligible for normal retirement.

In lieu of terminating employment and accepting a service retirement, any member of Plan A or B who is eligible to retire may elect to participate in the Deferred Retirement Option Plan (DROP) in which they are enrolled for three years and defer the receipt of benefits. During participation in the plan, employer contributions are payable, but employee contributions cease. The monthly retirement benefits that would be payable, had the person elected to cease employment and receive a service retirement allowance, are paid into the DROP Fund.

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the DROP may receive, at his option, a lump sum from the account

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

equal to the payments into the account, a true annuity based upon his account balance in that fund, or roll over the fund to an Individual Retirement Account.

Interest is accrued on the DROP benefits for the period between the end of DROP participation and the member's retirement date.

For individuals who become eligible to participate in the Deferred Retirement Option Plan on or after January 1, 2004, all amounts which remain credited to the individual's subaccount after termination in DROP will be placed in liquid asset money market investments at the discretion of the Board of Trustees. These subaccounts may be credited with interest based on money market rates of return or, at the option of the System, the funds may be credited to self-directed subaccounts. The participant in the self-directed portion of DROP must agree that the benefits payable to the participant are not the obligations of the state or the System, and that any returns and other rights of DROP are the sole liability and responsibility of the participant and the designated provider to which contributions have been made.

Disability Benefits: For Plan A, a member shall be eligible to retire and receive a disability benefit if they were hired prior to January 1, 2007, and has at least five years of creditable service or if hired after January 1, 2007, has seven years of creditable service, and is not eligible for normal retirement and has been officially certified as disabled by the State Medical Disability Board. Upon retirement caused by disability, a member of Plan A shall be paid a disability benefit equal to the lesser of an amount equal to three percent of the member's final average compensation multiplied by his years of service, not to be less than fifteen, or three percent multiplied by years of service assuming continued service to age sixty.

Cost of Living Increases: The Board is authorized to provide a cost of living allowance for those retirees who retired prior to July 1973. The adjustment cannot exceed 2% of the retiree's original benefit for each full calendar year since retirement and may only be granted if sufficient funds are available from investment income in excess of normal requirements.

In addition, the Board may provide an additional cost of living increase to all retirees and beneficiaries who are over age sixty-five equal to 2% of the member's benefit paid on October 1, 1977, (or the member's retirement date, if later). Also, the Board may provide a cost of living increase up to 2.5% for retirees 62 and older. (RS 11:1937). Lastly, Act 270 of 2009 provided for further reduced actuarial payments to provide an annual 2.5% cost of living adjustment commencing at age 55.

Employer Contributions: According to state statute, contributions for all employers are actuarially determined each year. For the year ended December 31, 2017, the actuarially determined contribution rate was 9.35% of member's compensation for Plan A. However, the actual rate for the fiscal year ending December 31, 2017 was 12.5% for Plan A.

According to state statute, the System also receives $\frac{1}{4}$ of 1% of ad valorem taxes collected within the respective parishes, except for Orleans and East Baton Rouge parishes. The System also receives revenue sharing funds each year as appropriated by the Legislature. Tax monies and revenue sharing monies are apportioned between Plan A and Plan B in proportion to the member's compensation. These additional sources of income are used as additional employer contributions and

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

are considered support from non-employer contributing entities. The District recognized \$1,476 of non-employer contributions.

Pension Liabilities/Assets, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At December 31, 2018, the District reported an asset of \$14,739 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The District's proportion of the net pension asset was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the District's proportion was .019857%, which was a decrease of .000521% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the District recognized pension expense of \$17,841.

