

West Ouachita Sewerage District No. 5
(A Component Unit of the Ouachita Parish Police Jury)

Financial Statements

For the Years Ended August 31, 2012 and 2011

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2012 and 2011**

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WEST OUACHITA SEWERAGE DISTRICT NO. 5
(A COMPONENT UNIT OF THE OUACHITA PARISH POLICE JURY)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2012 and 2011

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LUFFEY, HUFFMAN, RAGSDALE & SOIGNIER

(A PROFESSIONAL ACCOUNTING CORPORATION)
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

**Board of Commissioners
West Ouachita Sewerage District No. 5
West Monroe, Louisiana**

We have audited the accompanying financial statements of the business-type activities of **West Ouachita Sewerage District No. 5** (the District), a component unit of the Ouachita Parish Police Jury, as of and for the years ended August 31, 2012 and 2011 as listed in the accompanying Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits 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 audits provide 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 business-type activities of West Ouachita Sewerage District No. 5 as of August 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Board of Commissioners
West Ouachita Sewerage District No. 5**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the Other Post Employment Benefits – Schedule of Funding Progress on page 32 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The accompanying information listed as supplemental information in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Schedule of Insurance Coverage - Schedule 2, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Huffey, Huffman, Reynolds, & Seignier

(A Professional Accounting Corporation)

February 28, 2013

REQUIRED SUPPLEMENTAL INFORMATION (PART A)

WEST OUACHITA SEWERAGE DISTRICT NO. 5
(A Component Unit of the Ouachita Parish Police Jury)
Management's Discussion and Analysis
For the Years Ended August 31, 2012 and 2011

As management of the West Ouachita Sewerage District No. 5 (A Component Unit of the Ouachita Parish Police Jury) (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's activities for the years ended August 31, 2012 and 2011. Please read it in conjunction with the District's financial statements.

Required Financial Statements

The Basic Financial Statements of the District report information about the District using the Governmental Accounting Standards Board's (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources (assets) and the obligations to the District's creditors (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets. This statement measures the District's operations over the past year and can be used to determine whether the District has been able to recover all of its costs through its customer charges and other revenue sources. The final required statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash from operating, noncapital financing, capital financing, and investing activities and to provide answers to such questions as "Where did cash come from?", "What was cash used for," and "What was the change in cash balance during the reporting period?"

A summary of the District's Statements of Net Assets is presented as follows:

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Current and other assets	\$ 5,126,880	\$ 4,430,221	15.73%
Restricted assets	112,200	131,530	-14.70%
Capital assets, net of depreciation	<u>10,038,155</u>	<u>7,401,696</u>	<u>35.62%</u>
Total assets	<u>15,277,235</u>	<u>11,963,447</u>	<u>27.70%</u>
Current liabilities	988,085	217,345	354.62%
Current liabilities payable from restricted assets	112,200	131,530	-14.70%
Long-term liabilities	<u>2,022,701</u>	<u>22,859</u>	<u>8748.60%</u>
Total liabilities	<u>3,122,986</u>	<u>371,734</u>	<u>740.11%</u>
Investment in capital assets, net of related debt	7,935,299	7,401,696	7.21%
Unrestricted net assets	<u>4,218,950</u>	<u>4,190,017</u>	<u>0.69%</u>
Total net assets	<u>\$ 12,154,249</u>	<u>\$ 11,591,713</u>	<u>4.85%</u>

Investment in capital assets represents the District's long-term investment in capital assets, net of accumulated depreciation, and is not available for current operations.

The total net assets of the District at August 31, 2012 were \$12,154,249. Net assets can be separated into three categories: capital assets net of related debt, restricted, and unrestricted assets.

Net capital assets of \$7,935,299 consist of capital assets at original cost of \$23,353,722 less depreciation of \$13,315,567 and related debt of \$2,102,857. Accumulated depreciation of \$13,315,567 is the aggregate depreciation expense since acquisition. Depreciation expense is recorded on the original cost of the asset expensed over the estimated useful life of the asset.

The unrestricted net assets of \$4,218,950 are an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

A summary of changes in net assets is presented below:

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Operating income	\$ 2,862,892	\$ 2,762,007	3.65%
Operating expenses	<u>2,457,273</u>	<u>2,433,021</u>	1.00%
Operating income	405,619	328,986	23.29%
Non-operating income and expense	18,835	3,089	509.74%
Capital contributions - developers	<u>138,082</u>	<u>78,482</u>	100.00%
Increase in net assets	<u>\$ 562,536</u>	<u>\$ 410,557</u>	<u>37.02%</u>

In fiscal year 2012, revenues for sewerage fees increased moderately due to an increase in backwash. In 2011, revenues from operations for the District increased significantly, which was primarily attributable to a full 12 months of sewerage fees collected with respect to the new monthly sewerage fees schedule, as compared to only 10 months of collections at the new, increased rates in 2010.

In 2012, the District's expenses increased moderately, which was primarily attributable to increases in treatment plant operations and maintenance and repairs. In 2011, the District's expenses increased sharply, which was mostly due to a one-time adjustment to accumulated depreciation to reflect management's decision to shorten the useful life of lift station pumps from 20 years to 10 years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2012 and 2011, the District had \$23,353,722 and \$20,131,611 respectively invested in capital assets including buildings and improvements, furniture and fixtures, equipment, vehicles, infrastructure, and land (See table below).

