

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

Financial Statements
With Independent Auditor's Report
As of and for the Year Ended
December 31, 2013

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

Financial Statements
With Independent Auditor's Report
As of and for the Year Ended
December 31, 2013

C O N T E N T S

| | Statement | Page No. |
|--|------------------|-----------------|
| Independent Auditor's Report | | 2 |
| Financial Statements: | | |
| Statement of Financial Position | A | 5 |
| Statement of Activities | B | 6 |
| Statement of Cash Flows | C | 7 |
| Notes to the Financial Statements | | 8 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 13 |
| Schedule of Current Year Findings and Management's Planned Corrective Action | | 15 |

M. CARLEEN DUMAS
Certified Public Accountant
369 Donaldson Road. Calhoun, Louisiana. Telephone 318/644-5726

Independent Auditor's Report

BOARD OF DIRECTORS
SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

I have audited the accompanying financial statements of Southwest Ouachita Waterworks, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Member of the American Institute of Certified Public Accountants
Member of the Society of Louisiana of Certified Public Accountants

BOARD OF DIRECTORS
SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Independent Auditor's Report

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Ouachita Waterworks, Inc., as of December 31, 2013 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 15, 2014, on my consideration of Southwest Ouachita Waterworks, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southwest Ouachita Waterworks, Inc.'s internal control over financial reporting and compliance.

/s Carleen Dumas
Calhoun, Louisiana
April 15, 2014

FINANCIAL STATEMENTS

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS

Current assets:

| | |
|--|---------------------------|
| Cash | \$585,806 |
| Accounts receivable (net of allowance for uncollectible accounts) | <u>120,054</u> |
| Total current assets | 705,860 |
| Cash - designated for customer meter deposits | 24,750 |
| Investments - certificate of deposit - designated for customer meter deposits | 46,049 |
| Property, plant, and equipment (net of accumulated depreciation) | <u>2,616,266</u> |
| TOTAL ASSETS | <u><u>\$3,392,925</u></u> |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|---------------------------------------|---------------------------|
| Accounts payable | \$30,462 |
| Customer meter deposits | 69,993 |
| Current portion of loans payable | <u>251,923</u> |
| Total current liabilities | 352,378 |
| Long-term liabilities - loans payable | <u>1,839,693</u> |
| Total liabilities | 2,192,071 |
| Net assets - unrestricted | <u>1,200,854</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$3,392,925</u></u> |

See accompanying notes.

Statement B

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

| | |
|--|---------------------------|
| Operating Revenues: | |
| Water fees | \$1,367,209 |
| Meter installation fees | 21,375 |
| Late charges | 44,384 |
| Reconnection fees | 37,485 |
| Other revenue | 7,995 |
| Total operating revenues | <u>1,478,448</u> |
| Operating Expenses: | |
| Accounting | 3,673 |
| Auto expense | 34,571 |
| Auto expense - mileage | 877 |
| Bad debts and collection expense | 10,186 |
| Bank charges | 9,435 |
| Billing expense | 32,103 |
| Chemicals | 170,674 |
| Commissioners fees | 14,075 |
| Contract labor | 60,595 |
| Depreciation | 198,538 |
| Employee health insurance | 34,144 |
| GAC Pilot Study expenses | 42,697 |
| Installations - material | 4,514 |
| Insurance | 40,652 |
| Lab testing | 3,821 |
| Legal | 761 |
| Maintenance | 69,273 |
| Miscellaneous | 5,810 |
| Office supplies | 15,897 |
| Payroll taxes | 23,487 |
| Penalties and interest | 782 |
| Permits and licenses | 2,585 |
| Postage | 462 |
| Public service excise tax | 3,652 |
| Repairs | 205,670 |
| Salaries | 284,123 |
| Utilities | 148,593 |
| Total operating expenses | <u>1,421,650</u> |
| Operating Income | <u>56,798</u> |
| Non-Operating Revenue (Expenses): | |
| Interest income | 528 |
| Lease income | 3,800 |
| Hwy 3033 line relocation expense | (74,981) |
| Interest expense | (92,396) |
| Total non-operating revenue (expenses) | <u>(163,049)</u> |
| Decrease in Net Assets | <u>(106,251)</u> |
| Net Assets at Beginning of Year | <u>1,307,105</u> |
| Net Assets at End of Year | <u><u>\$1,200,854</u></u> |

See accompanying notes.

