

**SOUTHEAST WATERWORKS
DISTRICT NUMBER 2**

Abbeville, Louisiana

Financial Report

Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of number of utility customers and water rates, schedule of insurance in force, and comparative financial statements but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC

Certified Public Accountants

Abbeville, Louisiana
May 31, 2022

BASIC FINANCIAL STATEMENTS

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Net Position
December 31, 2021

ASSETS

Current assets:	
Cash and cash equivalents	\$ 625,666
Interest-bearing deposits	285,548
Accounts receivables, net of allowance for uncollectibles	124,321
Accrued interest receivable	695
Prepaid expenses	<u>11,215</u>
Total current assets	<u>1,047,445</u>
Restricted assets:	
Revenue bond sinking account	33,913
Revenue bond reserve account	93,413
Revenue bond contingency account	52,935
Revenue bond short lived asset account	242,568
Revenue bond short lived asset investments	251,805
LDH water depreciation and contingency account	149,651
LDH debt service account	40,069
LDH reserve account	79,163
Customer deposits	<u>30,400</u>
Total restricted assets	<u>973,917</u>
Capital assets, net	<u>6,718,323</u>
Easements	<u>10,760</u>
Total assets	<u>8,750,445</u>

LIABILITIES

Current liabilities (payable from current assets):	
Accounts payable	28,528
Accrued liabilities	<u>5,059</u>
Total current liabilities (payable from current assets)	<u>33,587</u>
Current liabilities (payable from restricted assets):	
Customer deposits	30,400
Accrued interest on bonds	12,646
Current portion of long term debt	139,755
Other liabilities	<u>6,417</u>
Total current liabilities (payable from restricted assets)	<u>189,218</u>
Total current liabilities	222,805
Noncurrent liabilities:	
Revenue bonds payable	<u>4,874,070</u>
Total liabilities	<u>5,096,875</u>

NET POSITION

Net investment in capital assets	1,844,253
Restricted for debt service	94,157
Restricted for equipment acquisition	696,959
Unrestricted	<u>1,018,201</u>
Total net position	<u>\$ 3,653,570</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, 2021

Operating revenues:	
Charges for services -	
Water sales	\$ 1,080,240
Penalties	21,103
Reconnection fees	26,157
Meter fees	36,028
Miscellaneous income	845
Total operating revenues	<u>1,164,373</u>
Operating expenses:	
Salaries	180,448
Payroll taxes	13,804
Group and life insurance	34,808
Retirement	10,453
Insurance	28,581
Supplies	6,620
Telephone and utilities	46,751
Chemicals	80,639
Meter installation and reading	22,273
Depreciation	305,433
Professional fees	22,350
Maintenance and repairs	65,028
Automobile expense	10,695
Printing, postage and publications	13,221
Bank charges	1,024
Other	32,212
Total operating expenses	<u>874,340</u>
Operating income	<u>290,033</u>
Nonoperating revenues (expenses):	
Interest income	7,483
Gain on investments	1,200
Gain on disposal of assets	9,359
Interest expense	(188,833)
Total nonoperating revenues (expenses)	<u>(170,791)</u>
Change in net position	119,242
Net position, beginning	<u>3,534,328</u>
Net position, ending	<u><u>\$ 3,653,570</u></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, 2021

Cash flows from operating activities:	
Receipts from customers	\$ 1,167,788
Payments to suppliers	(311,431)
Payments to employees and related costs	(240,729)
Miscellaneous income	845
Net cash provided by operating activities	<u>616,473</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(133,771)
Interest paid on long-term debt	(188,833)
Proceeds from disposal of capital assets	9,500
Acquisition and construction of capital assets	<u>(24,766)</u>
Net cash used by capital and related financing activities	<u>(337,870)</u>
Cash flows from investing activities:	
Interest income	<u>5,579</u>
Net change in cash and cash equivalents	284,182
Cash and cash equivalents, beginning of period	<u>1,063,596</u>
Cash and cash equivalents, end of period	<u>\$ 1,347,778</u>

(continued)