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between expected and actual experiences | \$ - | \$ 9,451 |
| Changes of assumptions | 18,508 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 34,051 |
| Change in proportion and differences between employer contributions and proportionate share of contributions | | 1,819 |
| Employer contributions subsequent to the measurement date | <u>14,719</u> | <u>-</u> |
| Total | <u>\$ 33,227</u> | <u>\$ 45,321</u> |

Deferred outflows of resources of \$14,719 related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as an adjustment of the Net Pension Asset in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

| Fiscal Year Ended | | |
|-------------------------|--|-------------|
| 12/31/2019 | | \$ 1,560 |
| 12/31/2020 | | (2,848) |
| 12/31/2021 | | (12,028) |
| 12/31/2022 | | (13,497) |
| Total | | \$ (26,813) |

Actuarial Methods and Assumptions: The net pension liability was measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position.

A summary of the actuarial methods and assumptions used in determining the total pension liability as of December 31, 2017, are as follows:

| | |
|----------------------------------|---|
| Valuation Date | December 31, 2017 |
| Actuarial Cost Method Plan A | Entry Age Normal |
| Investment Rate of Return | 6.75% (Net of investment expense) |
| Expected Remaining Service Lives | 4 years |
| Projected Salary Increases | 5.25% (2.75% Merit/2.50% Inflation) |
| Cost of Living Adjustment | The present value of future retirement benefits is based on benefits currently being paid by the System and includes previously granted cost of living increases. The present values do not include provisions for potential future increase not yet authorized by the Board of Trustees. |
| Mortality | RP-2000 Employee Sex Distinct Table was selected for employees. RP-2000 Healthy Annuitant Sex Distinct tables were selected for annuitants and beneficiaries. RP-2000 Disabled Lives Mortality Table was selected for disabled annuitants. |

The discount rate used to measure the total pension liability was 6.75% for Plan A, which was a .25% decrease from the discount rate used as of December 31, 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers and non-employer contributing entities will be made at the actuarially determined contribution rates, which are calculated in accordance with relevant statutes and approved by the Board of Trustees and the Public Retirement Systems' Actuarial Committee. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

The investment rate of return was 6.75% for Plan A, which was a .25% decrease from the rate used as of December 31, 2016. The long-term expected rate of return on pension plan investments was determined using a triangulation method which integrated the CAPM pricing model (top-down), a treasury yield curve approach (bottom-up) and an equity building-block model (bottom-up). Risk return and correlations are projected on a forward looking basis in equilibrium, in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.00% and an adjustment for the effect of rebalancing/diversification.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2017 are summarized in the following table:

| Asset Class | Target Asset Allocation | Long-term Expected Portfolio Real Rate of Return |
|------------------------------------|-------------------------------|---|
| Fixed income | 35% | 1.24% |
| Equity | 52% | 3.57% |
| Alternatives | 11% | 0.69% |
| Real assets | 2% | 0.12% |
| Totals | 100% | 5.62% |
| Inflation | | 2.00% |
| Expected Arithmetic Nominal Return | | 7.62% |

The mortality rate assumption used was set based upon an experience study performed on plan data for the period January 1, 2010 through December 31, 2014. The data was then assigned credibility weighting and combined with a standard table to produce current levels of mortality. This mortality was then projected forward to a period equivalent to the estimated duration of the System's liabilities. The RP-2000 Healthy Annuitant Mortality Sex Distinct Tables (set forward two years for males and set forward one year for females) projected to 2031 using Scale AA was selected for annuitants and beneficiaries. For disabled annuitants, the RP-2000 Disabled Lives Mortality Table, set back 5 years for males and 3 years for females was selected. For active employees, the RP-2000 Employee Sex Distinct Tables set back 4 years for males and 3 years for females was used.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

Sensitivity to Changes in Discount Rate: The following presents the net pension liability of the participating employers calculated using the discount rate of 6.75%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is one percentage point lower 5.75% or one percentage point higher 7.75% than the current rate.

| | 1.0% Decrease 5.75% | Current Discount Rate 6.75% | 1.0% Increase 7.75% |
|-------------------------------|------------------------|-----------------------------------|------------------------|
| Net Pension Liability (Asset) | \$ 72,668 | \$ (14,739) | \$ (92,568) |

(7) Litigation

There was no litigation pending against the District.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in the insurance coverage during the year.

