

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

New Llano, Louisiana

Financial Report

Year Ended May 31, 2018

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KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Victor R. Slaven, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*
Brad E. Kolder, CPA, JD*
Stephen J. Anderson, CPA*
Christine C. Doucet, CPA
Wanda F. Arcement, CPA, CVA
Bryan K. Joubert, CPA
Matthew E. Margaglio, CPA
Casey L. Ardoin, CPA, CFE

183 S. Beadle Rd. 11929 Bricksome Ave.
Lafayette, LA 70508 Baton Rouge, LA 70816
Phone (337) 232-4141 Phone (225) 293-8300

1428 Metro Dr. 450 E. Main St.
Alexandria, LA 71301 New Iberia, LA 70560
Phone (318) 442-4421 Phone (337) 367-9204

200 S. Main St. 1234 David Dr. Ste. 203
Abbeville, LA 70510 Morgan City, LA 70380
Phone (337) 893-7944 Phone (985) 384-2020

434 E. Main St. 332 W. Sixth Ave.
Ville Platte, LA 70586 Oberlin, LA 70655
Phone (337) 363-2792 Phone (337) 639-4737

* A Professional Accounting Corporation

WWW.KCSRPCAS.COM

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission), as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1, as of May 31, 2018, 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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018, on our consideration of the Vernon Parish Water and Sewer Commission No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC

Certified Public Accountants

Oberlin, Louisiana
September 4, 2018

BASIC FINANCIAL STATEMENTS

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

Statement of Net Position
May 31, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$1,844,813
Accounts receivable	108,017
Inventory	37,530
Prepaid items	<u>9,602</u>
Total current assets	<u>1,999,962</u>
Noncurrent assets:	
Restricted assets -	
Customer deposits	124,875
Capital assets, net	<u>1,187,804</u>
Total noncurrent assets	<u>1,312,679</u>
Total assets	<u>3,312,641</u>

LIABILITIES

Current liabilities (payable from current assets):	
Accounts payable	19,887
Accrued liabilities	1,685
Other liabilities	<u>14,596</u>
Total	36,168
Current liabilities (payable from restricted assets):	
Customer deposits	<u>124,875</u>
Total current liabilities	<u>161,043</u>
Noncurrent liabilities:	
Compensated absences payable	<u>40,075</u>
Total noncurrent liabilities	<u>40,075</u>
Total liabilities	<u>201,118</u>

NET POSITION

Net investment in capital assets	1,187,804
Unrestricted	<u>1,923,719</u>
Total net position	<u>\$3,111,523</u>

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

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended May 31, 2018

Operating revenues:	
Charges for services -	
Water sales	\$1,015,205
Penalty, service and connection fees	34,331
Other fees	<u>23,533</u>
Total operating revenues	<u>1,073,069</u>
Operating expenses:	
Salaries and related benefits	283,923
Depreciation	150,552
Utilities and telephone	73,925
Repairs and maintenance	109,422
Insurance	92,262
Office expense	23,785
Professional fees	16,661
Commissioner fees	4,260
Truck expense	13,643
Miscellaneous	<u>4,113</u>
Total operating expenses	<u>772,546</u>
Operating income	300,523
Nonoperating revenues:	
Interest income	2,556
Gain on sale of assets	<u>5,800</u>
Total nonoperating revenues	<u>8,356</u>
Change in net position	308,879
Net position, beginning	<u>2,802,644</u>
Net position, ending	<u>\$3,111,523</u>

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

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

Statement of Cash Flows
Year Ended May 31, 2018

Cash flows from operating activities:	
Receipts from customers	\$1,027,371
Payments to suppliers	(327,553)
Payments to employees and related costs	(277,582)
Other receipts	<u>23,533</u>
Net cash provided by operating activities	445,769
Cash flows from noncapital financing activities:	
Decrease in meter deposits, net	(380)
Cash flows from capital and related financing activities:	
Net acquisition of capital assets	(119,078)
Cash flows from investing activities:	
Interest income	<u>2,556</u>
Net increase in cash and cash equivalents	328,867
Cash and cash equivalents, beginning of period	<u>1,640,821</u>
Cash and cash equivalents, end of period	<u>\$1,969,688</u>