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2021

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

Operating income	\$	290,033
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		305,433
Provision for bad debts		10,917
(Increase) decrease in operating assets - Receivables, gross		(6,657)
Increase (decrease) in operating liabilities - Accounts payable		17,963
Accrued liabilities		(1,216)
Net cash provided by operating activities	\$	<u>616,473</u>

Cash and cash equivalents, end of period -

Current	\$	625,666
Restricted		
Revenue bond sinking account		33,913
Revenue bond reserve account		93,413
Revenue bond contingency account		52,935
Revenue bond short lived asset account		242,568
LDH water depreciation and contingency account		149,651
LDH debt service account		40,069
LDH reserve account		79,163
Customer deposits		30,400
	\$	<u>1,347,778</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 six 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, 2021 is \$ \$61,799.

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 acquisition cost 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. 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:

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

Equity Classifications

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

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

F. Revenues and Expenses

Operating Revenues and Expenses

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

G. Use of Estimates

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

(2) Cash and Cash Equivalents

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

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

Bank balances	<u>\$ 1,633,402</u>
Deposits are secured as follows:	
Insured deposits	\$ 500,000
Uninsured and collateral held by the pledging bank not in the District's name	<u>1,133,402</u>
Total	<u>\$ 1,633,402</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(3) Investments

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

The District has investments as follows:

Description	Reported Amount/ Market Value
Restricted Government Related	<u>\$ 251,805</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 1-5 year term area.

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

Description	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-5	6-10
Cash and cash equivalents- Restricted				
Money market (Rated AAAM)	<u>\$ 844</u>	<u>\$ 844</u>	<u>\$ -</u>	<u>\$ -</u>
Investments- Restricted				
Government Related	<u>\$ 251,805</u>	<u>\$ -</u>	<u>\$ 251,805</u>	<u>\$ -</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

	<u>Rating</u>	<u>Percentage</u>
Government related:		
New Jersey Economic Development Authority	AA	100.00%

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

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

The District has the following recurring fair value measurements:

<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 - Restricted				
Money market	<u>\$ 844</u>	<u>\$ 844</u>	<u>\$ -</u>	<u>\$ -</u>
Investments- Restricted				
Government Related	<u>\$ 251,805</u>	<u>\$ -</u>	<u>\$ 251,805</u>	<u>\$ -</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(4) Accounts Receivables

Accounts receivables consist of the following:

Accounts receivable	\$ 138,938
Unbilled water	<u>47,182</u>
	186,120
Less allowance for doubtful accounts	<u>(61,799)</u>
Total	<u>\$ 124,321</u>

The aging of the accounts receivable is as follows:

Current	\$ 69,011
31 - 60 days	7,298
61 - 90 days	829
Over 90 days	<u>61,800</u>
Total	<u>\$ 138,938</u>

(5) Restricted Assets

Restricted assets consisted of the following:

Revenue bond sinking account	\$ 33,913
Revenue bond reserve account	93,413
Revenue bond contingency account	52,935
Revenue bond short lived asset account	242,568
Revenue bond short lived asset investments	251,805
Customer deposits	30,400
LDH water depreciation and contingency account	149,651
LDH debt service account	40,069
LDH reserve account	<u>79,163</u>
Total restricted assets	<u>\$ 973,917</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(6) Capital Assets

Capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 17,477	\$ -	\$ -	\$ 17,477
Capital assets being depreciated:				
Buildings	182,215	-	-	182,215
Equipment	137,845	-	20,531	117,314
Utility system improvements	10,087,052	24,766	11,850	10,099,968
Total capital assets	<u>10,424,589</u>	<u>24,766</u>	<u>32,381</u>	<u>10,416,974</u>
Less accumulated depreciation	<u>3,425,458</u>	<u>305,433</u>	<u>32,240</u>	<u>3,698,651</u>
Capital assets, net	<u>\$6,999,131</u>	<u>\$ (280,667)</u>	<u>\$ 141</u>	<u>\$6,718,323</u>

Total depreciation expense for the year was \$305,433.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(7) Long-Term Debt

The following changes occurred in long-term debt:

	Beginning Balance	Additions	Retirements	Ending Balance
Direct Placement Revenue bonds	<u>\$5,147,596</u>	<u>\$ -</u>	<u>\$ (133,771)</u>	<u>\$5,013,825</u>

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

	Issue Date	Maturity Date	Interest Rates	Balance Outstanding	Due Within One Year
Direct Placement Revenue Bonds					
Water Revenue Bonds Series 1995	5/12/1995	3/1/2035	4.50%	\$ 396,365	22,373
Water Revenue Bonds Series 1995	5/12/1995	3/1/2035	4.50%	40,065	2,265
Water Revenue Bonds Series 1998	3/16/1998	3/1/2038	4.88%	211,480	8,521
Water Revenue Bonds Series 2007	7/20/2007	7/1/2047	4.25%	2,224,233	49,227
Water Revenue Bonds Series 2007	7/20/2007	7/1/2047	4.25%	189,347	4,185
Water Revenue Bonds Series 2013	8/14/2013	7/1/2053	2.75%	<u>1,445,404</u>	<u>29,184</u>
Total				<u>\$4,506,894</u>	<u>\$ 115,755</u>
	Issue Date	Maturity Date	Interest Rates	Balance Outstanding	Due Within One Year
Direct Placement Taxable Water Revenue Bond	2/1/2018	3/1/2038	2.45%	<u>\$ 506,931</u>	<u>\$ 24,000</u>

In the event that the Water Revenue Bonds are in default, the bonding agency has the right to compel the performance of all duties, including the fixing, charging, and collecting of rentals, fees or other charges for the use of the System. The Bond owner may also appoint an agent to take possession of the System to hold, operate, maintain, manage and control the System in the name of the bond owner. This agent shall collect and receive all fees, rentals, and other revenues, maintain and operate the System in a manner to compensate the bond issuer for the amount owed, until the bond is repaid in full. There are no default provisions for the Taxable Water Revenue Bond in the bond agreement.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 139,755	179,787	319,542
2023	145,440	174,624	320,064
2024	151,320	169,245	320,565
2025	156,406	163,654	320,060
2026	162,703	157,840	320,543
2027 to 2031	911,124	693,323	1,604,447
2032 to 2036	1,019,184	511,087	1,530,271
2037 to 2041	882,000	336,777	1,218,777
2042 to 2046	947,594	169,981	1,117,575
2047 to 2051	392,808	37,462	430,270
2052 to 2053	<u>105,491</u>	<u>2,373</u>	<u>107,864</u>
 Total	 <u>\$ 5,013,825</u>	 <u>\$ 2,596,153</u>	 <u>\$ 7,609,978</u>

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

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

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

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

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

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

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Taxable Water Revenue Bonds Sinking Fund - Under the agreement with LDH, the District is required to make monthly deposits of 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.

Taxable Water Revenue Bonds Reserve Fund – The District is required to set aside \$20,650 annually.

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

All required transfers were made for the year ended December 31, 2021.

(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 were \$10,453.

(10) Risk Management

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

(11) Pending Litigation

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(12) 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 19, 2025	\$ 1,050
Sandra C Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 7, 2026	675
Kelly Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	February 5, 2025	975
Susan Wilhelm 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 8, 2023	825
Byron Perry 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 4, 2023	825
Shelby Bernard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 2, 2025	<u>450</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.

OTHER INFORMATION

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Number of Utility Customers and Water Rates
December 31, 2021

Records maintained by the Southeast Waterworks District Number 2 indicated the following number of customers were being serviced during the month of December 31, 2021:

Residential	2,194
Commercial	<u>74</u>
	<u>2,268</u>

The water rates of the District are as follows:

Residential rates:

\$16.00 per month for the first 2,000 gallons, then
\$ 6.25 per 1,000 gallons over 2,000 gallons

Commercial rates:

\$50.00 per month for the first 5,000 gallons, then
\$ 7.70 per 1,000 gallons over 5,000 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, 2021

