

**VERNON PARISH WATER AND
SEWER COMMISSION NO. 1**

New Llano, Louisiana

Financial Report

Year Ended May 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
BASIC FINANCIAL STATEMENTS	
Proprietary Fund Type - Enterprise Fund:	
Statement of net position	4
Statement of revenues, expenses and changes in net position	5
Statement of cash flows	6-7
Notes to basic financial statements	8-17
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>	19-20
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21-22
Schedule of expenditures of federal awards	23
Notes to schedule of expenditures of federal awards	24
Schedule of findings and questioned costs	25-26
Schedule of prior year findings and questioned costs	27

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Vernon Parish Water and Sewer Commission No. 1
New Llano, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission), a component unit of the Vernon Parish Police Jury, as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the Commission'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1, as of May 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vernon Parish Water and Sewer Commission No. 1's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility and was 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2020, on our consideration of the Vernon Parish Water and Sewer Commission No. 1'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 Commission'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 Commission's internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC

Certified Public Accountants

Oberlin, Louisiana
October 1, 2020

BASIC FINANCIAL STATEMENTS

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Statement of Net Position
May 31, 2020

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,910,667
Accounts receivable	110,319
Due from other governmental agencies	1,066,395
Inventory	24,984
Prepaid items	<u>10,300</u>
Total current assets	<u>3,122,665</u>
Noncurrent assets:	
Restricted assets -	
Cash and interest-bearing deposits	506,267
Capital assets, net	<u>3,012,117</u>
Total noncurrent assets	<u>3,518,384</u>
Total assets	<u>6,641,049</u>

LIABILITIES

Current liabilities (payable from current assets):	
Accounts payable	11,660
Accrued liabilities	1,343
Salaries payable	3,231
Contracts and retainage payable	258,641
Other liabilities	<u>14,498</u>
Total	<u>289,373</u>
Current liabilities (payable from restricted assets):	
Customer deposits	135,612
Accrued interest	10,331
Revenue bonds payable	<u>74,000</u>
Total	<u>219,943</u>
Total current liabilities	<u>509,316</u>
Noncurrent liabilities:	
Compensated absences payable	45,893
Revenue bonds payable	<u>2,469,000</u>
Total noncurrent liabilities	<u>2,514,893</u>
Total liabilities	<u>3,024,209</u>

NET POSITION

Net investment in capital assets	1,895,836
Unrestricted	<u>1,721,004</u>
Total net position	<u>\$ 3,616,840</u>

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended May 31, 2020

Operating revenues:	
Charges for services -	
Water sales	\$ 997,949
Penalty, service and connection fees	27,455
Other fees	<u>15,840</u>
Total operating revenues	<u>1,041,244</u>
Operating expenses:	
Salaries and related benefits	298,399
Depreciation	160,555
Utilities and telephone	75,212
Repairs and maintenance	55,802
Insurance	99,115
Office expense	40,378
Professional fees	29,667
Commissioner fees	3,540
Truck expense	12,164
Miscellaneous	<u>2,891</u>
Total operating expenses	<u>777,723</u>
Operating income	263,521
Nonoperating revenues (expense):	
Interest income	3,258
Gain on sale of assets	400
Interest expense	<u>(14,048)</u>
Total nonoperating revenues (expense)	<u>(10,390)</u>
Change in net position	253,131
Net position, beginning	<u>3,363,709</u>
Net position, ending	<u>\$ 3,616,840</u>

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Statement of Cash Flows
Year Ended May 31, 2020

Cash flows from operating activities:	
Receipts from customers	\$ 1,010,910
Payments to suppliers	(318,647)
Payments to employees and related costs	(297,664)
Other receipts	<u>15,840</u>
Net cash provided by operating activities	<u>410,439</u>
Cash flows from noncapital financing activities:	
Increase in meter deposits, net	<u>5,587</u>
Net cash provided by noncapital financing activities	<u>5,587</u>
Cash flows from capital and related financing activities:	
Net proceeds from bonds payable	1,301,991
Interest and fiscal charges paid on revenue bonds	(7,536)
Net acquisition of capital assets	<u>(1,452,163)</u>
Net cash used by capital and related financing activities	<u>(157,708)</u>
Cash flows from investing activities:	
Interest income	<u>3,258</u>
Net increase in cash and cash equivalents	261,576
Cash and cash equivalents, beginning	<u>2,155,358</u>
Cash and cash equivalents, ending	<u>\$2,416,934</u>

