

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**ANNUAL FINANCIAL REPORT
AND INDEPENDENT AUDITORS' REPORT**

For the Year Ended December 31, 2011

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUL 05 2012

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2011**

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**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA
December 31, 2011**

COMMISSIONERS

**Donny Greene – President
Rex Dansby – Vice President
Bernadette Stevens – Secretary- Treasurer
Bill Miller – Member
Holland Guillory – Member**

ADMINISTRATION OFFICIALS

**Mike Wittler – Superintendent
Sheila Ozane – Office Manager**

LEGAL COUNSEL

Robert Kleinschmidt – Assistant District Attorney

ENGINEER

D.W. Jessen, Jr., P.E.



Langley, Williams & Company, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 4690
LAKE CHARLES, LOUISIANA 70606-4690
205 W. COLLEGE STREET
LAKE CHARLES, LOUISIANA 70605-1625
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MEMBERS OF-
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS
TEXAS STATE BOARD
OF PUBLIC ACCOUNTANCY
PUBLIC COMPANY
ACCOUNTING OVERSIGHT BOARD
CENTER FOR PUBLIC
COMPANY AUDIT FIRMS

LESTER LANGLEY, JR.
DANNY L. WILLIAMS
PHILLIP D. ABSHIRE, JR.
DAPHNE BORDELON BERKEN

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Gravity Drainage District No. 4
of Calcasieu Parish
Calcasieu Parish Police Jury
Lake Charles, Louisiana

We have audited the accompanying financial statements of the governmental activities of Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, a component unit of the Calcasieu Parish Police Jury, as of and for the year ended December 31, 2011, which comprises the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

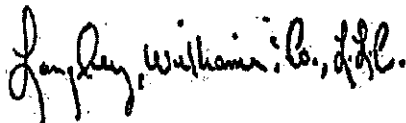
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, as of December 31, 2011, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information on page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of management, and Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Lake Charles, Louisiana
May 20, 2012

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**STATEMENT OF NET ASSETS
December 31, 2011**

ASSETS

Cash and cash equivalents	\$ 2,526,340
Investments	7,087,541
Ad valorem taxes receivable, net of allowance for doubtful accounts of \$33,715	3,304,381
Other receivables	83
Capital assets, net	<u>13,544,269</u>
Total assets	<u>26,462,614</u>

LIABILITIES

Accounts payable	43,504
Contracts payable	14,278
Other current liabilities	58,592
Lawsuit payable	<u>570,220</u>
Total liabilities	<u>686,594</u>

NET ASSETS

Investment in capital assets	13,544,269
Fund balance - unrestricted	<u>12,231,751</u>
Total net assets	<u>\$ 25,776,020</u>

The notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**STATEMENT OF ACTIVITIES
For the Year Ended December 31 2011**

<u>Activities</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Capital Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:			
Drainage	\$ 2,003,554	\$ -	\$ (2,003,554)
Administration	535,361	-	(535,361)
Total governmental activities	<u>\$ 2,538,915</u>	<u>\$ -</u>	<u>(2,538,915)</u>
General revenues:			
			3,195,104
			78,038
			68,286
			39,612
			57,338
Total general revenues			<u>3,438,378</u>
Change in net assets			899,463
Net assets at beginning of year			<u>24,876,557</u>
Net assets at end of year			<u>\$ 25,776,020</u>

The notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**BALANCE SHEET - GOVERNMENTAL FUND
December 31, 2011**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,526,340
Investments	7,087,541
Ad valorem taxes receivable, net of allowance for doubtful accounts of \$33,715	3,304,381
Other receivables	<u>83</u>
Total assets	<u>\$ 12,918,345</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts payable	\$ 43,504
Contracts payable	14,278
Other current liabilities	58,592
Lawsuit payable	<u>570,220</u>
Total liabilities	686,594
Fund balance:	
Unassigned	<u>12,231,751</u>
Total liabilities and fund balance	<u>\$ 12,918,345</u>

The notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS- TO THE STATEMENT OF NET ASSETS
December 31, 2011**

FUND BALANCE OF GOVERNMENTAL FUNDS **\$ 12,231,751**

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital asset used in governmental activities are not financial
resources and, therefore, are not reported in the funds.
Those assets consists of:

Cost of capital assets	\$ 23,055,341	
Less - accumulated depreciation	<u>(9,511,072)</u>	<u>13,544,269</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 25,776,020**

The notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended December 31, 2011**

	<u>General Fund</u>
Revenue:	
Ad valorem taxes	\$ 3,195,104
State revenue sharing	78,038
Interest income	68,286
Investment earnings	39,612
Intergovernmental revenue	57,338
Total revenues	<u>3,438,378</u>
 Expenditures:	
Current:	
Administrative	
Salaries and benefits	168,304
Materials	16,500
Operating services	249,199
Other program expenses	99,296
Drainage and flood control:	
Salaries and benefits	660,615
Operating services	665,965
Materials and supplies	180,962
Capital outlay	608,649
Total expenditures	<u>2,649,490</u>
Excess of revenues and over expenditures	788,888
 Fund balance at beginning of year	<u>11,442,863</u>
 Fund balance at end of year	<u>\$ 12,231,751</u>

The notes are an integral part of this statement.

GOVERNMENTAL FUND- TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31 2011

	<u>Total Governmental Fund</u>
Total net change in fund balances - governmental fund-per the Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 788,888
 Amounts reported for governmental activities in the Statement of Activities are different because:	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.	
Capital asset purchases	608,649
Depreciation expense	<u>(498,074)</u>
 Change in net assets of governmental activities	 <u>\$ 899,463</u>

The notes are an integral part of this statement.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

Gravity Drainage District No. 4(District), a component unit of the Calcasieu Parish Police Jury, is responsible for maintenance of certain natural drainage laterals located in Ward 3, Calcasieu Parish. The District is authorized by R.S. 38:1751 to establish policies and regulations for its own government consistent with the laws of the State of Louisiana. The Drainage Board is comprised of 5 members who are appointed by the Calcasieu Parish Police Jury for terms of four years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

B. REPORTING ENTITY

As the governing authority of the parish, for reporting purposes, the Calcasieu Parish Police Jury is the financial reporting entity for Calcasieu Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Calcasieu Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. The ability of the police jury to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
2. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. REPORTING ENTITY – (Continued)

Because the police jury financial statements would be misleading if data of the organization were not included because of the nature or significance of the relationship, the District was determined to be a component unit of the Calcasieu Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the police jury, the general government services provided by that government unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate fiscal and accounting entity with a self-balancing set of accounts.

The District maintains one fund to account for its operations which it has classified as a general fund. General funds are used to account for all revenue sources that are legally restricted to expenditures for specific purpose.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenditures (or expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are prepared 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. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds. The primary effect of internal activity (between or within funds) has been eliminated from the government-wide financial statements.

In the fund financial statements, governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, the following practices are utilized in recording revenues and expenditures:

Revenues – The governmental fund type uses a current financial resources measurement focus and is accounted for using the modified accrual basis of accounting. The revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING – (Continued)

Those revenues susceptible to accrual are property taxes, intergovernmental, and interest revenue. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Expenditures – Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

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 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.

E. BUDGETS AND BUDGETARY ACCOUNTING

Under GASBS No. 34, budgetary comparison information is required to be presented for the general fund with a legally adopted budget.

For further information regarding the District's budget process see Note 11.

F. CASH, CASH EQUIVALENTS AND INVESTMENTS

The District follows the practice of pooling cash and investments of all funds. For financial statement purposes, the District's cash and cash equivalents are considered cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investment program is limited to purchases of U.S. Treasury and government agency obligations as well as investments in the Louisiana Asset Management Pool, Inc. (LAMP). LAMP is a nonprofit organization organized under the laws of the State of Louisiana, which operates a local government investment pool.

Investments are reported at fair value except for LAMP investments, which are stated at cost, which approximates market and is equal to the value of the pool shares. Fair value was determined by obtaining "quoted" year end market prices.

For further information regarding the District's cash and investment programs see Note 2 and 3.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. CAPITAL ASSETS

Capital assets are reported in the governmental columns in the government-wide financial statements. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$2,000.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and building improvements	15 to 40 years
Improvements, other than buildings	5 to 40 years
Furniture and fixtures	3 to 10 years
Machinery and equipment	3 to 15 years
Infrastructure	15 to 40 years

In the governmental fund financial statements, the costs associated with the acquisitions or construction of capital assets are shown as expenditures. Capital assets are not shown on the governmental fund balance sheets.