Coverage Provided For	Limits of Coverage (in dollars)	Expiration Date
Workers Compensation	Statutory	07/01/22
Employee Fidelity Bond		10/03/23
Board President	\$ 310,000	
Vice-President	\$ 310,000	
Secretary	\$ 310,000	
Office Manager	\$ 310,000	
Plant Manager	\$ 310,000	
Office Secretary	\$ 310,000	
Automobile Liability (Each Accident)	\$ 1,000,000	07/01/22
General Premises Liability		07/01/22
Each Occurrence	\$ 1,000,000	
General Aggregate	\$ 3,000,000	
Blanket Building and Contents	\$ 1,379,683	07/01/22
Commercial Flood Coverage		05/26/22
Buildings	\$ 404,100	
Contents	\$ 500,000	

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Net Position
December 31, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 625,666	\$ 598,377
Interest-bearing deposits	285,548	283,644
Accounts receivables, net of allowance for uncollectibles	124,321	128,331
Accrued interest receivable	695	695
Prepaid expenses	<u>11,215</u>	<u>11,215</u>
Total current assets	<u>1,047,445</u>	<u>1,022,262</u>
Restricted assets	973,917	715,824
Capital assets, net	<u>6,718,323</u>	<u>6,999,131</u>
Easements	<u>10,760</u>	<u>10,760</u>
Total assets	<u>8,750,445</u>	<u>8,747,977</u>
 LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	28,528	10,565
Accrued liabilities	<u>5,059</u>	<u>6,275</u>
Total current liabilities (payable from current assets)	<u>33,587</u>	<u>16,840</u>
Current liabilities (payable from restricted assets):		
Customer deposits	30,400	30,150
Accrued interest on bonds	12,646	12,646
Current portion of long term debt	139,755	135,259
Other Liabilities	<u>6,417</u>	<u>6,417</u>
Total current liabilities (payable from restricted assets)	<u>189,218</u>	<u>184,472</u>
Total current liabilities	222,805	201,312
Noncurrent liabilities:		
Revenue bonds payable	<u>4,874,070</u>	<u>5,012,337</u>
Total liabilities	<u>5,096,875</u>	<u>5,213,649</u>
 NET POSITION		
Net investment in capital assets	1,844,253	1,986,794
Restricted for debt service	94,157	50,920
Restricted for equipment acquisition	696,959	486,849
Unrestricted	<u>1,018,201</u>	<u>1,009,765</u>
Total net position	<u>\$ 3,653,570</u>	<u>\$ 3,534,328</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Revenues, Expenses and Changes in Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Charges for services -		
Water sales	\$ 1,080,240	\$ 1,103,436
Penalties	21,103	16,408
Reconnection fees	26,157	17,562
Meter fees	36,028	27,740
Miscellaneous income	845	2,924
Total operating revenues	<u>1,164,373</u>	<u>1,168,070</u>
Operating expenses:		
Salaries	180,448	203,020
Payroll taxes	13,804	14,831
Group and life insurance	34,808	39,384
Retirement	10,453	14,921
Insurance	28,581	28,716
Supplies	6,620	11,810
Telephone and utilities	46,751	39,149
Chemicals	80,639	81,533
Meter installation and reading	22,273	24,483
Depreciation	305,433	304,109
Professional fees	22,350	33,416
Maintenance and repairs	65,028	125,274
Automobile expense	10,695	8,356
Printing, postage and publications	13,221	8,826
Bank charges	1,024	1,053
Other	32,212	30,665
Total operating expenses	<u>874,340</u>	<u>969,546</u>
Operating income	<u>290,033</u>	<u>198,524</u>
Nonoperating revenues (expenses):		
Interest income	7,483	11,845
Gain on investments	1,200	15,424
Intergovernmental income	-	7,873
Gain (loss) on disposal of assets	9,359	(4,892)
Interest expense	(188,833)	(185,692)
Total nonoperating revenues (expenses)	<u>(170,791)</u>	<u>(155,442)</u>
Change in net position	119,242	43,082
Net position, beginning	<u>3,534,328</u>	<u>3,491,246</u>
Net position, ending	<u>\$ 3,653,570</u>	<u>\$ 3,534,328</u>

**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, 2021, 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 31, 2022.

