

**SOUTHEAST WATERWORKS
DISTRICT NUMBER 2**

Abbeville, Louisiana

Financial Report

Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC

Certified Public Accountants

Abbeville, Louisiana
May 10, 2018

BASIC FINANCIAL STATEMENTS

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Net Position
December 31, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 607,683
Accounts receivables, net of allowance for uncollectibles	121,979
Other receivables	4
Accrued interest receivable	709
Prepaid expenses	<u>11,215</u>
Total current assets	<u>741,590</u>
Restricted assets:	
Revenue bond sinking account	30,387
Revenue bond reserve account	162,104
Revenue bond contingency account	22,509
Revenue bond short lived asset account	217,378
Revenue bond short lived asset investments	211,503
Customer deposits	<u>31,339</u>
Total restricted assets	<u>675,220</u>
Capital assets, net	<u>7,148,778</u>
Easements	<u>10,760</u>
Total assets	<u>8,576,348</u>

LIABILITIES

Current liabilities (payable from current assets):	
Accounts payable	24,623
Accrued liabilities	<u>5,925</u>
Total current liabilities (payable from current assets)	<u>30,548</u>
Current liabilities (payable from restricted assets):	
Customer deposits	27,100
Accrued interest on bonds	16,616
Current portion of long term debt	<u>98,949</u>
Total current liabilities (payable from restricted assets)	<u>142,665</u>
Total current liabilities	173,213
Noncurrent liabilities:	
Revenue bonds payable	<u>4,826,424</u>
Total liabilities	<u>4,999,637</u>

NET POSITION

Net investment in capital assets	2,223,405
Restricted for debt service	627,265
Unrestricted	<u>726,041</u>
Total net position	<u>\$ 3,576,711</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

Operating revenues:	
Charges for services -	
Water sales	\$ 883,645
Penalties	19,047
Reconnection fees	13,500
Meter fees	16,500
Miscellaneous income	<u>1,398</u>
Total operating revenues	<u>934,090</u>
Operating expenses:	
Salaries	164,134
Payroll taxes	13,991
Group and life insurance	26,793
Retirement	11,791
Insurance	24,134
Supplies	10,707
Telephone and utilities	39,263
Chemicals	73,351
Meter installation and reading	44,361
Depreciation	251,674
Professional fees	10,296
Maintenance and repairs	26,120
Automobile expense	6,392
Printing, postage and publications	11,006
Bank charges	2,600
Other	<u>23,735</u>
Total operating expenses	<u>740,348</u>
Operating income	<u>193,742</u>
Nonoperating revenues (expenses):	
Interest income	8,181
Gain (loss) on investments	12,763
Interest expense	<u>(190,803)</u>
Total nonoperating revenues (expenses)	<u>(169,859)</u>
Change in net position	23,883
Net position, beginning	<u>3,552,828</u>
Net position, ending	<u>\$ 3,576,711</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 928,373
Payments to suppliers	(259,703)
Payments to employees and related costs	(214,118)
Miscellaneous income	<u>1,398</u>
Net cash provided by operating activities	<u>455,950</u>
Cash flows from noncapital financing activities:	
Increase in meter deposits	<u>2,600</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(95,088)
Interest paid on long-term debt	(184,399)
Acquisition and construction of capital assets	<u>(32,641)</u>
Net cash used by capital and related financing activities	<u>(312,128)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	117,355
Interest income	<u>8,181</u>
Net cash provided by investing activities	<u>125,536</u>
Net change in cash and cash equivalents	271,958
Cash and cash equivalents, beginning of period	<u>799,442</u>
Cash and cash equivalents, end of period	<u>\$ 1,071,400</u>

(continued)

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2017

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

Operating income	\$ 193,742
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	251,674
(Increase) decrease in operating assets -	
Receivables, gross	(7,874)
Other receivables	3,555
Increase (decrease) in operating liabilities -	
Accounts payable	12,262
Accrued liabilities	<u>2,591</u>
Net cash provided by operating activities	<u>\$ 455,950</u>

Cash and cash equivalents, end of period -

Current	\$ 607,683
Restricted	
Revenue bond sinking account	30,387
Revenue bond reserve account	162,104
Revenue bond contingency account	22,509
Revenue bond short lived asset account	217,378
Customer deposits	<u>31,339</u>
	<u>\$1,071,400</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

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

B. Basis of Presentation

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

C. Fund Accounting

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

Proprietary Fund –

Enterprise Fund

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

D. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

Basis of Accounting

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

Cash and cash equivalents

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

Investments

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

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts. The allowance amount at December 31, 2017 is \$ 36,328.