Table 3
West Ouachita Sewer District No. 5's Capital Assets

	August 31,	
	2012	2011
Buildings and improvements	\$ 410,162	\$ 410,162
Furniture and fixtures	18,627	18,627
Equipment	470,323	423,320
Vehicles	265,035	209,580
Infrastructure	20,234,624	18,411,849
Construction in progress	1,524,405	282,948
Land	430,546	375,125
Total	23,353,722	20,131,611
Accumulated depreciation	(13,315,567)	(12,729,915)
Net capital assets	\$ 10,038,155	\$ 7,401,696

This year's major additions primarily consisted of capital outlay in connection with the Sparta Aquifer Project, as well as construction in progress relating to the Lift Station "N" Force Main Replacement Project. Additions also included improvements to lift station structures and lines, mains, and manholes.

Debt

In fiscal year 2012, the District issued \$1,918,000 Department of Environmental Quality (DEQ) Sewer Revenue Bonds Series 2011. These bonds are payable over 20 years with interest at the rate of .45% per annum and an administrative fee of .50% per annum. As of August 31, 2012, the ending balance for this loan amounted to the sum of six draws totaling \$1,477,857, which leaves \$440,143 available to be drawn. In fiscal 2011, the District retired its 1977 Sewer Revenue Bonds and 1977 General Obligation Bonds during fiscal year 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At present, the District and the City of West Monroe are under an agreement which sets forth an even share of treatment plant operating maintenance and expense between each party. The current 50%-50% share of expense will be reassessed in the near future, as flow meters have recently been installed which will allow each party's usage to be accurately measured. Upon completion of a study to be performed in the near future, the District and the City will receive a new proration based upon actual usage. Beginning in February 2013, the District's share of treatment plant expense will be averaging approximately \$80,000 per month. However, if the prorated share rises to 60%, the District's share of treatment plant operating expense could rise to as much as approximately \$100,000 monthly. To offset the corresponding increase, the District may need to increase sewerage fees by approximately \$9-12 per month.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terry Cox, District Manager of the West Ouachita Sewerage District No. 5, 327 Wallace Road, West Monroe, Louisiana.

BASIC FINANCIAL STATEMENTS

WEST OUACHITA SEWERAGE DISTRICT NO. 5
STATEMENTS OF NET ASSETS

ASSETS	August 31,	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 4,568,646	\$ 3,935,631
Accounts receivable - customers	475,133	445,735
Inventory	42,497	40,838
Prepaid insurance	6,118	8,017
Total current assets	5,092,394	4,430,221
Restricted assets		
Cash and cash equivalents - customer deposits	112,200	131,530
Capital assets		
Buildings and improvements	410,162	410,162
Furniture and fixtures	18,627	18,627
Equipment	470,323	423,320
Vehicles	265,035	209,580
Lines, mains and manholes	13,101,828	12,723,865
Lift station - pumps	1,789,271	1,733,577
Lift station - structures	2,171,967	2,118,420
Treatment plant	2,067,279	1,835,987
Treatment plant - Sparta water reuse project	1,104,279	-
Total	21,398,771	19,473,538
Less: Accumulated depreciation	(13,315,567)	(12,729,915)
Net depreciable assets	8,083,204	6,743,623
Construction in progress - Lift Station "N"	1,524,405	67,756
Construction in progress - treatment plant	-	215,192
Land	430,546	375,125
Total capital assets	10,038,155	7,401,696
Other assets		
Bond issuance costs - net	34,486	-
TOTAL ASSETS	\$ 15,277,235	\$ 11,963,447

The accompanying notes are an integral part of these financial statements.

	<u>August 31,</u>	
LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
Current liabilities		
Payable from current assets		
Accounts and retainage payable	\$ 841,538	\$ 196,220
Accrued payroll and benefits	18,822	21,125
Bonds payable (Note 4)	88,000	-
Accrued interest payable	11,225	-
Due to other governments - current (Note 6)	28,500	-
Total	<u>988,085</u>	<u>217,345</u>
Payable from restricted assets		
Customer deposits	112,200	131,530
Total	<u>112,200</u>	<u>131,530</u>
Total current liabilities	1,100,285	348,875
Long-term liabilities		
Bonds payable (Note 4)	1,389,857	-
Due to other governments - long term (Note 6)	596,500	-
Other post employment benefits payable	36,344	22,859
Total	<u>2,022,701</u>	<u>22,859</u>
Total liabilities	3,122,986	371,734
Net Assets		
Investment in capital assets, net of related debt	7,935,299	7,401,696
Unrestricted net assets	4,218,950	4,190,017
Total net assets	<u>12,154,249</u>	<u>11,591,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,277,235</u>	<u>\$ 11,963,447</u>

WEST OUACHITA SEWERAGE DISTRICT NO. 5
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED

	August 31,	
	2012	2011
Operating income		
Sewerage fees	\$ 2,842,996	\$ 2,746,073
Inspection fees	13,000	12,600
New connection fees	3,200	2,800
Miscellaneous	3,696	534
Total operating revenues	2,862,892	2,762,007
Operating expenses		
Advertising	2,059	509
Bad debt expense	22,699	16,412
Collection expense	132,500	191,774
Commissioners' fees	2,175	2,100
Depreciation & Amortization (Note 3)	599,952	795,857
Dues and subscriptions	737	857
Gas and oil	41,242	34,594
Insurance	121,755	121,002
Maintenance and repairs	291,866	215,122
Office expense	13,505	11,465
Other post employment benefits	13,485	11,457
Payroll taxes	6,127	8,757
Pension and retirement expense	46,356	49,343
Postage	623	748
Professional fees	51,765	90,677
Salaries and wages	340,747	324,999
Telephone	7,964	7,347
Travel	834	2,873
Treatment plant operations	624,147	394,078
Utilities	136,735	153,050
Total operating expenses	2,457,273	2,433,021
Operating income (loss)	405,619	328,986

(Continued)

The accompanying notes are an integral part of these financial statements.

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS (CONCLUDED)
FOR THE YEARS ENDED**

	August 31,	
	2012	2011
Non-operating income (expenses)		
Property tax and interest	137	225
Interest earned	4,544	4,096
Franchise fees	21,461	24,679
Gain on sale of assets	4,218	1,001
Interest expense	(11,525)	(26,912)
Total Non-operating income	18,835	3,089
Income before contributions	424,454	332,075
Capital contributions - developers	138,082	78,482
Changes in net assets	562,536	410,557
Net assets at beginning of year	11,591,713	11,181,156
NET ASSETS AT END OF YEAR	\$ 12,154,249	\$ 11,591,713

WEST OUACHITA SEWERAGE DISTRICT NO. 5
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED

	August 31,	
	2012	2011
Cash flows from operating activities		
Receipts from customers	\$ 2,787,769	\$ 2,783,518
Other revenue	3,108	534
Payment to suppliers	(779,587)	(1,293,887)
Payment for employee services	(397,708)	(384,434)
Net cash provided by operating activities	1,613,582	1,105,731
Cash flows from noncapital financing activities		
Property tax millage	137	225
Franchise fee	21,461	24,679
Net cash provided by noncapital financing activities	21,598	24,904
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,471,829)	(525,611)
Proceeds from issuance of bonds	1,477,857	-
Principal paid on bonds	-	(1,225,000)
Interest paid on bonds	(300)	(61,250)
Bond issuance costs	(35,985)	-
Net cash used by capital and related financing activities	(1,030,257)	(1,811,861)
Cash flows from investing activities		
Interest received	4,544	4,096
Gain on sale of assets	4,218	1,001
Net cash provided by investing activities	8,762	5,097
Net Increase in Cash and Cash Equivalents	613,685	(676,129)
Cash and Cash Equivalents at Beginning of Year	4,067,161	4,743,290
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,680,846	\$ 4,067,161

(Continued)

The accompanying notes are an integral part of these financial statements.

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
STATEMENTS OF CASH FLOWS (CONCLUDED)
FOR THE YEARS ENDED**

	August 31,	
	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 405,619	\$ 328,986
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	598,452	795,857
Amortization of bond issuance cost	1,499	-
Bad debts	22,699	16,412
Accounts receivable	(52,097)	(59,509)
Inventories	(1,659)	(6,265)
Prepaid insurance	1,899	(1,736)
Accounts payable	645,318	15,125
Accrued payroll and benefits	(2,303)	764
Other post employment benefits	13,485	11,457
Sewer work deposits	-	500
Customer deposits	(19,330)	4,140
Net cash provided by operating activities	\$ 1,613,582	\$ 1,105,731
Cash and cash equivalents on the balance sheet as		
Current assets		
Cash and cash equivalents	\$ 4,568,646	\$ 3,935,631
Restricted assets		
Cash and cash equivalents	112,200	131,530
TOTAL CASH AND CASH EQUIVALENTS	\$ 4,680,846	\$ 4,067,161
Supplemental Disclosure of Noncash Capital Related Financing Activities		
Investment in capital assets	\$ (625,000)	\$ -
Financing by other governments	\$ 625,000	\$ -
Supplemental Disclosure of Noncash Capital Investing Activities		
Contribution of sewerage collection system	\$ 138,082	\$ 78,482

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Note 1 - Summary of Significant Accounting Policies

A. History

West Ouachita Sewerage District No. 5 (the District), was created on January 24, 1974, by the Ouachita Parish Police Jury, through adoption of Ordinance No. 7386, and therefore is a component unit of the Ouachita Parish Police Jury (the Police Jury) and is an integral part of the Police Jury reporting entity. As a governmental entity, the District is exempt from federal and state income taxes. It is governed by a board of commissioners composed of three property taxpayers residing within the District.

The District was constructed with an EPA grant, which financed 75% of the construction and engineering costs. Bonds were sold to provide the funds needed for the local share.

B. Reporting Entity

The Governmental Accounting Standards Board (GASB) is the accepted standard setting authority for generally accepted accounting principles as applied to governmental entities. GASB Statement Number 14 *The Financial Reporting Entity* establishes criteria for determining which component units of governments should be considered part of a primary government for financial reporting purposes.