Report on 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) as a basis for designing 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. 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 2021-001 and 2021-002, which we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 31, 2022

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, 2021

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

A. Internal Control Over Financial Reporting

2021-001 Inadequate Segregation of Accounting Functions

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

CRITERIA: Committee of Sponsoring Organizations (COSO) *Internal Control Integrated Framework* and the Louisiana Legislative Auditor's *Government Auditing Guide*.

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

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

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

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

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2021

2021-002 Application of Generally Accepted Accounting Principles (GAAP)

Fiscal year finding initially occurred: Unknown

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

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

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

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

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

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

B. Compliance

There are no compliance findings to the report.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2021

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2020-001 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 2021-001.

2020-002 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 2021-002

B. Compliance

There were no compliance findings to the report.

SOUTHEAST WATERWORKS
DISTRICT NUMBER 2
Abbeville, Louisiana

Statewide Agreed-Upon Procedures

Fiscal period January 1, 2021 through December 31, 2021

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 on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2021 through December 31, 2021. The Southeast Waterworks District Number 2's (the District) management is responsible for those C/C areas identified in the SAUPs.

The District has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2021 through December 31, 2021. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving.
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employees(s) rate of pay or approval and maintenance of pay rate schedules.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.
- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum on all special revenue funds. *Alternatively, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

Bank Reconciliations

3. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Collections (excluding EFTs)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies and procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees that are responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, are not responsible for collecting cash, unless another employee/official verifies the reconciliation.
6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe that the bond or insurance policy for theft was enforced during the fiscal period.
7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
 - a) Observe that receipts are sequentially pre-numbered.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

- c) Trace the deposit slip total to the actual deposit per the bank statement.
- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).
- e) Trace the actual deposit per the bank statement to the general ledger.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

- 8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
- 9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

[Note: Exceptions to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); should not be reported.]
- 10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
 - a) Observe that the disbursement matched the related original itemized invoice and that supporting documentation indicates that deliverables included on the invoice were received by the entity.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

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

- 11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
- 12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing (or electronically approved), by someone other than the authorized card holder. [Note: requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny.

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

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management’s representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
- a) If reimbursed using a per diem, observe that the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
 - d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management’s representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner’s contract, and:
- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g. if approval is required for any amendment was approval documented).
- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Payroll and Personnel

- 16. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
- 17. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
 - a) Observe that all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, officials are not eligible to earn leave and do not document their attendance and leave. However, if the official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
 - d) Observe that the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.
- 18. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity policy on termination payments. Agree the hours to the employee or officials' cumulate leave records, agree the pay rates to the employee or officials' authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy.
- 19. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g. payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Ethics

- 20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics documentation from management, and:
 - a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe that the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.

Debt Service

21. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.
22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Fraud Notice

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Information Technology Disaster Recovery/Business Continuity

25. Perform the following procedures, verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."
 - a. Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.
 - b. Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.
 - c. Obtain a listing of the entity's computers currently in use, and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

Sexual Harassment

26. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.
27. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).
28. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that it includes the applicable requirements of R.S. 42:344:

- a. Number and percentage of public servants in the agency who have completed the training requirements;
- b. Number of sexual harassment complaints received by the agency;
- c. Number of complaints which resulted in a finding that sexual harassment occurred;
- d. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
- e. Amount of time it took to resolve each complaint.

Findings:

No exceptions were found as a result of procedures list above with the exception of:

Collections (excluding electronic funds transfers):

Employees responsible for collecting cash share a register/drawer.

Employees responsible for collecting cash are responsible for preparing/making bank deposits

Employees responsible for collecting cash are responsible for posting collection entries to the general ledger or subsidiary ledger.

Employees responsible for collecting cash are responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers.

8 of 16 receipts tested did not have a receipt number. The District uses receipts only for customer cash payments or those without a copy of their bill stub.

13 of 16 receipts tested were not deposited within one business day of collections.

Sexual Harassment:

1 of 5 employees tested did not have proof of completion of at least one hour of sexual harassment training during the year.

Management's Response:

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

We were engaged by the District to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended 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 31, 2022