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

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. They are reported at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the year was \$190,803, none of which was capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

Equity Classifications

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

- a. Net investment in capital assets – Consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the District’s bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

- 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.

F. Revenues and Expenses

Revenue Recognition

Water sales are recorded or accrued as revenues when earned. Substantially all other revenues are recorded when received.

Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Restricted or Unrestricted Resources

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

(2) Cash and Cash Equivalents

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or the District will not be able to recover the collateral securities that are in the possession of an outside party. These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the 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. The District does not have a policy for custodial credit risk. Deposit balances (bank balances) are as follows:

Bank balances	<u>\$ 957,863</u>
Deposits are secured as follows:	
Federal deposit insurance	408,561
Uninsured and collateral held by the pledging bank not in the District's name	<u>549,302</u>
Total	<u>\$ 957,863</u>

(3) Investments

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

The District has investments as follows:

Description	Reported Amount/ Market Value
Restricted Government Related	<u>\$211,503</u>

The District has adopted a conservative investment policy for other investments. This policy's objective is to generate risk-adjusted returns with investments in government agency bonds with an emphasis on a 6-10 year term area.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
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Notes to Basic Financial Statements

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

Description	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-5	6-10
Cash and cash equivalents-				
Money market (Rated AAAM)	\$ 117,355	\$ 117,355	\$ -	\$ -
Restricted				
Money market (Rated AAAM)	<u>832</u>	<u>832</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 118,187</u>	<u>\$ 118,187</u>	<u>\$ -</u>	<u>\$ -</u>
Investments-				
Restricted				
Government Related	<u>\$ 211,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,503</u>

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

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

	Rating	Percentage
Government related:		
New Jersey Economic Development Authority	AA	87.02%
New Jersey Economic Development Authority	AA	12.98%

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
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Notes to Basic Financial Statements

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements:

<u>Asset Class</u>	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents -				
Money market	\$117,355	\$ 117,355	\$ -	\$ -
Restricted				
Money market	<u>832</u>	<u>832</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 118,187</u>	<u>\$ 118,187</u>	<u>\$ -</u>	<u>\$ -</u>
Investments-				
Restricted				
Government Related	<u>\$211,503</u>	<u>\$ -</u>	<u>\$211,503</u>	<u>\$ -</u>

(4) Accounts Receivables

Accounts receivables consist of the following:

Accounts receivable	\$ 111,467
Unbilled water	<u>46,840</u>
	158,307
Less allowance for doubtful accounts	<u>(36,328)</u>
Total	<u>\$ 121,979</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The aging of the accounts receivable is as follows:

Current	\$ 65,190
31 - 60 days	7,301
61 - 90 days	850
Over 90 days	<u>38,126</u>
Total	<u>\$ 111,467</u>

(5) Restricted Assets

Restricted assets consisted of the following:

Revenue bond and interest sinking account	\$ 30,387
Revenue bond reserve account	285,890
Revenue bond contingency account	22,509
Revenue bond short lived asset account	305,095
Customer deposits	<u>31,339</u>
Total restricted assets	<u>\$ 675,220</u>

(6) Capital Assets

Capital asset activity was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 17,477	\$ -	\$ -	\$ 17,477
Capital assets being depreciated:				
Buildings	182,215	-	-	182,215
Equipment	69,687	3,012	-	72,699
Utility system improvements	<u>9,517,584</u>	<u>29,629</u>	-	<u>9,547,213</u>
Total capital assets	<u>9,786,963</u>	<u>32,641</u>	-	<u>9,819,604</u>
Less accumulated depreciation	<u>2,419,152</u>	<u>251,674</u>	-	<u>2,670,826</u>
Capital assets, net	<u>\$ 7,367,811</u>	<u>\$ (219,033)</u>	<u>\$ -</u>	<u>\$ 7,148,778</u>