H. VACATION AND SICK LEAVE

Substantially all employees earn five to twenty days of vacation leave each year depending on length of service with the District. Generally, vacation leave cannot be accumulated. However, vacation leave is allowed to be carried forward for the Superintendent, the Assistant Superintendent and the Office Manager, however, the liability is not considered by management to be material and the liability has not been accrued.

All District employees earn twelve and one-half hours of sick leave per month. Sick leave can be accumulated without limitation. Upon retirement, all unused sick leave is used in the retirement benefit computation as earned service.

Upon resignation, unused sick leave is forfeited and unused vacation leave must be taken and may not be settled in cash. Because these liabilities will not be settled in cash, they are not included in the financial statements.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank accounts and short-term investments. At December 31, 2011, the district has cash and cash equivalents (book balances) totaling \$2,526,340 (See Note 1-F for additional disclosures.)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. Deposits are exposed to custodial credit risk if they are either (a) uninsured and uncollateralized or (b) uninsured and collateralized with securities held by the pledging financial institution or its trust department/agent but not in the name of the District. The District's cash and investment policy, as well as state law, require that deposits be fully secured by federal deposit insurance or the pledge of securities owned by the bank. The fair value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount of deposit with the bank.

These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2011, the district has \$2,541,475 in deposits (collected bank balances) that were secured from risk by \$250,000 of federal deposit insurance and \$4,562,960 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

3. INVESTMENTS

Investments are stated at fair market value. (See Note 1-F for additional investment disclosure.)

The District has entered into an agreement with the Calcasieu Parish Police Jury whereby the Police Jury provides investment management services. At December 31, 2011, the fair value of the District's investment in U.S. agency securities was \$1,498,275.

Credit Risk – Investments

Investments permitted by state statute included obligations issued, insured or guaranteed by the U.S. government including certificates or other evidences of ownership interest in such obligations and/or investments in registered mutual or trust funds consisting solely of U.S. government securities. It is the policy of the District to limit its investment program to purchases of U.S. Treasury and government agency obligations as well as investments in the Louisiana Asset Management Pool, Inc. (LAMP). LAMP is a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana which operates a local government investment pool. LAMP has a Standard & Poor's Rating of AAAM. At December 31, 2011, the weighted-average yield on the deposits at LAMP was 0.11% and the weighted-average maturity was less than 90 days.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS – (Continued)

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of the investment. Investments are exposed to custodial credit risk if the securities are (a) uninsured and unregistered and held by the counterparty or (b) uninsured, unregistered and held by the counterparty's trust department or agency but not in the name of the District.

The following chart presents the investment position of the District as of December 31, 2011. The various types of investments are listed and presented by whether they are exposed to custodial credit risk.

<u>Investment</u>	<u>Uninsured, unregistered and Held by the Counterparty</u>	<u>Uninsured Unregistered and Held by the Counterparty's Trust Dept. or Agent but not in the Entity's Name</u>	<u>All Investments- Reported Amount</u>	<u>All Investments- Fair Value</u>
U.S. Agency Obligations	\$ -	\$ -	\$ 1,498,275	\$ 1,498,275
LAMP	-	-	589,266	589,266
Repurchase Agreements **	-	-	5,000,000	5,000,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,087,541</u>	<u>\$ 7,087,541</u>

** For the repurchase agreements related to the overnight sweep arrangements, the underlying securities are held in the fiscal agent bank's Federal Reserve account in the name of "JPMorgan Chase for the benefit of its Repo Sweep Clients." JPMorgan Chase in returns pledges U.S. Treasury, Government or Agency securities as collateral. The securities will be held in the District's name free of encumbrances with a unique CUSIP number assigned to identify the security and the District as the owner of the security. The security is held in safekeeping at the St. Louis branch of the Federal Reserve Bank. Funds held in the Repo Sweep account are continuously backed by the Repurchase Agreement security.

Interest Rate Risk - Investments

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of investments. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics. The District's investment policy with regards to interest rate risk is to match cash flow requirements with cash flows from investments. This matching allows for securities to be held to maturity thereby avoiding realizing losses due to the liquidation of securities prior to maturity, especially in a rising interest rate environment. Investing in longer term maturities that contain a "step up" in coupon interest rates will also contribute to the reduction of interest rate risk.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS – (Continued)

Investments, classified by maturity dates, at December 31, 2011 are summarized below:

<u>Investment</u>	<u>Fair Value</u>	<u>0-1 Years Before Maturity</u>	<u>1-5 Years Before Maturity</u>
U.S. Agency Obligations	\$ 1,498,275	\$ -	\$1,498,275
LAMP	589,266	589,266	-
Repurchase Agreements	5,000,000	5,000,000	-
	<u>\$ 7,087,541</u>	<u>\$ 5,589,266</u>	<u>\$ 1,498,275</u>

4. AD VALOREM TAXES

Accounting principles generally accepted in the United States of America for government prescribe a modified accrual basis to be applied to property tax revenues. An assessment is made to finance the budget of a particular period and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was provided (budgeted) and for which the collections are reasonably available. Expected collections and collections of the 2011 levy are accrued as receivable and as revenue in the current year (2011). For budget purposes, property taxes collected in 2011 are designated as revenue appropriable in the 2011 budget year.

For the year ended December 31, 2011, taxes of 5.79 mills were levied on property with assessed valuations totaling approximately \$556,750,390. Total taxes levied for the year ended December 31, 2011 were \$3,223,598.

During the year, the tax assessor made adjustments to previous year taxpayer valuations and wrote off a total of \$16,508 worth of taxes. This amount was netted with current year ad valorem taxes along with \$721 that management deemed necessary to adjust their allowance for uncollectible.

Property tax millage rates are adopted in June for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31. Property taxes not paid by the end of February are subject to lien.

The parish bills and collects its property taxes using the assessed values determined by the Calcasieu Parish Tax Assessor.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 1/1/11	Additions	Deletions	Balance 12/31/11
Governmental activities:				
Land	\$ 325,990	\$ -	\$ -	\$ 325,990
Buildings	71,409	-	-	71,409
Furniture and fixtures	48,345	-	-	48,345
Light equipment	339,631	35,885	-	375,516
Heavy equipment	1,305,789	66,003	-	1,371,792
Infrastructure	20,348,737	211,295	-	20,560,032
Construction in progress	7,427	302,893	7,427	302,893
Total at historical cost	<u>22,447,328</u>	<u>616,076</u>	<u>7,427</u>	<u>23,055,977</u>
Less accumulated depreciation:				
Buildings	20,962	2,210	-	23,172
Furniture and fixtures	30,093	4,804	-	34,897
Light equipment	254,297	26,362	-	280,659
Heavy equipment	1,113,260	48,800	-	1,162,060
Infrastructure	7,595,022	415,898	-	8,010,920
Total accumulated depreciation	<u>9,013,634</u>	<u>498,074</u>	<u>-</u>	<u>9,511,708</u>
Governmental activities capital assets, net	<u>\$ 13,433,694</u>	<u>\$ 118,002</u>	<u>\$ 7,427</u>	<u>\$ 13,544,269</u>

Depreciation expense was \$498,074 for December 31, 2011.

6. RETIREMENT SYSTEMS

Defined benefit pension plan:

Plan description:

Substantially all employees are members of the Parochial Employees' Retirement System of Louisiana. Act 205 of 1952 established this retirement system, effective January 1, 1953. A comprehensive revision of the Parochial Employees' Retirement System law became effective January 1, 1980. This retirement system is operated by a Board of Trustees, an Administrative Director, an Actuary and a Legal Advisor.

All permanent employees of the District who work at least 28 hours a week shall become members on the date of employment. Members become entitled to receive retirement benefits after 10 years of creditable service. Eligibility to actually begin receiving benefits is a function of fulfilling the eligibility provisions of age and service.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

6. RETIREMENT SYSTEMS – (Continued)

Members with 10 years of creditable service may retire at age sixty; members with 25 years of service may retire at age fifty-five; members with 30 years of service may retire regardless of age. The retirement allowance is equal to three percent of the member's final average compensation (defined as the average of the highest consecutive 36 months) multiplied by his years of creditable service.

Act 338 of 1990 established the Deferred Retirement Option Plan (DROP) for this retirement system. DROP is an option for those members who have been eligible for normal retirement for one year. The plan allows the pension benefit that is accrued at that point in time to be calculated and to accumulate with the retirement system while the DROP participant continues to work, freezing the future retirement benefit at retirement.

Funding policy:

The system is funded primarily by employer and employee contributions which are expressed as percentages of payroll. The amount of employee contributions is fixed by law. Covered employees were required by Louisiana state statute to contribute 9.5% of their salary to the plan for the years 2004 - 2011. The District was required by the same statute to contribute 15.75% in 2011 and 2010 of eligible salaries. In addition, each sheriff and ex officio tax collector deducts one-fourth of one percent of the aggregate amount of the tax shown to be collected by the tax roll of each respective parish (excepting Orleans and East Baton Rouge Parish) and remits the money to the system on an annual basis. The cost of operating the system is funded by a portion of the contribution.