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------------|
| Decrease in net assets | <u>(\$106,251)</u> |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | |
| Depreciation expense | 198,538 |
| Increase in accounts receivable | (4,912) |
| Decrease in prepaid payroll taxes | 1,907 |
| Increase in accounts and taxes payable | 14,360 |
| Increase in customer deposits | 5,389 |
| Interest income | (528) |
| Lease income | (3,800) |
| Hwy 3033 line relocation expense | 74,981 |
| Interest expense | <u>92,396</u> |
| Total adjustments | <u>378,331</u> |
| Net cash provided by operating activities | <u>272,080</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Principal on long-term debt | (246,149) |
| Interest on long-term debt | (92,396) |
| Hwy 3033 line relocation expense | (74,981) |
| Proceeds from URAF loan | <u>81,396</u> |
| Net cash used by financing activities | <u>(332,130)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-----------------|
| Interest income | 528 |
| Increase in investments | (528) |
| Purchase and construction of capital assets | (42,950) |
| Lease income | <u>3,800</u> |
| Net cash used by investing activities | <u>(39,150)</u> |

NET DECREASE IN CASH (99,200)

CASH AT BEGINNING OF YEAR 709,756

CASH AT END OF YEAR \$610,556

See accompanying notes.

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

Southwest Ouachita Waterworks, Inc., is a nonprofit organization domiciled in West Monroe, Louisiana, and organized under the provisions of Louisiana Revised Statutes 12:201-269. The water system is governed by a five member board of directors who are members of the water system and who are elected by members of the water system. Southwest Ouachita Waterworks, Inc. provides water to approximately 3,198 members residing within the territorial boundaries of the water system and has 7 employees.

B. INVESTMENTS

At December 31, 2013, the water system's investments consisted of a nonnegotiable certificate of deposit with an original maturity that exceeds 90 days that is reported in the accompanying financial statements at cost.

C. RECEIVABLES

Accounts receivable consist of amounts due from members for water service provided prior to year end and an overpayment of payroll taxes. Receivables are reported net of an allowance for uncollectible accounts that is an estimate based on historical collection percentages and management's evaluation of the amount of outstanding receivables that are considered uncollectible. Water service is cut-off for customers with two months water service in arrears. Past due accounts are written off when they are considered uncollectible by management.

D. FIXED ASSETS

The cost of the original water system, major improvements to the water system and vehicles and equipment costing \$500 or more are capitalized and recorded at actual cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful life of 25 years for the water system and the improvements and 5 to 15 years for vehicles and equipment. Depreciation expense for the year ended December 31, 2013 was \$198,538.

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Notes to the Financial Statements (Continued)

E. INCOME TAX STATUS

Southwest Ouachita Waterworks, Inc., is a not-for-profit organization that is exempt from federal income taxes under Section 501 (c) (12) of the Internal Revenue Code.

The water system's Forms 990, *Return of Organization Exempt From Income Tax*, for the years ending 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they are filed.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. INTEREST COSTS

The following provides disclosure on interest costs for the year ended December 31, 2013:

| | |
|---------------------------------|-----------------|
| Total interest cost expensed | \$92,396 |
| Total interest cost capitalized | <u>NONE</u> |
| Total interest costs incurred | <u>\$92,396</u> |

H. FUNCTIONAL ALLOCATION OF EXPENSES

Southwest Ouachita Waterworks, Inc.'s , only activity is to provide water service to its members. All costs incurred by Southwest Ouachita Waterworks, Inc., are incurred for the purpose of providing water service; therefore, it is not feasible to allocate expenses between program services and support services.

2. DEPOSITS IN FINANCIAL INSTITUTIONS

At December 31, 2013, Southwest Ouachita Waterworks, Inc. had cash and investments - certificates of deposit (book balances) as follows:

| | |
|--|---------------|
| Non-interest-bearing checking accounts | \$610,556 |
| Certificate of deposit | <u>46,049</u> |

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Notes to the Financial Statements

Total \$656,605

Cash (bank balances) at December 31, 2013 were not fully secured by FDIC insurance.