Total depreciation expense for the year was \$251,674.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(7) Changes in Long-Term Debt

The following changes occurred in long-term debt:

	Beginning Balance	Additions	Retirements	Ending Balance
Revenue bonds	\$5,020,461	\$ -	\$ (95,088)	\$4,925,373

Long-term debt payable is composed of the following issues:

\$721,000 Water Revenue Bonds, Series 1995, issued May 12, 1995, due in monthly installments of \$3,309 over forty years through 2035; interest at 4.50 percent	\$ 477,433
\$73,000 Water Revenue Bonds, Series 1995, issued May 12, 1995, due in monthly installments of \$335 over forty years 2035; interest at 4.50 percent	48,260
\$325,000 Water Revenue Bonds, Series 1998, issued March 16, 1998, due in monthly installments of \$1,554 over forty years through 2038; interest at 4.875 percent	242,155
\$2,717,000 Water Revenue Bonds, Series 2007, issued July 20, 2007, due in monthly installments of \$11,900 over forty years through 2047; interest at 4.25 percent	2,401,356
\$231,000 Water Revenue Bonds, Series 2007 issued July 20, 2007, due in monthly installments of \$1,012 over forty years starting through 2047; interest at 4.25 percent	204,081
\$1,637,000 Water Revenue Bonds, Series 2013 issued August 14, 2013, due in monthly installments of \$5,714 over forty years through October 2053; interest at 2.75 percent	1,552,088
Total bonds	4,925,373
Less: current portion	(98,949)
Total long-term debt	\$ 4,826,424

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

	Principal	Interest	Total
2018	\$ 98,949	186,941	\$ 285,890
2019	102,933	182,961	285,894
2020	107,081	178,808	285,889
2021	111,406	174,485	285,891
2022	115,909	169,982	285,891
2023-2027	653,981	775,472	1,429,453
2028-2032	798,550	630,902	1,429,452
2033-2037	849,480	460,801	1,310,281
2038-2042	820,636	303,895	1,124,531
2043-2047	915,378	133,436	1,048,814
2047-2052	314,982	27,858	342,840
2053	36,088	352	36,440
 Total	 \$ 4,925,373	 \$ 3,225,893	 \$ 8,151,266

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

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

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

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

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

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

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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.

All required transfers were made for the year ended December 31, 2017.

(9) Retirement Commitments

All full-time employees participate in a SEP-IRA defined contribution plan after six months of service. The District contributes 7.5 percent of each participant's gross pay. All amounts are vested immediately and the plan does not allow employee contributions. Total contributions was \$11,791.

(10) Compensation of Board Members

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

<u>Commissioner</u>	<u>Term expiration date</u>	<u>Compensation</u>
Clint Dugas 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	April 17, 2020	\$ 975
James R Richard, 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 7, 2021	675
Kelly Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	January 14, 2018	825
Susan Wilhelm 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	August 18, 2018	825
Byron Perry 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	July 6, 2018	675
Shelby Bernard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 2, 2020	<u>825</u>
		<u>\$4,800</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(11) Risk Management

The District is exposed to risks of loss in the areas of general liability, property hazards and worker's compensation. All of these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year.

(12) Pending Litigation

There is no litigation pending against the District at December 31, 2017.

SUPPLEMENTARY INFORMATION

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Number of Utility Customers and Water Rates
December 31, 2017

Records maintained by the Southeast Waterworks District Number 2 indicated the following number of customers were being serviced during the month of December, 2017:

Residential	2,165
Commercial	<u>80</u>
	<u>2,245</u>

The water rates of the District are as follows:

Residential rates:

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

Commercial rates:

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

Penalty for paying water bill after due date:

Additional ten percent (10%) of total water charge

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Insurance in Force
December 31, 2017

Coverage Provided For	Limits of Coverage (in dollars)	Expiration Date
Workers Compensation	Statutory	07/01/18
Employee Fidelity Bond		10/03/20
Board President	\$ 310,000	
Vice-President	\$ 310,000	
Secretary	\$ 310,000	
Office Manager	\$ 310,000	
Plant Manager	\$ 310,000	
Office Secretary	\$ 310,000	
Automobile Liability (Each Accident)	\$1,000,000	05/26/18
General Premises Liability		05/26/18
Each Occurrence	\$1,000,000	
General Aggregate	\$3,000,000	
Blanket Building and Contents	\$1,379,683	05/26/18
Commercial Flood Coverage		05/26/18
Buildings	\$ 367,400	
Contents	\$ 500,000	