The District's contributions to the Parochial Employees' Retirement System of Louisiana for each of the years ending December 31, 2011, 2010 and 2009 are presented below. These contributions are equal to the required contributions for each year.

	2011	2010	2009
Employer's contribution	\$ 80,608	\$ 77,709	\$ 64,295
Employee's contribution	41,368	43,888	46,565
Funded via ad valorem taxes	98,133	95,496	87,718
	\$ 220,109	\$ 217,093	\$ 198,578

The Drainage District does not guarantee any benefits granted by the retirement system.

7. EMPLOYEE BENEFIT PLAN

The District maintains a medical and death benefits plan covering substantially all employees of the District. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and is funded through contributions made by the District through premiums and expenditures made by the District. Effective October 1, 2001, the District changed its medical benefits plan to provide medical benefits through a health insurance policy for which the District is responsible for the premium costs only.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

7. EMPLOYEE BENEFIT PLAN – (Continued)

The plan provides benefits that cover permanent, full-time employees of the District who choose to participate following the employee waiting period. The employee waiting period for all new employees is the first of the month following three months of full-time employment. Employees are not required to contribute to the plan in order to participate. The plan also provides continuation coverage as required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) for qualified beneficiaries who would otherwise have lost coverage under the plan.

Although it has not expressed intent to do so, the District has the right to discontinue its contributions at any time and to terminate the plan subject to the provisions of ERISA.

8. BAD DEBTS

Uncollectible amounts due for ad valorem taxes are recognized as bad debts at the time information becomes available which would indicate the uncollectibility of the particular receivable. Tax revenue is shown net of the change in estimated uncollectible taxes of \$721.

9. SCHEDULE OF COMMISSIONERS' COMPENSATION

Comissioner:	
Rex Dansby	\$ 4,600
Donny Greene	4,800
Holland Guillory	4,800
Bill Miller	4,800
Bernadette Stevens	<u>4,400</u>
Total	<u>\$ 23,400</u>

Commissioners are compensated at the rate of \$400 per month.

10. LITIGATION

The District was involved in a lawsuit that involved flooding during Hurricane Rita. This matter went to trial on February 22, 2010 and after a multi-week trial, a verdict was rendered in favor of the plaintiffs and against the District in the amount of \$1,570,220 together with legal interest thereon. The judgment was also issued against the District's insurer for its policy limit of \$1,000,000 of the \$1,570,220 amount, together with interest thereon.

On May 26, 2010, a related judgment taxing appropriate court cost was entered against the District in the amount of \$48,297. The policy issued by the District's insurer indicates that it "shall pay, with the respect to any claim or suit" it defends, "all costs taxed against the Insured" in this suit.

The District has accrued their portion of the judgment in the amount of \$570,220 in the accompanying financial statements.

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

11. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

On or before the last meeting of each year, the budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The appropriated budget is prepared by fund and function. The proposed budget is presented to the District's Board of Commissioners for review. The board holds a public hearing and may add to, subtract from, or change appropriations, but may not change form of the budget. Any changes in the budget must be within the revenues and reserves estimated.

Encumbrance accounting is not used.

12. COMMITMENTS

In the normal course of business, the District has approved funding of various projects that are to be started throughout 2012.

The District's total commitment for the projects at December 31, 2011 is \$987,140.

13. SUBSEQUENT EVENTS

Management of the District has evaluated its December 31, 2011 financial statements for subsequent events through May 20, 2012, the date the financial statements were available to be issued. Other than the circumstance noted below, Management is not aware of any subsequent events which would require recognition of disclosure in the financial statements.

As discussed in Note 12, the District has funded projects totaling \$73,294, with \$913,846 still remaining committed.