(9) Lease

A. Operating Lease

The District leases a one-acre parcel of land in Vermilion Parish, Louisiana, under an operating lease which expires on 1/1/2019 and is to be paid in annual payments of \$1,500. The District leased a John Deere excavator under an operating lease which expired on 5/31/2018 with a monthly payment of \$2,646. The District leases a John Deere excavator under an operating lease which expires on 4/4/2023 with a monthly payment of \$3,494. Total expenditures for these leases totaled \$40,885.

The future minimum lease payment was as follows:

| Year Ended | Amount |
|------------|------------|
| 2019 | \$ 41,928 |
| 2020 | 41,928 |
| 2021 | 41,928 |
| 2022 | 41,928 |
| 2023 | 10,482 |
| Total | \$ 178,194 |

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Financial Statements

B. Capital Lease

The District leases a John Deere tractor under a 36-month capital lease which expires on July 27, 2019 and is to be paid in 36 monthly payments of \$806. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The future minimum lease obligation was as follows:

| <u>Year Ended</u> | <u>Amount</u> |
|-------------------------------------|-----------------|
| 2019 | <u>4,836</u> |
| Total Minimum Future Lease Payments | <u>\$ 4,836</u> |

The equipment is included in capital assets with a cost of \$29,029 and accumulated depreciation of \$13,708. Depreciation expense of \$9,676 was recorded for this asset.

**REQUIRED
SUPPLEMENTARY INFORMATION**

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana
General Fund

Budgetary Comparison Schedule
For the Year Ended December 31, 2018

| | Budget | | Actual | Variance - Favorable (Unfavorable) |
|--|--------------------|--------------------|---------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes - ad valorem | \$ 526,713 | \$ 399,827 | \$ 482,480 | \$ 82,653 |
| State revenue sharing | 18,500 | 12,256 | 12,256 | - |
| Interest Income | - | - | 16,710 | 16,710 |
| Miscellaneous income | - | 10,338 | 10,338 | - |
| Total revenues | <u>545,213</u> | <u>422,421</u> | <u>521,784</u> | <u>99,363</u> |
| Expenditures: | | | | |
| Current - | | | | |
| Public works - drainage | 605,863 | 567,701 | 565,137 | 2,564 |
| Capital outlay | 100,000 | 71,273 | 71,273 | - |
| Debt service - | | | | |
| Principal retirement | - | - | 9,676 | (9,676) |
| Total expenditures | <u>705,863</u> | <u>638,974</u> | <u>646,086</u> | <u>(7,112)</u> |
| Excess (deficiency) of revenues over expenditures | (160,650) | (216,553) | (124,302) | 92,251 |
| Fund balance, beginning | <u>3,942,983</u> | <u>3,942,983</u> | <u>3,942,983</u> | <u>-</u> |
| Fund balance, ending | <u>\$3,782,333</u> | <u>\$3,726,430</u> | <u>\$ 3,818,681</u> | <u>\$ 92,251</u> |

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Schedule of Employer's Share of Net Pension Liability/Asset
Parochial Employees' Retirement System
For the Year Ended December 31, 2018

| * Year ended December 31, | Employer Proportion of the Net Pension Liability (Asset) | Employer Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Employee Payroll | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|------------------------------------|---|--|--|---|---|
| 2015 | 0.0254% | \$ 6,949 | \$ 143,826 | 4.83% | 99.15% |
| 2016 | 0.0259% | \$ 68,234 | \$ 148,627 | 45.91% | 92.23% |
| 2017 | 0.0251% | \$ 51,626 | \$ 148,659 | 34.73% | 94.15% |
| 2018 | 0.0199% | \$ (14,739) | \$ 122,226 | 12.06% | 101.98% |

* The amounts presented have a measurement date of the previous fiscal year end.