The basic criterion for determining a component unit is accountability. As the Police Jury appoints a voting majority of the board of commissioners of the District and has the ability to impose its will upon the District, the District is considered a component unit of the Police Jury, the primary governing body of the parish and the governmental body with oversight responsibility.

The accompanying basic 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 primary governmental unit or other component units that comprise the primary government reporting entity.

C. Basis of Accounting

The District has adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities, and a statement of cash flows. It also requires the classification of net assets into three components - invested in capital

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances on any bonds, mortgages, notes, or other borrowings attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – This component of net assets consists of those net assets on which constraints have been placed externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued since November 30, 1989 unless they are adopted by GASB.

The District recognizes income on the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District’s principal ongoing operations. The principal operating revenues are charges to customers for service. Customers are billed monthly for services received during the month. The District also recognizes as operating revenues the fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. Residential, multi-housing, and multi-unit services are charged \$21 per month.
 - a. The multi-housing is based on a 100% occupancy factor.
 - b. The multi-unit is based on a physical count each month.
2. Commercial services was charged \$2.625 per 1,000 gallons of water per month (metered water usage).

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

3. Institutional billing is based on monthly water use at \$21 per 8,000 gallons used.
4. Industrial billing is based on average monthly water use plus Industrial Cost Recovery factor and surcharge for excessive pollutant concentration.

The District provided services to 8,568 residential customers and 488 institutional and industrial customers at August 31, 2012.

D. Accounts Receivable

Receivables are primarily composed of amounts due from customers located within the district. The direct write-off method for recognizing bad debts is used. Under this method, the receivable is charged to expense when the account is deemed to be uncollectible. The difference between the use of the direct write-off method and the allowance method for accounting for bad debts is not material to the financial statements of the District.

E. Inventory

Inventory consists primarily of pump motors and is valued at estimated recoverable cost as determined by specific identification method. Other materials and supplies needed for maintenance and operations are included in inventory and are valued at lower of cost or market using first in, first out, basis.

F. Property and Equipment

Upon completion of new subdivisions, developers donate their systems to the District for servicing and maintenance. These systems are recorded at fair market value at the date of contribution.

The District considers assets with an individual cost of \$500 or more and an estimated useful life of one year or more as a capital asset. Property and equipment are recorded at their historical cost and depreciated on the straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Buildings and Improvements	15-40 Years
Lift Station Structures	40 Years
Gravity Lines, Force Mains, and Manholes	40 Years
Equipment	3-20 Years
Lift Station Pumps	10 Years
Vehicles	5 Years
Furniture and Fixtures	3-15 Years

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Customers are billed a flat rate for new connection taps which covers the cost of the tap to the District; therefore, new connection costs are expensed rather than capitalized.

G. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

H. Compensated Absences

The District's policy for paid vacation, which is non-cumulative, is as follows:

Employment 1 – 3 years	1 week per year
4 – 9 years	2 weeks per year
10 – 19 years	3 weeks per year
After 20 years	4 weeks per year

Employees accrue sick leave as follows:

Employment less than 6 months	0 days per year
6 months – 1 year	4 days per year
1 – 3 years	8 days per year
After 3 years	12 days per year

Sick leave may be carried forward from year to year with no limit on the number of hours that may be accrued. Employees are compensated up to a maximum of 30 days accumulated sick leave only upon normal retirement. The financial statements do not include any accruals for compensated absences because the amount cannot be reasonably estimated.

I. Use of 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.

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

J. Reclassifications

Minor reclassifications have been made to prior year financial statements to make them comparable to the current year's presentation.

Note 2 - Cash and Investments

Under state law, the District may invest funds in demand deposits, interest bearing demand deposits, or in time deposits with state banks organized under Louisiana law or any other state and under the laws of the United States.

At August 31, 2012, the District has cash and cash equivalents totaling \$4,680,846 as follows:

Demand deposits	\$ 4,680,751
Petty cash	95
Total	<u>\$ 4,680,846</u>

Custodial credit risk - deposits. These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of pledged securities plus the federal deposit insurance must at all times equal the amount on deposits with the fiscal agent. These securities are held in the name of the pledging fiscal agent in a holding or custodial bank that is mutually acceptable to both parties. Cash and cash equivalents at August 31, 2012 are secured as follows:

Bank balances	<u>\$ 4,694,201</u>
Federal deposit insurance	\$ 250,000
Pledged securities	<u>5,935,000</u>
Total	<u>\$ 6,185,000</u>

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Note 3 - Changes in Capital Assets

The changes in capital assets are as follows:

	Balance 9/1/2011	Additions	Deletions/ Transfers	Balance 8/31/2012
Nondepreciable assets:				
Construction In Process	\$ 282,948	\$ 1,456,650	\$ (215,192)	\$ 1,524,406
Land	375,125	55,420	-	430,545
Total Nondepreciable Assets	<u>658,073</u>	<u>1,512,070</u>	<u>(215,192)</u>	<u>1,954,951</u>
Depreciable Assets:				
Buildings and Improvements				
	410,162	-	-	410,162
Furniture and Fixtures				
	18,627	-	-	18,627
Equipment				
	423,320	52,303	(5,300)	470,323
Vehicles				
	209,580	62,955	(7,500)	265,035
Lines, Mains and Manholes				
	12,723,865	377,963	-	13,101,828
Lift Station Pumps				
	1,733,577	55,694	-	1,789,271
Lift Station Structures				
	2,118,420	53,547	-	2,171,967
Treatment Plant				
	1,835,987	16,100	215,192	2,067,279
Treatment Plant - Sparta				
	-	1,104,279	-	1,104,279
Total Depreciable Assets	<u>19,473,538</u>	<u>1,722,841</u>	<u>202,392</u>	<u>21,398,771</u>
Less Accumulated Depreciation				
	<u>(12,729,915)</u>	<u>(598,452)</u>	<u>12,800</u>	<u>(13,315,567)</u>
Net Capital Assets	<u>\$ 7,401,696</u>	<u>\$ 2,636,459</u>	<u>\$ -</u>	<u>\$ 10,038,155</u>
	Balance 9/1/2010	Additions	Deletions/ Transfers	Balance 8/31/2011
Nondepreciable assets:				
Construction In Process	\$ 62,956	\$ 219,992	\$ -	\$ 282,948
Land	274,407	100,718	-	375,125
Total Nondepreciable Assets	<u>337,363</u>	<u>320,710</u>	<u>-</u>	<u>658,073</u>
Depreciable Assets:				
Buildings and Improvements				
	410,162	-	-	410,162
Furniture and Fixtures				
	18,627	-	-	18,627
Equipment				
	384,542	38,778	-	423,320
Vehicles				
	210,619	11,320	(12,359)	209,580
Lines, Mains and Manholes				
	12,656,847	67,018	-	12,723,865
Lift Station Pumps				
	1,690,758	42,819	-	1,733,577
Lift Station Structures				
	1,994,972	123,448	-	2,118,420
Treatment Plant				
	1,835,987	-	-	1,835,987
Total Depreciable Assets	<u>19,202,514</u>	<u>283,383</u>	<u>(12,359)</u>	<u>19,473,538</u>
Less Accumulated Depreciation				
	<u>(11,946,416)</u>	<u>(795,858)</u>	<u>12,359</u>	<u>(12,729,915)</u>
Net Capital Assets	<u>\$ 7,593,461</u>	<u>\$ (191,765)</u>	<u>\$ -</u>	<u>\$ 7,401,696</u>

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Depreciation of \$598,453 and \$795,857 was expensed for 2012 and 2011, respectively.

During the year ended August 31, 2011, management re-evaluated the life expectancy of lift station pumps from 20 years to 10 years to provide a more accurate estimate of expected useful life. Therefore, a one-time adjustment of \$222,210 was made to depreciation in that year to reflect the change in accounting estimate.

Note 4 Bonds Payable

The following is a summary of long term bonded debt transactions of the District:

	2011 Revenue Bonds
Balance September 1, 2011	\$ -
Additions	1,477,857
Retirements	-
Balance August 31, 2012	\$ 1,477,857

	1977 General Obligation Bonds	1977 Revenue Bonds	Total
Balance September 1, 2010	\$ 560,000	\$ 665,000	\$ 1,225,000
Additions	-	-	-
Retirements	(560,000)	(665,000)	(1,225,000)
Balance August 31, 2011	\$ -	\$ -	\$ -

The 1977 General Obligation Bonds and 1977 Revenue Bonds were retired in fiscal year 2011. In November 2011, the District issued \$1,918,000 Department of Environmental Quality (DEQ) Sewer Revenue Bonds Series 2011. These bonds are payable over 20 years with interest at the rate of .45% per annum and an administrative fee of .50% per annum. As of August 31, 2012, the ending balance for this loan amounted to the sum of six draws totaling \$1,477,857, which leaves \$440,143 in additional draws available to be drawn.

The annual requirements to amortize the bonds outstanding as of August 31, 2012, including interest payments of \$53,189 are as follows:

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Year Ending August 31, 2012	2011 Sewer Revenue Bonds
2013	\$ 93,855
2014	94,056
2015	94,568
2016	95,255
2017	95,848
2018-2022	485,195
2023-2027	497,244
2028-2032	75,025
Total	<u>\$ 1,531,046</u>

The DEQ loan agreement provides for the establishment of the following bank accounts:

“Sewer Revenue Bond Debt Service Fund” - The Series 2011 DEQ Revenue Bonds require the establishment of a “Sewer Revenue Bond Debt Service Fund,” whereby monthly transfers will be made into the account on or before the 20th day of each month of each year, a sum equal to one-sixth (1/6th) of the interest falling due on the next interest payment date and one-twelfth (1/12th) of the principal falling due on the next principal payment date. This account was established subsequent to August 31, 2012, as the project financed by this loan was not complete at year end.

“Sewer Revenue Bond Debt Service Reserve Fund” - The agreement for the Series 2011 DEQ bond provides that at least 20% of the reserve fund requirement into the reserve fund each bond year, so that the reserve fund is fully funded no later than five years after the delivery date. A letter of credit satisfying these obligations will be obtained subsequent to August 31, 2012. The project financed by this loan was not complete at year end.