Required Supplemental Information

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE (GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenue:				
Ad valorem taxes	\$ 3,006,889	\$ 3,006,889	\$ 3,195,104	\$ 188,215
State revenue sharing	80,430	78,038	78,038	-
Interest income	200,000	100,000	68,286	(31,714)
Investment earnings	-	-	39,612	39,612
Intergovernmental	-	57,338	57,338	-
Miscellaneous	-	4,673	-	(4,673)
Total revenues	3,287,319	3,246,938	3,438,378	191,440
Expenditures:				
Current:				
Administrative				
Salaries and benefits	132,987	165,767	168,304	(2,537)
Operating services	220,547	241,632	249,199	(7,567)
Materials and supplies	18,338	15,848	16,500	(652)
Other program expenses	85,300	99,472	99,296	176
Drainage and flood control:				
Salaries and benefits	521,985	650,650	660,615	(9,965)
Operating services	589,394	645,742	665,965	(20,223)
Materials and supplies	201,123	173,808	180,962	(7,154)
Capital outlay	894,200	676,272	608,649	67,623
Total expenditures	2,663,875	2,669,192	2,649,490	19,702
Excess (deficit) of revenue over expenditures - budget basis	623,444	577,746	788,888	211,142
Fund balance at beginning of year	11,442,863	11,442,863	11,442,863	-
Fund balance at end of year	\$12,066,307	\$12,020,609	\$12,231,751	\$ 211,142

Other Supplemental Information



Langley, Williams & Company, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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COMPANY AUDIT FIRMS

LESTER LANGLEY, JR.
DANNY L. WILLIAMS
PHILLIP D. ABSPHIRE, JR.
DAPHNE BORDELOU BERKEN

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Gravity Drainage District No. 4
of Calcasieu Parish
Lake Charles, Louisiana

We have audited the financial statements of Gravity Drainage District No. 4 of Calcasieu Parish as of and for the year ended December 31, 2011, and have issued our report thereon dated May 20, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of current and prior audit findings and corrective action plan that we consider to be significant deficiencies in internal control over financial

Gravity Drainage District No. 4
of Calcasieu Parish
Page 2

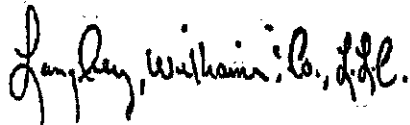
reporting. We consider items 11-01(IC) and 11-02(IC) to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Gravity Drainage District No. 4 of Calcasieu Parish, the District's management, the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Lake Charles, Louisiana
May 20, 2012

**GRAVITY DRAINAGE DISTRICT NO. 4
OF CALCASIEU PARISH, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011**

Section I - Summary of Audit Results

Financial Statements

Type of auditors' report issued **Unqualified**

Internal control over financial reporting:

- Material weakness identified?** **No**
- Significant deficiencies identified that are not considered to be material weaknesses?** **Yes**

Noncompliance material to financial statements noted? **No**

Gravity Drainage District No. 4
of Calcasieu Parish, Louisiana

Summary Schedule of Current and Prior Year Audit Findings
and Corrective Action Plan

For the Year Ended December 31, 2011

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Planned	Name of Contact Person	Anticipated Completion Date
Current year (12/31/2011)						
Internal Control:						
11-01 (IC)	Unknown	Gravity Drainage District No. 4 did not have adequate segregation of duties within the accounting system.	No	The District's management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible. No plan is considered necessary.	Sheila Ozane	NA
11-02 (IC)	2007	Gravity Drainage District No. 4 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 related notes.	No	The District's management 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 interest of the government 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.	Sheila Ozane	NA

Compliance: There were no matters involving compliance to be reported.

Gravity Drainage District No. 4
of Calcasieu Parish, Louisiana

Summary Schedule of Current and Prior Year Audit Findings
and Corrective Action Plan - Continued

For the Year Ended December 31, 2010

Prior year (12/31/10)	Internal Control:	Gravity Drainage District No. 4 did not have adequate segregation of duties within the accounting system.	No	The District's management has determined that it is not cost effective to achieve complete segregation of duties in the accounting department. They have, however, segregated as many duties as possible. No plan is considered necessary.	Sheila Ozano	NA
10-01 (IC)	Unknown	Gravity Drainage District No. 4 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 related notes.	No	The District's management 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 interest of the government 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.	Sheila Ozano	NA
10-02 (IC)	2007	For the year ended December 31, 2010, actual expenses exceeded budgeted expenses by more than 5%. State law requires that actual revenue and expenditures fall within 5% of budget	Yes	Monitor budget process carefully to account for the differences between budget and actual.	Sheila Ozano	Done

Compliance:

10-01 (C) 2010 For the year ended December 31, 2010, actual expenses exceeded budgeted expenses by more than 5%. State law requires that actual revenue and expenditures fall within 5% of budget