(continued)

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

Statement of Cash Flows (Continued)
Year Ended May 31, 2018

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 300,523
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	150,552
(Increase) decrease in operating assets -	
Accounts receivable	(22,165)
Inventory	(10,013)
Prepaid items	3,263
Increase (decrease) in operating liabilities -	
Accounts payable	10,428
Accrued liabilities	874
Compensated absences payable	6,341
Other liabilities	5,966
Net cash provided by operating activities	<u>\$ 445,769</u>
Cash and cash equivalents reported on statement of net position as:	
Cash and cash equivalents, beginning of period -	
Current	\$ 1,515,566
Restricted	<u>125,255</u>
	<u>\$ 1,640,821</u>
Cash and cash equivalents, end of period -	
Current	\$ 1,844,813
Restricted	<u>124,875</u>
	<u>\$ 1,969,688</u>
Net increase	<u>\$ 328,867</u>

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

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

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

C. Fund Accounting

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

The Commission maintains one fund as described below:

Proprietary Fund – Enterprise Fund

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

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

Notes to Basic Financial Statements (Continued)

D. Measurement Focus/Basis of Accounting

The measurement focus determines the accounting and financial reporting treatment applied to a fund. Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The statement of net position and statement of activities are presented using the economic resources measurement focus.

Measurement Focus

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

Basis of Accounting

The proprietary fund statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized in accordance with the requirements of GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions.”

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

Cash and cash equivalents

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

Receivables

Receivables consist of all revenues earned at year-end and not yet received. The majority of this balance is comprised of customer’s utility service receivables. This amount is reported net of an allowance for doubtful accounts, if any. There was no allowance recorded at May 31, 2018 due to immateriality.

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

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

Notes to Basic Financial Statements (Continued)

Inventory

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond May 31, 2018, are recorded as prepaid items.

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 Commission maintains a threshold level of \$1,000 or more for capitalizing capital assets.

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Commission has no deferred outflows of resources at May 31, 2018.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The Commission has no deferred inflows of resources at May 31, 2018.

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

Notes to Basic Financial Statements (Continued)

Compensated Absences

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

Equity Classifications

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

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

F. Revenues and Expenses

Operating Revenues and Expenses

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

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

Notes to Basic Financial Statements (Continued)

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

G. Use of Estimates

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

(2) Cash and Cash Equivalents

Under state law, the Commission may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Commission may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana. At May 31, 2018, the Commission had cash and cash equivalents (book balances) totaling \$1,969,688.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered or the collateral securities that are in the possession of an outside party will not be recovered. These deposits are stated at cost, which approximates fair value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at May 31, 2018, are as follows:

Bank balances	<u>\$1,983,162</u>
Federal deposit insurance	\$ 500,000
Pledged securities	<u>1,483,162</u>
Total	<u>\$1,983,162</u>

Deposits in the amount of \$1,483,162 were exposed to custodial credit risk. These deposits are uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Commission's name. The Commission does not have a policy for custodial credit risk.