(continued)

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Statement of Cash Flows (Continued)
Year Ended May 31, 2020

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 263,521
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	160,555
(Increase) decrease in operating assets -	
Accounts receivable	(14,494)
Inventory	1,879
Increase (decrease) in operating liabilities -	
Accounts payable	(1,757)
Accrued liabilities	(503)
Salaries payable	1,238
Net cash provided by operating activities	<u>\$ 410,439</u>
Cash and cash equivalents reported on statement of net position as:	
Cash and cash equivalents, beginning of period -	
Cash and interest-bearing deposits - unrestricted	\$ 1,828,459
Cash and interest-bearing deposits - restricted	<u>326,899</u>
	<u>\$ 2,155,358</u>
Cash and cash equivalents, end of period -	
Cash and interest-bearing deposits - unrestricted	\$ 1,910,667
Cash and interest-bearing deposits - restricted	<u>506,267</u>
	<u>\$ 2,416,934</u>
Net increase	<u>\$ 261,576</u>

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

The financial statements of Vernon Parish Water and Sewer Commission No. 1 (the Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the Commission's accounting policies are described below.

A. Financial Reporting Entity

The Commission was created in 1984 under the provisions of Louisiana Revised Statutes 33:3811-3837 for the purpose of providing water service to the rural areas of Vernon Parish. The Commission is governed by a board comprised of five Commissioners. The initial Board was appointed by the Vernon Parish Police Jury upon creation of the Commission. All changes to the Board are made by recommendation of the current Board members.

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

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

B. Basis of Presentation

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

C. Fund Accounting

The accounts of the Commission 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 Commission maintains one fund as described below:

Proprietary Fund – Enterprise Fund

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

D. Measurement Focus/Basis of Accounting

The measurement focus determines the accounting and financial reporting treatment applied to a fund. 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. The statement of net position and statement of activities are presented using the economic resources measurement focus.

Measurement Focus

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

Basis of Accounting

The proprietary fund financial statements have been prepared in accordance with the accrual basis of accounting. Accordingly, revenues are recorded when earned, and expenses and related liabilities are recorded when incurred.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

E. 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, savings accounts, and certificates of deposits of the Commission. For the purposes of the statement of cash flows, cash and cash equivalents include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less when purchased.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts, if any. There was no allowance recorded at May 31, 2020 due to immateriality.

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

Inventory

Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. All inventories are accounted for as assets when purchased and recorded as expenditures when consumed.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond May 31, 2020, are recorded as prepaid items.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. Donated assets are recorded as capital assets at acquisition value at the date of donation. The Commission maintains a threshold level of \$1,000 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

The estimated useful lives are as follows:

Buildings	30 years
Land improvements	10 years
Equipment and Vehicles	5-15 years
Water distribution system	20 - 40 years

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Commission has no deferred outflows of resources at May 31, 2020.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The Commission has no deferred inflows of resources at May 31, 2020.

Compensated Absences

Sick leave is earned at the rate of one day for each month worked, with a limit of twelve days per year. Vacation leave is earned over a calendar year basis at a rate of one day for each month worked. Employees are allowed to carry over accumulated sick leave and up to 20 days of accumulated vacation leave each calendar year. Total accumulated vacation and sick leave time up to 60 days is payable at termination of employment.