“Depreciation and Contingency Fund” - The agreement for the 2011 DEQ bond provides that, on or before the 20th day of each month of each year, a sum equal to five (5%) of the preceding month’s Net Revenues as provided in the agreement for the preceding month shall be transferred to this account, provided that such sum is available provision is made. Payments in this fund shall continue until such time as \$500,000 has accumulated in this fund, whereby such payments may cease and need

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

be resumed only if the total amount of money on deposit is reduced below \$500,000. This account was also established subsequent to August 31, 2012, as the project financed by this loan was not complete at year end.

Note 5 - Long-Term Leases

On August 1, 1984, the District entered into a 25-year lease with the City of West Monroe (the City) for joint use of the Regional Wastewater Treatment Facility owned by the City. The lease contained a renewal option for one additional 15 year term, which was renewed on August 1, 2009. The operation and maintenance of the treatment facility is prorated between the District and the City based on usage. The cost to the District was \$624,147 and \$394,078 for the years ended August 31, 2012 and 2011, respectively. The agreement also provides for the sharing of costs to upgrade the facility during the term of the lease. The District incurred capital upgrading costs of \$1,388,801 and \$152,236 for the years ended August 31, 2012 and 2011. The cost of upgrading includes a long-term liability to the City of West Monroe as described in Note 6

Note 6 – Joint Agreement with City of West Monroe on Upgrading Treatment Facility

The District participated in a capital project with the City of West Monroe to upgrade the quality and quantity of wastewater effluent from the West Monroe/West Ouachita Sewerage District No 5 Regional Wastewater Treatment Facility. The City financed part of the project by means of a \$1,250,000 loan from the Department of Environmental Quality (DEQ) State Revolving Fund Loan Program. The loan is payable over 20 years with an interest rate of .45% and an administrative fee of .5%. The financing arrangement for the project calls for the District to share in 50% repayment of the loan as payments are incurred. The District's total principal obligation to the City will result in 20 principal payments totaling \$625,000 and interest and administrative fees of .45% and .5%, respectively.

The annual requirements to amortize this obligation as of August 31, 2012 including interest and administrative fees of \$99,602, are as follows:

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Year Ending August 31,	Due to Other Governments
2013	\$ 35,952.00
2014	37,852.00
2015	37,432.00
2016	37,508.00
2017	37,080.00
2018-2022	183,845.00
2023-2027	179,458.00
2028-2032	\$ 175,475.00
Total	<u>724,602.00</u>

Note 7 - Commissioners' Fees

The members of the Board of Commissioners are paid \$60 per regular meeting and \$25 per special meeting. Amounts due to board members for meetings attended during the year ended August 31, 2012 were as follows:

Commissioner	Regular Meetings	Special Meetings	Compensation
Fred Hall - President	12	1	\$ 745
Ralph Owens - Vice President	11	1	745
Don Leach - Secretary/Treasurer	12	1	685
Total			<u>\$ 2,175</u>

Commissioners are paid after year end for the meetings that were attended during the prior year.

Note 8 - Franchise Fee

The District entered into a franchise agreement with a corrugated container plant located outside their taxing district boundaries. This agreement calls for payment of an unrestricted franchise fee equivalent to the taxes which would have been levied had the plant been in the boundaries of the District. The plant also pays a monthly user's fee. The franchise fees were \$21,461 and \$24,679 for the years ended August 31, 2012 and 2011, respectively.

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Note 9 - Defined Benefit Pension Plan

Substantially all employees of the District participate in the Parochial Employees' Retirement System of Louisiana (the System), a defined benefit, multiple-employer public employee retirement system. All full-time employees of the District are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service, age 55 with 25 years of credited service, or with 30 years of credited service regardless of age are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final average salary for each year of credited service. Final average salary is the employee's average salary over the highest thirty six consecutive months of credited service. The system also provides death and disability benefits. Benefits are established by state statute.

Funding Policy: Contributions to the System include one-fourth of one percent of the taxes shown to be collected by the tax rolls of each parish (excepting Orleans and East Baton Rouge). State statutes require covered employees to contribute a percentage of their salary into the System. The District's contribution is determined by an actuarial valuation and is subject to change each year based on the results of the valuation for the previous year. For the calendar years 2012, 2011, and 2010, covered employees were required to contribute 9.50% of their salary to the plan. The District was required to contribute 15.75% of employee salaries to the plan during calendar years 2012, 2011, and 2010. The District's contributions to the plan were \$46,356, \$49,343, and \$46,446 for the years ended August 31, 2012, 2011, and 2010, respectively.

The system issues an annual, publicly available, financial report that includes financial statements and required supplementary information covering the System. The report may be obtained by writing the Parochial Employees' Retirement System, P. O. Box 14619, Baton Rouge, LA 70898-4619 or by calling (504) 928-1361.

Note 10 - Other Postemployment Benefits Plan

Plan Description. The District participates in a group defined health retirement plan authorized by Louisiana Revised Statute which is administered by the Office of Group Benefits. The Plan provides health insurance for regular employees that retire at age 55 or older and at least 25 years of full-time service, or that retire at age 60 or older and at least 10 years of service, or that retire at any age with at least 30 years of service. The District pays 79% of the retirees' insurance premiums.