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Net Position
December 31, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	\$ 607,683	\$ 411,236
Investments	-	122,335
Accounts receivables, net of allowance for uncollectibles	121,979	114,105
Other receivables	4	3,559
Accrued interest receivable	709	709
Prepaid expenses	11,215	11,215
Total current assets	<u>741,590</u>	<u>663,159</u>
Restricted assets:		
Revenue bond sinking account	30,387	30,354
Revenue bond reserve account	162,104	148,835
Revenue bond contingency account	22,509	6,973
Revenue bond short lived asset account	217,378	173,445
Revenue bond short lived asset investment	211,503	193,760
Customer deposits	31,339	28,599
Total restricted assets	<u>675,220</u>	<u>581,966</u>
Capital assets, net	<u>7,148,778</u>	<u>7,367,811</u>
Easements	<u>10,760</u>	<u>10,760</u>
Total assets	<u>8,576,348</u>	<u>8,623,696</u>
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	24,623	12,361
Accrued liabilities	5,925	3,334
Total current liabilities (payable from current assets)	<u>30,548</u>	<u>15,695</u>
Current liabilities (payable from restricted assets):		
Customer deposits	27,100	24,500
Accrued interest on bonds	16,616	10,212
Current portion of long term debt	98,949	95,125
Total current liabilities (payable from restricted assets)	<u>142,665</u>	<u>129,837</u>
Total current liabilities	173,213	145,532
Noncurrent liabilities:		
Revenue bonds payable	4,826,424	4,925,336
Total liabilities	<u>4,999,637</u>	<u>5,070,868</u>
NET POSITION		
Net investment in capital assets	2,223,405	2,347,350
Restricted for debt service	627,265	543,155
Unrestricted	726,041	662,323
Total net position	<u>\$ 3,576,711</u>	<u>\$ 3,552,828</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Charges for services -		
Water sales	\$ 883,645	\$ 889,564
Penalties	19,047	16,388
Reconnection fees	13,500	13,500
Meter fees	16,500	15,500
Miscellaneous income	1,398	22,079
Total operating revenues	934,090	957,031
Operating expenses:		
Salaries	164,134	157,276
Payroll taxes	13,991	11,502
Group and life insurance	26,793	24,675
Retirement	11,791	11,429
Insurance	24,134	24,129
Supplies	10,707	39,301
Telephone and utilities	39,263	40,004
Chemicals	73,351	77,221
Meter installation and reading	44,361	28,226
Depreciation	251,674	251,083
Professional fees	10,296	17,333
Maintenance and repairs	26,120	53,560
Automobile expense	6,392	5,584
Printing, postage and publications	11,006	11,866
Bank charges	2,600	2,560
Bad debt expense	-	2,849
Other	23,735	20,405
Total operating expenses	740,348	779,003
Operating income	193,742	178,028
Nonoperating revenues (expenses):		
Interest income	8,181	8,815
Gain (loss) on investments	12,763	7,518
Interest expense	(190,803)	(194,332)
Total nonoperating revenues (expenses)	(169,859)	(177,999)
Change in net position	23,883	29
Net position, beginning	3,552,828	3,552,799
Net position, ending	\$ 3,576,711	\$ 3,552,828

INTERNAL CONTROL, COMPLIANCE

AND

OTHER MATTERS

KOLDER, SLAVEN & COMPANY, LLC

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

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 10, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as items 2017-001 and 2017-002, which we consider to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Finding

The District's responses to the findings identified in our audit is described in the accompanying schedule of current and prior year audit findings and management's corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
May 10, 2018

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended December 31, 2017

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

A. Internal Control Over Financial Reporting

2017-001 Inadequate Segregation of Accounting Functions

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

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

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

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

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

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

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

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2017

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

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

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 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 District 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 are no compliance findings to the report.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2017

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2016-001 Inadequate Segregation of Accounting Functions

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

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

CURRENT STATUS: Unresolved. See item 2017-001.