Long-term Debt

All long-term debt to be repaid from business-type resources is reported as liabilities. The long-term debt consists of bonds payable.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

- b. Restricted net position consists of net position with constraints placed on the use either by external groups, such as creditors, grantors, and contributors, laws or regulations of other governments; or law through constitutional provisions or enabling legislation. It is the Commission's policy to use restricted net position prior to the use of unrestricted net position when both restricted and unrestricted new position are available for an expense which has been incurred.
- c. Unrestricted net position consists of all other assets, deferred outflows of resources, liabilities, and deferred inflows or resources that do not meet the definition of "restricted" or "net investment in capital assets."

It is the Commission's policy to use restricted amounts first when both restricted and unrestricted resources are available unless prohibited by legal or contractual provisions.

F. Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds generally are those that result from providing services and producing and delivering goods and/or services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise fund are charges to customers for sales and services. The Commission also recognizes as operating revenue the portion of new installation and tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Nonoperating revenues and expenses are all amounts not meeting the above definition.

G. Use of Estimates

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

(2) Cash and Interest-Bearing Deposits

Under state law, the Commission 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 Commission may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana. At May 31, 2020, the Commission had cash and interest-bearing deposits (book balances) totaling \$2,416,934.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered or the collateral securities that are in the possession of an outside party will not be recovered. These deposits are stated at cost, which approximates fair value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at May 31, 2020, are as follows:

Bank balances	<u>\$2,430,022</u>
Federal deposit insurance	\$ 500,000
Pledged securities	<u>1,930,022</u>
Total	<u>\$2,430,022</u>

Deposits in the amount of \$1,930,022 were exposed to custodial credit risk. These deposits are uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Commission's name. The Commission does not have a policy for custodial credit risk.

(3) Accounts Receivable

Accounts receivable at May 31, 2020 of \$110,319 consisted of the following:

Accounts	\$ 27,648
Unbilled water	<u>82,671</u>
Total	<u>\$ 110,319</u>

(4) Due from Other Governmental Agencies

Amounts due from other governmental agencies of \$1,066,395 includes amounts receivable from the Louisiana Department of Health, Drinking Water Revolving Loan Fund for the purchase of the Taxable Water Revenue Bonds, Series, Series 2019 which will be funded in installments as the Commission's Improvements Project progresses.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

(5) Restricted Assets

Restricted assets consisted of the following at May 31, 2020:

Revenue bond debt service account	\$ 188,985
Revenue bond reserve account	81,626
Revenue bond depreciation & contingency account	100,044
Customer deposits	<u>135,612</u>
Total restricted assets	<u>\$ 506,267</u>

(6) Capital Assets

Capital asset activity for the year ended May 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 34,649	\$ -	\$ -	\$ 34,649
Construction in process	479,551	1,416,667	-	1,896,218
Capital assets being depreciated:				
Buildings	104,336	-	-	104,336
Land improvements	22,982	-	-	22,982
Equipment and vehicles	384,600	16,402	-	401,002
Water distribution system	<u>3,926,009</u>	<u>6,922</u>	-	<u>3,932,931</u>
Total capital assets	<u>4,952,127</u>	<u>1,439,991</u>	<u>-</u>	<u>6,392,118</u>
Less accumulated depreciation for:				
Buildings	103,947	-	-	103,947
Land improvements	20,536	940	-	21,476
Equipment and vehicles	259,608	36,809	-	296,417
Water distribution system	<u>2,835,355</u>	<u>122,806</u>	-	<u>2,958,161</u>
Total accumulated depreciation	<u>3,219,446</u>	<u>160,555</u>	<u>-</u>	<u>3,380,001</u>
Capital assets, net	<u>\$ 1,732,681</u>	<u>\$ 1,279,436</u>	<u>\$ -</u>	<u>\$ 3,012,117</u>

Depreciation expense included in the financial statements for 2020 totaled \$160,555.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

(7) Change in Long-Term Debt

The following is a summary of debt transactions of the Commission for the year ended May 31, 2020:

Long-term debt payable at May 31, 2019	\$ 2,575,000
Long-term debt issued	-
Long-term debt retired	<u>(32,000)</u>
Long-term debt payable at May 31, 2020	\$ 2,543,000
Less portion of long-term debt due within one year	<u>(74,000)</u>
Portion of long-term debt due in more than one year	<u>\$ 2,469,000</u>