The District has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In adopting

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

the requirements of GASB Statement No. 45 during the year ended August 31, 2010, the District recognizes the cost of postemployment benefits in the year when employee services are rendered, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District has adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2010 liability.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$	15,608
Interest on net OPEB liability		437
Adjustment to annual required contribution		-
Annual OPEB expense		16,045
Current year retiree premiums		2,560
Increase in unfunded OPEB liability		13,485
Unfunded OPEB liability, beginning of year		22,859
Unfunded OPEB liability, end of year	\$	36,344

Fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively. Therefore, prior year funding and comparative data is not available.

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Funding Policy, Funded Status, and Funding Progress. The Plan is financed on a pay-as-you-go basis, therefore no funds are reserved for payment of future health insurance premiums. As of August 31, 2012, the actuarial accrued liability (AAL) for benefits was \$113,671, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$340,747, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 33%.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Retirement age for active employees - Active members were assumed to retire at the greater of the average historical retirement age of 60 years old or the age of attainment of eligibility for the retirement benefit.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumptions for purposes of allocating to periods that present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 3.9 percent initially, increased to an ultimate rate of 6.6 percent after nine years, was used.

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Health insurance premiums - 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 2.8 percent was based on projected changes in the Consumer Price Index (CPI) in *The 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

A discount rate of 2.8 percent, which represents a reasonable annual short term investment return, was assumed. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

Note 11 - Related Party Transactions

The District is covered by certain umbrella insurance policies including liability and property, worker's compensation, and group health insurance policies through the Police Jury. During 2011 and 2010 the District paid the Police Jury \$121,755 and \$121,002, respectively, for this coverage.

Note 12 - Risk Financing Activities

Through its primary government, the Ouachita Parish Police Jury, the District participates in a self-funded program (the fund) for potential losses under general liability, property and automobile coverage, and worker's compensation. The fund pays the premiums for reinsurance and pays all deductibles up to \$150,000 per occurrence, except for \$500 that is paid by the District. The premiums, which are modified for experience and other factors, are computed annually. The reinsurance policy covers all losses over the \$150,000 deductible with an aggregate general liability coverage of \$3,000,000. Two funds are established, one for liability and property and one for worker's compensation. These funds had \$7,100,761 and \$7,720,874 in net assets as of December 31, 2012 and 2011, respectively. The District contributed \$70,121 and \$49,423 into the fund during the years ended August 31, 2012 and 2011, respectively.

WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

Note 13 - Concentrations of Risk

All the accounts receivable represent amounts due from customers located within the boundaries of the District. The District requires a security deposit of \$20 for each new customer being serviced by the system. Failure of the District's customers to perform as required could impact the District's ability to collect approximately \$362,933 after applying the security deposits of \$112,200.

REQUIRED SUPPLEMENTAL INFORMATION (PART B)

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS**

Fiscal Year Ending	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Unfunded AAL (UAAL) (b-a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Liability (AAL) Entry Age (b)	Accrued (b)				
08/31/12	09/01/11	-	\$ 113,671	\$ 113,671	\$ 113,671	0.0%	\$ 340,747	33.4%
08/31/11	09/01/10	-	\$ 113,671	\$ 113,671	\$ 113,671	0.0%	\$ 324,999	35.0%
08/31/10	09/01/09	-	\$ 113,671	\$ 113,671	\$ 113,671	0.0%	\$ 323,187	35.2%

SUPPLEMENTAL INFORMATION

WEST OUACHITA SEWERAGE DISTRICT NO. 5
SCHEDULE OF INSURANCE COVERAGE
AUGUST 31, 2012
(UNAUDITED)

Property or Risk and Insurance Company	Kind of Insurance and Term	Maximum Coverage	
Employees Midwest Employers Casualty Company	Workmen's Compensation Employer's Liability 1/1/12 to 1/1/13	Statutory	*
Multi-Peril Traveler's Indemnity Co.	Comprehensive General Liability 1/1/12 to 1/1/13	\$3,000,000 - Aggregate \$1,000,000 - Per Occurrence	*
Vehicles Traveler's Indemnity Co.	Auto Liability 1/1/12 to 1/1/13	Combined Single Limit \$1,000,000	*
3 Commissioners and All Employees Traveler's Indemnity Co.	Fidelity Bond 1/1/12 to 1/1/13	\$1,000,000 Per Occurrence \$25,000 Deductible	*

This schedule, prepared from the policies, is intended only as a descriptive summary.

* Policy is covering the Ouachita Parish Police Jury, which includes West Ouachita Sewerage District No. 5.

LUFFEY, HUFFMAN, RAGSDALE & SOIGNIER

(A PROFESSIONAL ACCOUNTING CORPORATION)
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
West Ouachita Sewerage District No. 5
West Monroe, Louisiana

We have audited the financial statements of the business-type activities of **West Ouachita Sewerage District No. 5** (the District) (a component unit of the Ouachita Parish Police Jury) as of and for the years ended August 31, 2012 and 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 28, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

**Board of Commissioners
West Ouachita Sewerage District No. 5
West Monroe, Louisiana**

material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of Findings and Questioned Costs listed as Finding 12-01 to be a material weakness.

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 *Governmental Auditing Standards*.