2016-002 Application of Generally Accepted Accounting Principles (GAAP)

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

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

CURRENT STATUS: Unresolved. See item 2017-002

B. Compliance

There were no compliance findings to the report.

SOUTHEAST WATERWORKS
DISTRICT NUMBER 2
Abbeville, Louisiana

Agreed-Upon Procedures Report

Year Ended December 31, 2017

KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by Southeast Waterworks District Number 2 (District) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The District's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

Written Policies and Procedures

1. We obtained the District's written policies and procedures and reported whether those written policies and procedures address each of the following financial/business functions (or reported that the District does not have any written policies and procedures), as applicable:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving.
 - d) **Receipts**, including receiving, recording, and preparing deposits.

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the District's ethics policy. Note: Ethics requirements are not applicable to nonprofits.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Board (or Finance Committee, if applicable)

- 2. We obtained and reviewed the board/committee minutes for the fiscal period, and:
 - a) Reported whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Reported whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the District's prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, reported whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, reported whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - c) Reported whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Bank Reconciliations

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

4. Using the listing provided by management, we selected all of the District's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, we obtained bank statements and reconciliations for all months in the fiscal period and reported whether:
 - a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Collections

5. We obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.
6. Using the listing provided by management, we selected all of the District's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). For each cash collection location selected:
 - a) We obtained existing written documentation (e.g. insurance policy, policy manual, job description) and reported whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) We obtained existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and reported whether the District has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
 - c) We selected the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using District collection documentation, deposit slips, and bank statements, we traced daily collections to the deposit date on the corresponding bank statement and reported whether the deposits were made within one day of collection. If deposits were not made within one day of collection, reported the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, we verified that daily cash collections are completely supported by documentation and report any exceptions.

7. We obtained existing written documentation (e.g. policy manual, written procedure) and reported whether the District has a process specifically defined (identified as such by the District) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

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

8. We obtained a listing of District disbursements from management or, alternately, obtained the general ledger and sorted/filtered for District disbursements. We obtained management's representation that the listing or general ledger population is complete.
9. Using the disbursement population from #8 above, we randomly selected 25 disbursements (or randomly selected disbursements constituting at least one-third of the dollar disbursement population if the District had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. We obtained supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and reported whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
 - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.
10. Using District documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the person responsible for processing payments is prohibited from adding vendors to the District's purchasing/disbursement system.
11. Using District documentation (e.g. electronic system control documentation, policy manual, written procedure), we reported whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.
12. We inquired of management and observed whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and reported any exceptions. Alternately, if the checks are electronically printed on blank check stock, we reviewed District documentation (electronic system control documentation) and reported whether the persons with signatory authority have system access to print checks.
13. If a signature stamp or signature machine is used, we inquired of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. We inquired of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. We reported any exceptions.

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

14. We obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. We obtained management's representation that the listing is complete.
15. Using the listing prepared by management, we randomly selected 10 cards (or at least one-third of the cards if the District has less than 10 cards) that were used during the fiscal period, rotating cards each year.

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

- a) We reported whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.
 - b) We reported whether finance charges and/or late fees were assessed on the selected statements.
16. Using the monthly statements or combined statements selected under #15 above, we obtained supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
 - a) For each transaction, we reported whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased)
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
 - b) For each transaction, we compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the District's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and reported any exceptions.
 - c) For each transaction, we compared the District's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed).

Travel and Expense Reimbursement

17. We obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, we obtained the general ledger and sorted/filtered for travel reimbursements. We obtained management's representation that the listing or general ledger is complete.
18. We obtained the District's written policies related to travel and expense reimbursements. We compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and reported any amounts that exceed GSA rates.
19. Using the listing or general ledger from #17 above, we selected the three persons who incurred the most travel costs during the fiscal period. We obtained the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
 - a) We compared expense documentation to written policies and reported whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the District does not have written policies, we compared to the GSA rates (#18 above) and reported each reimbursement that exceeded those rates.
 - b) We reported whether each expense is supported by:
 - An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
 - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).
 - c) We compared the District's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse).
 - d) We reported whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Contracts

20. We obtained a listing of all contracts in effect during the fiscal period or, alternately, we obtained the general ledger and sorted/filtered for contract payments. We obtained management's representation that the listing or general ledger is complete.