Long-term debt at May 31, 2020 is comprised of the following individual issue:

\$2,575,000 Taxable Water Revenue Bonds, Series 2019, due in annual installments of \$101,000 - \$160,000 through February 1, 2039; interest at 1.95%. The bonds were sold to the Louisiana Department of Health, Drinking Water Revolving Loan Fund. \$ 2,543,000

The annual requirements to amortize all debt outstanding at May 31, 2020 is as follows:

	Principal	Interest	Total
2021	\$ 74,000	\$ 37,380	\$ 111,380
2022	104,000	48,243	152,243
2023	106,000	46,215	152,215
2024	109,000	44,148	153,148
2025	112,000	42,023	154,023
2026 - 2030	600,000	176,378	776,378
2031 - 2035	678,000	114,894	792,894
2036 - 2040	<u>760,000</u>	<u>45,455</u>	<u>805,455</u>
Total	<u>\$ 2,543,000</u>	<u>\$ 554,736</u>	<u>\$ 3,097,736</u>

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

(8) Flow of Funds; Restrictions on Use – Utility Revenues

Under the terms of the bond indenture on the \$2,575,000 Taxable Water Revenue Bond, Series 2019, all income and revenue of every nature, earned or derived from operations of the Commission are pledged and dedicated to the retirement of said bonds are to be set aside into funds in the following order of priority and for the following express purposes:

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

Water Revenue Bond Debt Service Fund – An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purposes.

Water Revenue Bond Reserve Fund – The Commission is required to set aside twenty-five percent (25%) of the amount to be paid into the Debt Service Fund until \$81,591 has been accumulated.

Water Revenue Bond Depreciation and Contingencies Fund – Each month the Commission is required to set aside five percent (5%) of the net revenues for the preceding month until \$100,000 has been accumulated.

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

During the year ended May 31, 2020, all required balances were designated as restricted by the Commission; however, separate bank accounts were not established for these funds as required. .

(9) Compensation of Board Members

The following is a list of the commissioners and compensation paid for the year ended May 31, 2020:

<u>Commissioner</u>	<u>Compensation</u>
Susan Redmond	\$ 840
Carney Jean Midkiff	660
Gary R. Wilson	840
Sue Bailey	420
Mavis Odette	780
	<u>\$ 3,540</u>

VERNON PARISH WATER AND SEWER COMMISSION NO. 1
New Llano, Louisiana

Notes to Basic Financial Statements (Continued)

(10) Compensation, Benefits, and Other Payments to Commission Supervisor

A detail of compensation, benefits, and other payments paid to the Commission Supervisor, Milton Midkiff, for the year ended May 31, 2020, follows:

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 68,400
Benefits - insurance	858
Total	<u>\$ 69,258</u>

(11) Risk Management

The Commission is exposed to risks of loss in the areas of general liability, property hazards, and worker's compensation. All of these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year, nor have settlements exceeded coverage for the past three years.

(12) Pending Litigation

There was no pending litigation against the Commission at May 31, 2020.

**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*

The Board of Commissioners
Vernon Parish Water and Sewer Commission No. 1
New Llano, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission), a component unit of the Vernon Parish Police Jury, as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 1, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 the 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Commission's Response to Findings

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

Purpose of this Report

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

Kolder, Slaven & Company, LLC

Certified Public Accountants

Oberlin, Louisiana
October 1, 2020

KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Commissioners
Vernon Parish Water and Sewer Commission No. 1
New Llano, Louisiana

Report on Compliance for Each Major Federal Program

We have audited the Vernon Parish Water and Sewer Commission No. 1's (Commission) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended May 31, 2020. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on the Major Federal Program

In our opinion, the Vernon Parish Water and Sewer Commission No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2020.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