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Schedule of Employer Contributions
Parochial Employees' Retirement System
For the Year Ended December 31, 2018

| Year ended December 31, | Contractually Required Contribution | Contributions in Relation to Contractual Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|----------------------------|---|--|--|--|--|
| 2015 | \$ 21,551 | \$ 21,551 | - | \$ 148,627 | 14.5% |
| 2016 | \$ 19,326 | \$ 19,326 | - | \$ 148,659 | 13.0% |
| 2017 | \$ 15,278 | \$ 15,278 | - | \$ 122,226 | 12.5% |
| 2018 | \$ 14,719 | \$ 14,719 | - | \$ 127,993 | 11.5% |

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

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Secretary/Treasurer prepares a proposed budget and presents it to the Board of Commissioners prior to fifteen days before the beginning of each fiscal year.
2. Any changes in the proposed annual operating budget require a majority vote of the Board of Commissioners.
3. No later than the last regular meeting of the fiscal year, the Board of Commissioners adopts the annual operating budget for the ensuing fiscal year.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at year-end.

At December 31, 2018, the General Fund reported expenditures over appropriations.

(2) Pension Plan

Changes of Benefit Terms –

There were no changes of benefit terms

Changes of assumptions –

| * Year ended December 31, | Discount Rate | Investment Rate of Return | Inflation Rate | Expected Remaining Service Lives | Projected Salary Increase |
|---------------------------------|------------------|---------------------------------|-------------------|--|---------------------------------|
| 2015 | 7.25% | 7.25% | 3.00% | 4 | 5.75% |
| 2016 | 7.00% | 7.00% | 2.50% | 4 | 5.25% |
| 2017 | 7.00% | 7.00% | 2.50% | 4 | 5.25% |
| 2018 | 6.75% | 6.75% | 2.50% | 4 | 5.25% |

* The amounts presented have a measurement date of the previous fiscal year end.

**INTERNAL CONTROL,
COMPLIANCE
AND
OTHER MATTERS**

KOLDER, SLAVEN & COMPANY, LLC

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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*

To the Board of Commissioners
Seventh Ward Gravity Drainage District No. 2
Vermilion Parish, 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 governmental activities and the major fund of Seventh Ward Gravity Drainage District No. 2, (the District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 27, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not identified. However, as described in the accompanying schedule of current and prior year audit findings and management's corrective action plan we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as item 2018-002 to be a significant deficiency.

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*.

Seventh Ward Gravity Drainage District No. 2's Response to Findings

The District's response 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

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 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
June 27, 2019

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended December 31, 2018

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

A. Internal Control Over Financial Reporting

2018-001 Inadequate Segregation of Accounting Functions

CONDITION: The Seventh Ward Gravity Drainage District No. 2 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 evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2018

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board of Commissioners determined that it is not cost effective to achieve complete segregation of duties within the accounting department. No plan is considered necessary.

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

CONDITION: The Seventh Ward 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 the related notes.

CRITERIA: AU-C §265.A37 identifies the following as a deficiency in the design of (internal) controls:

“... in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.”

CAUSE: The cause of the condition is the result of a failure to design or implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Financial statements and related supporting transactions may reflect a material 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.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board of Commissioners has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District 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.

B. Compliance

There were no compliance findings.

SEVENTH WARD GRAVITY DRAINAGE DISTRICT NO. 2
Vermilion Parish, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2018

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2017-001 Inadequate Segregation of Accounting Functions

CONDITION: The Seventh Ward Gravity Drainage District No. 2 did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Based upon the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

CURRENT STATUS: Unresolved. See item 2017-001.

2017-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The Seventh Ward Gravity Drainage District No. 2 does not have adequate internal controls over recording the entity's financial transactions or preparing its financial statements, including the related notes in accordance with generally accepted accounting principles (GAAP).

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 2017-002.

B. Compliance

There were no compliance findings.