21. Using the listing above, we selected the five contract “vendors” that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). We obtained the related contracts and paid invoices and:
- a) We reported whether there is a formal/written contract that supports the services arrangement and the amount paid.
 - b) We compared each contract’s detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - If yes, we obtained/compared supporting contract documentation to legal requirements and reported whether the District complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).
 - If no, we obtained supporting contract documentation and reported whether the District solicited quotes as a best practice.
 - c) We reported whether the contract was amended. If so, we reported the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
 - d) We selected the largest payment from each of the five contracts, obtained the supporting invoice, compared the invoice to the contract terms, and reported whether the invoice and related payment complied with the terms and conditions of the contract.
 - e) We obtained/reviewed contract documentation and board minutes and reported whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Payroll and Personnel

22. We obtained a listing of employees (and elected officials, if applicable) with their related salaries, and obtained management’s representation that the listing is complete. Randomly select five employees/officials, obtained their personnel files, and:
- a) Reviewed compensation paid to each employee during the fiscal period and reported whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Reviewed changes made to hourly pay rates/salaries during the fiscal period and reported whether those changes were approved in writing and in accordance with written policy.
23. We obtained attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, we randomly selected 25 employees/officials (or randomly selected one-third of employees/officials if the District had less than 25 employees during the fiscal period), and:
- a) Reported whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).

- b) Reported whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
 - c) Reported whether there is written documentation that the District maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.
24. We obtained from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, we selected the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtained the personnel files for the two employees/officials. We reported whether the termination payments were made in strict accordance with policy and/or contract and approved by management.
25. We obtained supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. We reported whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Ethics (excluding nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, we obtained ethics compliance documentation from management and reported whether the District maintained documentation to demonstrate that required ethics training was completed.
27. We inquired of management whether any alleged ethics violations were reported to the District during the fiscal period. If applicable, we reviewed documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the District's ethics policy. We reported whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Debt Service (excluding nonprofits)

28. If debt was issued during the fiscal period, we obtained supporting documentation from the District, and reported whether State Bond Commission approval was obtained.
29. If the District had outstanding debt during the fiscal period, we obtained supporting documentation from the District and reported whether the District made scheduled debt service payments and maintained debt reserves, as required by debt covenants.
30. If the District had tax millages relating to debt service, we obtained supporting documentation and reported whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, we reported any millages that continue to be received for debt that has been paid off.

Other

31. We inquired of management whether the District had any misappropriations of public funds or assets. If so, we obtained/reviewed supporting documentation and reported whether the District reported the misappropriation to the legislative auditor and the district attorney of the parish in which the District is domiciled.
32. We observed and reported whether the District has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.
33. If we observed or otherwise identified any exceptions regarding management's representations in the procedures above, we reported the nature of each exception.

Findings:

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

Written Policies:

Southeast Waterworks District Number 2 does not have written policies and procedures addressing how vendors are added to the vendor list, the preparation and approval process of purchase requisitions and purchase orders, controls to ensure compliance with public bid law, and documentation required to be maintained for all bids and price quotes.

Southeast Waterworks District Number 2 does not have written policies and procedures addressing contracting.

Collections:

The person responsible for depositing cash, recording cash and reconciling the bank statements also collects cash.

The persons collecting cash also share a drawer.

Disbursements:

None of the items tested included a purchase order or electronic equivalent because the entity's policies and procedures do not require such documentation. As a result, we were unable to determine: (1) if the purchase order or an electronic equivalent was approved by a person who did not initiate the purchase, and (2) that payment for the purchase was not processed without an approved requisition and/or purchase order or electronic equivalent.

Southeast Waterworks District Number 2 does not have written policies and procedures addressing whether the person responsible for processing payments is prohibited from adding vendors to the District's purchasing/disbursement system.

Southeast Waterworks District Number 2 does not have written policies and procedures addressing whether persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

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

1 of the cards tested was assessed finance charges and/or late fees.

Management's Response:

Management of Southeast Waterworks District Number 2 concurs with the exceptions and are 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
May 10, 2018