The District's response to the finding 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 management of the District, its primary government, and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Luffery Huffman Reynolds & Seignier

(A Professional Accounting Corporation)

February 28, 2013

LUFFEY, HUFFMAN, RAGSDALE & SOIGNIER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners West Ouachita Sewerage District No. 5 West Monroe, Louisiana

We have audited the West Ouachita Sewerage District No. 5's (the District) (a component unit of the Ouachita Parish Police Jury) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the years ended August 31, 2012 and 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions. Our audits do not provide a legal determination of the District's compliance with those requirements. In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended August 31, 2012 and 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants

**Board of Commissioners
West Ouachita Sewerage District No. 5
West Monroe, Louisiana**

applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the District, the Board of Commissioners, others within the entity, entities granting funds to the District, pass-through entities, and 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. However, under provisions of Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Huffman, Huffman, Roydick, & Squires

(A Professional Accounting Corporation)

February 28, 2013

**West Ouachita Sewerage District No. 5
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2012**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA No.	Pass-Through Grant Number	Federal Expenditures
<u>Environmental Protection Agency</u>			
Pass-Through:			
LA Dept of Environmental Quality			
Capitalization Grants for Clean Water State Revolving Funds	66.458	N/A	\$ <u>1,477,857</u>
Total Environmental Protection Agency			\$ <u>1,477,857</u>
Total Federal Expenditures			\$ <u>1,477,857</u>

See Notes to Schedule of Expenditures of Federal Awards

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012 AND 2011**

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal Awards programs of the **West Ouachita Sewerage District No. 5's** (the District) (a component unit of the Ouachita Parish Police Jury). The District's reporting entity is defined in Note 1 to the District's basic financial statements. All Federal awards are included on the schedule.

Note 2 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the District's financial statements.

Note 3 - Relationship of the Schedule of Expenditures of Federal Awards to the Financial Statements

Federal Awards are reported in the District's financial statements as follows:

Current Liabilities	
Bonds Payable	\$ 88,000
Long-term liabilities	
Bonds Payable	<u>1,389,857</u>
Expenditures of Federal Awards - Schedule 4	<u>\$ 1,477,857</u>

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012 AND 2011**

Section I. Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal Control Over Financial Reporting:

Material Weakness(es) identified? Yes No

Significant deficiency(s) identified not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified? Yes No

Significant deficiency(s) identified not considered to be material weakness(es)? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes No

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes No

Identification of Major Programs

<u>CFDA #</u>	<u>PROGRAM TITLE</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012 AND 2011**

Section II Findings related to the financial statements that are required to be reported under *Governmental Auditing Standards*

12-01 Internal Control over Billings and Collections

Finding:

During the course of our audit of the financial statements of West Ouachita Sewerage District No. 5 (the District) for the years ended August 31, 2012 and 2011, we encountered difficulty in obtaining needed third party billings and collections reports for the reconciliation of accounts receivable and outstanding customer deposits.

In fiscal year 2012, the District changed billings and collections companies. Even though the process was fairly smooth during the transition, there were still some problems such as obtaining needed reports for billings and collections for the first several months. It should be noted that the District communicated its concerns to the billings and collections company and to our firm regarding the incorrect and/or missing reports on several occasions.

From our observation, it appears that accounts receivable from the previous month are not being reconciled monthly by the new billings and collections company; therefore, an adjustment of \$13,971 was needed. Additionally, the billings and collections company is not reconciling customer deposits from the end of one month to the next month on a regular basis, which resulted in an additional adjustment to customer deposits of \$20,580. The District was given a listing of customer deposits as of August 31, 2012 which consisted of approximately 180 pages which was not totaled.

The failure to reconcile accounts receivable and outstanding customer deposits could result in inaccurate financial reporting at the interim and end of year periods.

Recommendation:

We recommend that management of the District meet with representatives of the billings and collections company and request that the following information, in addition to the reports already being received, be provided to the District, promptly, on a monthly basis:

- A monthly summary showing beginning and ending totals for monthly outstanding unpaid charges and a reconciliation of the corresponding changes in beginning and ending total monthly balances. The balances in the spreadsheet should be presented, by column, in the following manner (reading from left to right): Begin with the unpaid charge register total from the previous month's ending outstanding balance, add current month billings, subtract payments received

**WEST OUACHITA SEWERAGE DISTRICT NO. 5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012 AND 2011**

from the prior months' billings, add/subtract adjustments, add penalties applied, and end with the total outstanding balance for the particular month. Two additional columns should be setup to the right of the total monthly outstanding balance showing a new book total and total reconciling difference.

Balances reported in the monthly summary should be traceable to other reports currently being provided to the District, as well as any additional reports that may be needed to support the balances in the monthly summary.

- A monthly reconciliation of customer deposits beginning with the balance for total outstanding customer deposits from the previous month. The schedule should then reconcile new customer deposits and refunded customer deposits as well as deposits applied to customers' bills and ultimately provide an ending outstanding deposit total for the particular month that would agree with a listing, that is totaled, with the outstanding customer deposits at month end.

Any reports given to the District should be totaled.

Management's Corrective Action Plan:

The District will arrange a meeting with representatives from the billings and collections company and communicate the urgency of obtaining the reports as detailed in the above recommendations with a sample of the reconciliations needed.

Section III Findings and questioned costs for Federal Awards, including those specified by OMB Circular A-133.

NONE