3. RECEIVABLES

Receivables at December 31, 2013 consist of the following:

| | |
|---|------------------|
| Water sales | \$128,154 |
| Overpayment of payroll taxes | 400 |
| Less - allowance for uncollectible accounts | <u>(8,500)</u> |
| Net | <u>\$120,054</u> |

4. FIXED ASSETS

A summary of fixed assets at December 31, 2013 follows:

| | |
|-------------------------------------|--------------------|
| Land | \$9,450 |
| Water system | 6,667,603 |
| Office equipment | 36,572 |
| Vehicles and construction equipment | <u>223,957</u> |
| | 6,937,582 |
| Less accumulated depreciation | <u>(4,321,316)</u> |
| Net | <u>\$2,616,266</u> |

5. LOANS PAYABLE

On November 15, 2010, Southwest Ouachita Waterworks, Inc., obtained a \$2,740,959 loan from Chase Bank to payoff the remaining principal and interest due on a loan dated September 4, 2008 obtained from Ouachita Independent Bank (OIB) that was used to upgrade the water system. The interest rate on the Chase bank loan is 4.25%. Principal and interest on the loan will be repaid in 119 monthly payments of \$28,212 beginning January 1, 2011 and one final payment due January 1, 2021 of all outstanding principal and interest due. The loan is secured by a security interest in the water system's seven water wells.

On August 23, 2012, Southwest Ouachita Waterworks, Inc., entered into an agreement with the State of Louisiana Department of Transportation and Development (DOTD) for Utility Relocation Assistance

SOUTHWEST OUACHITA WATERWORKS, INC.

West Monroe, Louisiana

Notes to the Financial Statements

Funding (URAF) to relocate the water system's water lines that were located within the limits of a road construction project on LA 3033. The agreement provided for an estimated project cost of \$119,705 to be funded by the state through a URAF loan. The actual cost of the project was \$81,396. During 2013, the water system was reimbursed for the total cost of the project through a URAF loan. The agreement with DOTD provides that Southwest Ouachita Waterworks, Inc., will repay the URAF funds in a lump sum when billed by DOTD. The agreement also allows Southwest Ouachita Waterworks, Inc., to request to repay in partial payments, in exchange for goods or services or any combination thereof. The request for repayment in a method other than lump sum must be submitted in writing to DOTD within 90 days from billing.

The following is a summary of loans payable transactions for the year ended December 31, 2013:

| | Chase Bank Loan | URAF Loan | Total |
|------------------------------------|-----------------------|-----------------|--------------------|
| Loans payable at January 1, 2013 | \$2,256,369 | NONE | \$2,256,369 |
| Additions | | \$81,396 | 81,396 |
| Reductions | (246,149) | | (246,149) |
| Loans payable at December 31, 2013 | <u>\$2,010,220</u> | <u>\$81,396</u> | <u>\$2,091,616</u> |

The annual requirements to amortize the Chase Bank loan outstanding at December 31, 2013 are as follows:

| Year | Principal | Interest | Total |
|-------------|--------------------|------------------|--------------------|
| 2014 | \$251,923 | \$86,621 | \$338,544 |
| 2015 | 262,778 | 75,766 | 338,544 |
| 2016 | 274,102 | 64,442 | 338,544 |
| 2017 | 285,913 | 52,631 | 338,544 |
| 2018 | 298,233 | 40,311 | 338,544 |
| 2019 - 2021 | <u>637,271</u> | <u>41,589</u> | <u>678,860</u> |
| Total | <u>\$2,010,220</u> | <u>\$361,360</u> | <u>\$2,371,580</u> |

6. CONCENTRATION OF INDEBTEDNESS

As discussed in Note 5 above, approximately 96% of the water system's debt is with Chase Bank. The collateral for this debt is described in Note 5.

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Notes to the Financial Statements

7. DESIGNATED CASH AND INVESTMENTS

The water system has set aside a total of \$70,799 in a checking account and a certificate of deposit to refund customer meter deposits as needed.