**SEVENTH WARD GRAVITY
DRAINAGE DISTRICT NO. 2**
Vermilion Parish, Louisiana

Agreed-Upon Procedures Report

Year Ended December 31, 2018

KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Commissioners of
Seventh Ward Gravity Drainage District No. 2,
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Seventh Ward Gravity Drainage District (the Entity) 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, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

Written Policies and Procedures

1. We obtained and inspected the entity's written policies and procedures and observed that they address each of the following categories and subcategories:
 - 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.

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. We obtained a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. We asked management to identify the entity's main operating account. We selected the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). We randomly selected one month from the fiscal period, we obtained and inspected the corresponding bank statement and reconciliation for selected each account, and observed that:
 - a) Bank reconciliations included evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - b) Bank reconciliations included 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

4. We obtained 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 selected 5 deposit sites (or all deposit sites if less than 5).
5. For each deposit site selected, we obtained a listing of collection locations and management's representation that the listing is complete. We randomly selected one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), we obtained and inspected 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 we observed 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. We inquired of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
7. We randomly selected two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (selected the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly selected a deposit if multiple deposits are made on the same day). Alternately, we used 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. We obtained supporting documentation for each of the 10 deposits and:

- a) Observed that receipts are sequentially pre-numbered.
- b) Traced sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
- c) Traced the deposit slip total to the actual deposit per the bank statement.
- d) Observed 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) Traced 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. We obtained a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly selected 5 locations (or all locations if less than 5).
9. For each location selected under #8 above, we obtained a listing of those employees involved with non-payroll purchasing and payment functions. We obtained written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquired of employees about their job duties), and we observed 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.
10. For each location selected under #8 above, we obtained the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and we obtained management's representation that the population is complete. We randomly selected 5 disbursements for each location, obtained supporting documentation for each transaction and:
 - a) Observed that the disbursement matched the related original invoice/billing statement.
 - b) Observed 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. We obtained 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. We obtained management's representation that the listing is complete.
12. Using the listing prepared by management, we randomly selected 5 cards (or all cards if less than 5) that were used during the fiscal period. We randomly selected one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtained supporting documentation, and:
 - a) Observed that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder.
 - b) Observed 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, we randomly selected 10 transactions (or all transactions if less than 10) from each statement, and we obtained supporting documentation for the transactions. For each transaction, we observed 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).

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

14. We obtained 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. We randomly selected 5 reimbursements, obtained 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, agreed 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, observed that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - c) Observed that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observed that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
 - d) Observed 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 we obtained ethics documentation from management, and:
 - a. Observed that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observed 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: Credit/Debit/Fuel Cards, Travel and Travel-Related Expense Reimbursement, Contracts, Debt Service, and Other

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

Written Policies and Procedures:

The Entity’s written policies and procedures do not address how vendor are added to the vendor list or to the purchase orders.

The Entity’s written policies do not address receiving, recording, and preparing deposits for receipts.

The Entity’s written policies do not address payroll processing.

The Entity’s written policies do not address that all employees, including elected officials, annually attest through signature that they have read the entity’s ethics policy.

The Entity's written policies do not address EMMA reporting requirements for debt service.

Board or Finance Committee:

The Entity's minutes did not reference monthly budget-to-actual comparisons for 9 out of 12 months.

Bank Reconciliations:

The Entity's bank reconciliations did not include evidence that a member of management or a board member has reviewed the reconciliations.

Cash Collections:

The Entity's person responsible for collecting payments is also responsible for preparing/making bank deposits, posting collection entries to general ledger or subsidiary ledgers, and reconciling cash collections to the general ledger and/or subsidiary ledger.

The Entity does not issue receipts; therefore, we were unable to trace receipts to deposit slips or verify receipts are sequentially numbered.

The Entity did not document the cash collection date; therefore, we were unable to determine if deposits were made within one day of collection.

Payroll and Personnel:

Vacation and Sick time was not being tracked for any employees and there was no documentation of supervisor approval.

Management's Response:

Management of the Seventh Ward Gravity Drainage District 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
June 27, 2019