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

Notes to Basic Financial Statements (Continued)

(3) Accounts Receivable

Accounts receivable at May 31, 2018 of \$108,017 consisted of the following:

Accounts	\$ 21,194
Unbilled water	<u>86,823</u>
Total	<u>\$ 108,017</u>

(4) Restricted Assets

Restricted assets consisted of the following at May 31, 2018:

Customer deposits	<u>\$ 124,875</u>
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(5) Capital Assets

Capital asset activity for the year ended May 31, 2018 was as follows:

	Beginning Balance <u>06/01/17</u>	Increases <u> </u>	Decreases <u> </u>	Ending Balance <u>05/31/18</u>
Capital assets not being depreciated:				
Land	\$ 34,649	\$ -	\$ -	\$ 34,649
Construction in process	26,793	5,000	-	31,793
Capital assets being depreciated:				
Buildings	104,336	-	-	104,336
Land improvements	22,982	-	-	22,982
Equipment and vehicles	353,188	41,162	9,750	384,600
Water distribution system	<u>3,597,256</u>	<u>78,715</u>	<u>-</u>	<u>3,675,971</u>
Total capital assets	<u>4,139,204</u>	<u>124,877</u>	<u>9,750</u>	<u>4,254,331</u>
Less accumulated depreciation for:				
Buildings	100,155	2,331	-	102,486
Land improvements	17,863	1,732	-	19,595
Equipment and vehicles	194,975	36,237	9,750	221,462
Water distribution system	<u>2,612,733</u>	<u>110,251</u>	<u>-</u>	<u>2,722,984</u>
Total accumulated depreciation	<u>2,925,726</u>	<u>150,551</u>	<u>9,750</u>	<u>3,066,527</u>
Capital assets, net	<u>\$ 1,213,478</u>	<u>\$ (25,674)</u>	<u>\$ -</u>	<u>\$ 1,187,804</u>

Depreciation expense included in the financial statements for 2018 totaled \$150,552.

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

Notes to Basic Financial Statements (Continued)

(6) Compensation of Board Members

The following is a list of the commissioners and compensation paid for the year ended May 31, 2018:

Commissioner	Compensation
Susan Redmond	\$ 900
Carney Jean Midkiff	660
Gary R. Wilson	900
Sue Bailey	900
Mavis Odette	900
	\$ 4,260

(7) Risk Management

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

(8) Pending Litigation

The Commission is party to certain legal proceedings which normally occur in governmental operations. Although the outcome of these proceedings is not presently determinable, it is the opinion of the Commission's attorney that the resolution of this matter will not have a material adverse effect on the financial condition of the Commission.

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

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

Purpose	Amount
Salary	\$ 61,103
Benefits - insurance	68
Training	435
Total	\$ 61,606

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

Notes to Basic Financial Statements (Continued)

(10) Subsequent Events

On November 14, 2017, the District approved a resolution to issue taxable water revenue bonds in an amount not to exceed \$2,575,000 for the purpose of paying the costs of constructing and acquiring additions, extensions, and improvements to the drinking water system of the District. Bond Commission approval was obtained on January 22, 2018. As of the date of this report, these bonds had not yet been issued. It is expected that these bonds will be issued by the end of November 2018.

INTERNAL CONTROL, COMPLIANCE

AND

OTHER MATTERS

KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
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183 S. Beadle Rd.
Lafayette, LA 70508
Phone (337) 232-4141

11929 Bricksome Ave.
Baton Rouge, LA 70816
Phone (225) 293-8300

1428 Metro Dr.
Alexandria, LA 71301
Phone (318) 442-4421

450 E. Main St.
New Iberia, LA 70560
Phone (337) 367-9204

200 S. Main St.
Abbeville, LA 70510
Phone (337) 893-7944

1234 David Dr. Ste. 203
Morgan City, LA 70380
Phone (985) 384-2020

434 E. Main St.
Ville Platte, LA 70586
Phone (337) 363-2792

332 W. Sixth Ave.
Oberlin, LA 70655
Phone (337) 639-4737

* A Professional Accounting Corporation

WWW.KCSRPCAS.COM

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission) as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vernon Parish Water and Sewer Commission No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vernon Parish Water and Sewer Commission No. 1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying summary schedule of current and prior year audit findings and management's corrective action plan as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vernon Parish Water and Sewer Commission No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying summary schedule of current and prior year audit findings and management's corrective action plan as item 2018-003.