8. SUBSEQUENT EVENTS

Southwest Ouachita Waterworks, Inc., has evaluated subsequent events through April 15, 2014, the date which the financial statements were available to be issued.

M. CARLEEN DUMAS
Certified Public Accountant
369 Donaldson Road. Calhoun, Louisiana. Telephone 318/644-5726

**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***

BOARD OF DIRECTORS
SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

I 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 Southwest Ouachita Waterworks, Inc., as of and for the year ended December 31, 2013, and the related notes to the financial statements, which comprise Southwest Ouachita Waterworks, Inc.'s financial statements, and have issued my report thereon dated April 15, 2014.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Current Year Findings and Management's Planned Corrective Action, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in

Member of the American Institute of Certified Public Accountants
Member of the Society of Louisiana of Certified Public Accountants

BOARD OF DIRECTORS
SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Independent Auditor's Report
on Compliance and on
Internal Control, etc.,
December 31, 2013

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. I consider the deficiencies described in the accompanying Schedule of Current Year Findings and Management's Planned Corrective Action as 2013-1 and 2013-2 to be material weaknesses.

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. I consider the deficiency described in the accompanying Schedule of Current Year Findings and Management's Planned Corrective Action as 2013-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Ouachita Waterworks, Inc.'s financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Southwest Ouachita Waterworks, Inc.'s Responses to Findings

Southwest Ouachita Waterworks, Inc.'s responses to the findings identified in my audit are described in the accompanying Schedule of Current Year Findings and Management's Planned Corrective Action. Southwest Ouachita Waterworks, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion of the effectiveness of Southwest Ouachita Waterworks, Inc.'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 Southwest Ouachita Waterworks, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s Carleen Dumas
Callhoun, Louisiana
April 15, 2014

SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana

Schedule of Current Year Findings and
Management's Planned Corrective Action
For the Year Ended December 31, 2013

Section I - Summary of Auditor's Reports

Financial Statements

1. Type of auditor's report issued - Unmodified.
2. Internal control over financial reporting:

Material weakness(es) identified? - Yes
Significant deficiency(ies) identified? - Yes
3. Noncompliance material to financial statements noted? - No

Section II - Financial Statement Findings

2013-1. Inadequate Segregation of Accounting Duties

Criteria: Proper internal controls require that accounting duties be performed by separate individuals so that one individual could not perpetrate and conceal errors or irregularities without them being detected by another individual who was performing his or her assigned duties.

Condition: The accounting duties of collecting, depositing, and posting customer payments to customers accounts may be performed by any of the office employees.

Effect: Errors or irregularities may not be detected within a timely period.

Recommendation: None

Management's Planned

Corrective Action: It is not economically feasible to correct this deficiency based on the size of the water system.

BOARD OF DIRECTORS
SOUTHWEST OUACHITA WATERWORKS, INC.
West Monroe, Louisiana
Schedule of Current Year Findings and
Management's Planned Corrective Action

2013-2. Inadequate Controls Over Preparation of Annual Financial Statements

Criteria: The water system's annual financial statements should be prepared in accordance with generally accepted accounting principles. The water system should have internal controls in place to prevent, detect, or correct a misstatement of those financial statements.

Condition: Due to its size, the water system does not have an individual with the expertise to perform these internal control functions effectively.

Effect: Misstatements in the financial statements may not be detected within a timely period.

Recommendation: None

Management's Planned

Corrective Action: It is not economically feasible to correct this deficiency based on the size of the water system.

2013-3. Noncompliance with Established Internal Controls Over Cash Disbursements

Criteria: The water system's internal control over cash disbursements require that a board member review invoices for payment and document this review by initialing the invoice.

Condition: During my test of expenses, I noted that 8 out of 40 invoices examined were not initialed by a board member.

Effect: The failure to properly review invoices for payment could result in payments for unauthorized goods or services.

Recommendation: I recommend that board members signing checks review and initial all invoices paid.

Management's Planned

Corrective Action: Check signers will continue to review and initial all invoices. The office manager will review the invoices to ensure that they have been initialed by the check signer before filing them in the accounts payable files.