Oberlin, Louisiana
October 1, 2020

VERNON PARISH WATER AND SEWER COMMISSION NO. 1

Schedule of Expenditures of Federal Awards
Year Ended May 31, 2020

Federal Grantor / Pass-Through Grantor / Program Name	Federal CFDA Number	<u>Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Passed-through State of Louisiana Department of Health and Hospitals:		
Drinking Water State Revolving Fund Cluster - Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>\$ 1,416,667</u>
Total Federal Awards Expended		<u>\$ 1,416,667</u>

The accompanying notes are an integral part of this schedule.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1

Notes to Schedule of Expenditures of Federal Awards
Year Ended May 31, 2020

(1) Basis of Accounting

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Vernon Parish Water and Sewer Commission No. 1 under programs of the federal government for the year ended May 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Vernon Parish Water and Sewer Commission No. 1, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Vernon Parish Water and Sewer Commission No. 1.

(2) Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Vernon Parish Water and Sewer Commission No. 1 has not elected to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

(3) Outstanding Loan

At May 31, 2020 the Vernon Parish Water and Sewer Commission No. 1 had \$2,543,000 of outstanding taxable water revenue bonds issued under the Drinking Water Revolving Loan Fund Program and State Loan Fund. Expenditures paid from bond proceeds during the year included in federal expenditures totaled \$1,416,667.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1

Schedule of Findings and Questioned Costs
Year Ended May 31, 2020

Part I. Summary of Auditors' Results:

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Vernon Parish Water and Sewer Commission No. 1 were prepared in accordance with GAAP.
2. There were no significant deficiencies and one material weakness in internal control disclosed by the audit of the basic financial statements.
3. There were no instances of noncompliance material to the financial statements which would be required to be reported in accordance with *Government Auditing Standards*.
4. There were no significant deficiencies or material weaknesses in internal control over the major federal award program disclosed.
5. The auditor's report on compliance for the major federal award program expresses an unmodified opinion on all major federal programs.
6. The audit disclosed no findings required to be reported in accordance with the Uniform Guidance.
7. The major program was:
U.S. Environmental Protection Agency – CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds
8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
9. The Vernon Parish Water and Sewer Commission No. 1 did not qualify to be a low-risk auditee.

Part II. Findings which are required to be reported in accordance with generally accepted Governmental Auditing Standards:

A. Internal Control over Financial Reporting –

2020-001 Inadequate Segregation of Accounting Functions

Fiscal year finding initially occurred: Unknown

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

VERNON PARISH WATER AND SEWER COMMISSION NO. 1

Schedule of Findings and Questioned Costs (Continued)
Year Ended May 31, 2020

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 Commission does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

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

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

MANAGEMENT’S CORRECTIVE ACTION PLAN: The Commission has provided as much segregation as possible with the resources available.

B. Compliance –

There were no instances of material noncompliance noted during the audit.

Part III. Findings and questioned costs relating to Federal Programs:

There were no significant deficiencies or instances of material noncompliance noted during the audit.

VERNON PARISH WATER AND SEWER COMMISSION NO. 1

Schedule of Prior Year Findings and Questioned Costs
Year Ended May 31, 2020

Part I. Findings which are required to be reported in accordance with Government Auditing Standards

A. Internal Control over Financial Reporting

2019-001 Inadequate Segregation of Accounting Functions

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

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

CURRENT STATUS: Unresolved. See item 2020-001.

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

CONDITION: The Commission does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.

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

CURRENT STATUS: Resolved.

B. Compliance –

2019-003 Noncompliance with Bond Covenants

CONDITION: The Commission is not in fully compliance with its bond resolution requiring the establishment and funding of certain accounts for the Series 2019 Taxable Water Revenue Bonds. These bond covenants require that the Commission maintain the Debt Service Fund, Reserve Fund, and Depreciation and Contingency Fund as separate bank accounts and make required transfers on or before the 20th of each month.

RECOMMENDATION: Management should fully comply with all of the bond covenants set forth in the bond ordinance by establishing all restricted accounts and monitoring their balances to ensure continued compliance with the bond resolution.

CURRENT STATUS: Resolved.

Part III. Findings and questioned costs relating to Federal Programs:

There are no findings to be reported under this section.