Vernon Parish Water and Sewer Commission No. 1's Response to Findings

The Vernon Parish Water and Sewer Commission No. 1's response to the findings identified in our audit is described in the accompanying summary schedule of current and prior year audit findings and management's corrective action plan. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kolder, Slaven & Company, LLC

Certified Public Accountants

Oberlin, Louisiana
September 4, 2018

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

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

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Plan	Name of Contact Person	Anticipated Date of Completion
CURRENT YEAR (5/31/18) --						
<u>Internal Control:</u>						
2018-001	Unknown	Due to the small number of employees, the Commission did not have adequate segregation of functions within the accounting system.		No response is considered necessary.	Shannon Parker, Office Administrator	N/A
2018-002	2010	The Commission does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.		The Commission 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 Commission 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.	Shannon Parker, Office Administrator	N/A
<u>Compliance:</u>						
2018-003	2018	During the year ended May 31, 2018, the Commission sold equipment without advertising for bids as required by the provisions of LA RS 33:4712.		The failure to comply with the provision of LA RS 33:4712 was the result of a misinterpretation of the statute's requirements. The Commission will fully comply with the provisions of LA RS 33:4712 for any future sale of equipment.	Shannon Parker, Office Administrator	Immediately

(continued)

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

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

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Plan	Name of Contact Person	Anticipated Date of Completion
PRIOR YEAR (5/31/17) --						
<u>Internal Control:</u>						
2017-001	Unknown	Due to the small number of employees, the Commission did not have adequate segregation of functions within the accounting system.	No	See finding 2018-001.		
2017-002	2010	The Commission does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.	No	See finding 2018-002.		

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

New Llano, Louisiana

Statewide Agreed-Upon Procedures Report

Year Ended May 31, 2018

KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Victor R. Slaven, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*
Brad E. Kolder, CPA, JD*
Stephen J. Anderson, CPA*
Christine C. Doucet, CPA
Wanda F. Arcement, CPA, CVA
Bryan K. Joubert, CPA
Matthew E. Margaglio, CPA
Casey L. Ardoin, CPA, CFE

183 S. Beadle Rd. 11929 Bricksome Ave.
Lafayette, LA 70508 Baton Rouge, LA 70816
Phone (337) 232-4141 Phone (225) 293-8300

1428 Metro Dr. 450 E. Main St.
Alexandria, LA 71301 New Iberia, LA 70560
Phone (318) 442-4421 Phone (337) 367-9204

200 S. Main St. 1234 David Dr. Ste. 203
Abbeville, LA 70510 Morgan City, LA 70380
Phone (337) 893-7944 Phone (985) 384-2020

434 E. Main St. 332 W. Sixth Ave.
Ville Platte, LA 70586 Oberlin, LA 70655
Phone (337) 363-2792 Phone (337) 639-4737

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

* A Professional Accounting Corporation

WWW.KCSRPCAS.COM

To the Board of Commissioners of the
Vernon Parish Water and Sewer
Commission No. 1, and the
Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Vernon Parish Water and Sewer Commission No. 1 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 June 1, 2017 through May 31, 2018. Management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that 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

Written policies and procedures were obtained and do not address the functions noted above.

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.

Written policies and procedures were obtained and do not address the functions noted above.

c) **Disbursements**, including processing, reviewing, and approving

Written policies and procedures were obtained and do not address the functions noted above.

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).

Written policies and procedures were obtained and do not address the functions noted above.

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Written policies and procedures were obtained and do not address the functions noted above.

- 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

Written policies and procedures were obtained and do not address the functions noted above.

- 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)

Written policies and procedures were obtained and do not address the functions noted above.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Written policies and procedures were obtained and do not address the functions noted above.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

Written policies and procedures were obtained and do not address the functions noted above.

- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Written policies and procedures were obtained and do not address the functions noted above.

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.

Obtained and reviewed minutes of the managing board for the fiscal period noting that the board met monthly.

- 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 and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

Minutes made no reference to monthly budget-to-actual comparisons.

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Obtained prior year audit report and observed that the unrestricted net position had a positive ending balance.

Bank Reconciliations

3. Obtain a listing of client 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 selected each account, and observe that:

Obtained listing of client bank accounts from management and management's representation that the listing is complete. Management identified the main operating account.

- 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);

Obtained bank statements and reconciliations for the one month randomly selected noting that reconciliations include evidence that they were prepared within 2 months of the related statement closing date.

- 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

Bank reconciliations include evidence that a member of management who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation.

- 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.

There was no documentation reflecting that management has researched reconciling items that have been outstanding for more than 12 months from the statement closing date.

Collections

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).

Obtained a listing of deposit sites for the fiscal period and management's representation that the listing is complete.

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 or 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:

Obtained listing of collection locations for each deposit site selected and management's representation that the listing is complete.

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

Employees that are responsible for cash collections do 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.

Employees responsible for collecting cash are responsible for preparing/making bank deposits, however another employee is responsible for reconciling collection documentation 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.

Employee responsible for collecting cash is not responsible for posting collection entries to the general ledger.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

The employee responsible for reconciling cash collections to the general ledger by revenue source is not responsible for collecting cash.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

Through inquiry of management, all employees who have access to cash are covered by an insurance policy for theft.

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). Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

Receipts are sequentially pre-numbered.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

Traced sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip noting no exceptions.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

Traced the deposit slip total to the actual deposit per the bank statement noting no exceptions.

- 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).

Observed that the deposits were made within one business day of receipt at the collection location.

- e) Trace the actual deposit per the bank statement to the general ledger.

Traced the actual deposit per the bank statement to the general ledger noting no exceptions.

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).

Obtained a listing of locations that process payments for the fiscal period and management's representation that the listing is complete.

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.

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.

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.

The person responsible for processing payments can also add/modify 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.

The same employee that is responsible for signing the checks is also responsible for performing the mail drop off.

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 invoice/billing statement.

Observed that disbursements matched the related original invoices/billing statements.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

No documentation including evidence of segregation of duties noted.

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.

Obtained a listing of all active credit cards and management's representation that the listing was 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, 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.]]

All monthly combined statements and supporting documentation was reviewed and approved by someone other than the authorized card holder.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

No finance charges or late fees were 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).

All selected transactions were properly supported by the functions noted above.

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, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
- b) If reimbursed using actual costs, 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.

Vernon Parish Water and Sewer Commission No. 1 did not have any travel related expense reimbursements for the fiscal period.

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. 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:
- 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.
 - Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
 - If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.
 - 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.

Vernon Parish Water and Sewer Commission No. 1 did not have any contracts for the fiscal period.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Listing of employees with their related salaries/pay rates and management's representation that the listing is complete was obtained noting that all employees' pay rates agreed to the authorized pay rates set by the board.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

- Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

Selected employees do not document their daily attendance and leave.

- Observe that supervisors approved the attendance and leave of the selected employees/officials.

Selected employees did not have supervisor's approval of their attendance and leave requests.

- Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Adequate documentation was available pertaining to leave accrued or taken during the pay period.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two

employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

Entity did not have any employees terminated during the fiscal period.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Obtained management's representation that all employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, 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.

Each employee/official selected for testing completed one hour of ethics training during the fiscal period.

- b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Entity does not have a policy pertaining to ethics. Therefore, no such documentation was available.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes 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.

Vernon Parish Water and Sewer Commission No. 1 did not issue any debt nor did it have any outstanding debt for the fiscal period.

Other

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.

Management has asserted that the entity did not have any misappropriations of public funds or assets.

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.

Required notice was posted on the premises. Entity does not maintain a website.

Management's Response:

Management of the Vernon Parish Water and Sewer Commission No.1 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

Oberlin, Louisiana
September 4, 2018