

**ST. MARTIN PARISH WATER
AND SEWER COMMISSION NO. 1**
Stephensville, Louisiana

Financial Report

Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners
St. Martin Parish Water and Sewer Commission No. 1
Stephensville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of St. Martin Parish Water and Sewer Commission No. 1 (hereinafter, the "Commission"), a component unit of the Parish of St. Martin, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the Commission as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 10 to the financial statements, the Commission implemented the provisions of the Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2014 on our consideration of the Commission's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
June 28, 2014

BASIC FINANCIAL STATEMENTS

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Statement of Net Position
December 31, 2013

ASSETS

Current assets:

| | |
|-----------------------------------|------------------|
| Cash and cash equivalents | \$ 196,042 |
| Receivables: | |
| Accounts | 5,149 |
| Ad valorem taxes, net | 334,810 |
| Due from other governmental units | 4,897 |
| Prepaid expenses | 8,862 |
| Restricted assets: | |
| Cash | 1,534,470 |
| Ad valorem taxes receivable, net | <u>89,954</u> |
| Total current assets | <u>2,174,184</u> |

Property, plant and equipment:

| | |
|--|------------------|
| Land | 91,117 |
| Property, plant and equipment, net of accumulated depreciation | <u>1,901,423</u> |
| Total property, plant and equipment | <u>1,992,540</u> |

Other assets:

| | |
|----------|------------|
| Deposits | <u>519</u> |
|----------|------------|

| | |
|--------------|--------------------|
| Total assets | <u>\$4,167,243</u> |
|--------------|--------------------|

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET POSITION

| | |
|---|---------------------|
| Current liabilities: | |
| Accounts payable | \$ 88,604 |
| Accrued liabilities | 751 |
| Unearned revenue | 11,286 |
| Payable from restricted assets: | |
| Current maturities of long term debt | 120,000 |
| Accrued interest | 12,279 |
| Deduction from ad valorem taxes | 15,440 |
| Refundable deposits | <u>95</u> |
| Total current liabilities | <u>248,455</u> |
| | |
| Long-term debt: | |
| General obligation bonds payable | 985,000 |
| Revenue bonds payable | <u>605,000</u> |
| Total long-term debt | <u>1,590,000</u> |
| | |
| Total liabilities | <u>1,838,455</u> |
| | |
| Net position: | |
| Invested in capital assets, net of related debt | 282,540 |
| Restricted | 1,596,610 |
| Unrestricted | <u>449,638</u> |
| Total net position | <u>\$ 2,328,788</u> |

The accompanying notes are an integral part of this statement.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2013

| | |
|---|---------------------|
| OPERATING REVENUES | |
| Sewer user fees | \$ 248,958 |
| Water maintenance fees | <u>27,549</u> |
| Total operating revenues | <u>276,507</u> |
| OPERATING EXPENSES | |
| Salaries and related benefits | 102,838 |
| Supplies and materials | 8,837 |
| Other services and charges | 177,117 |
| Plant operation | 169,088 |
| Depreciation | <u>146,125</u> |
| Total operating expenses | <u>604,005</u> |
| Operating loss | <u>(327,498)</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Ad valorem taxes | 450,098 |
| Bad debt recovery | 22,704 |
| Bond interest and fiscal charges | (39,466) |
| Bond issue costs | (20,625) |
| Interest income | 176 |
| Miscellaneous | <u>7,134</u> |
| Total non-operating revenues (expenses) | <u>420,021</u> |
| Change in net position | 92,523 |
| NET POSITION, beginning; as restated | <u>2,236,265</u> |
| NET POSITION, ending | <u>\$ 2,328,788</u> |

The accompanying notes are an integral part of this statement.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Statement of Cash Flows
Year Ended December 31, 2013

OPERATING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Water and sewer revenue collected | \$ 275,722 |
| Payments for goods and services | (271,432) |
| Payments to employees | <u>(102,838)</u> |
| Net cash used by operating activities | <u>(98,548)</u> |

NON-CAPITAL FINANCING ACTIVITIES

| | |
|---|----------------|
| Receipts from bad debt recovered | 22,704 |
| Receipts from taxes | 405,518 |
| Other receipts | <u>384</u> |
| Net cash provided by non-capital financing activities | <u>428,606</u> |

CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------|
| Purchases of capital assets | (51,188) |
| Proceeds from insurance | 6,750 |
| Interest and fiscal charges paid | (38,685) |
| Bond issuance costs paid | (20,625) |
| Proceeds from bonds | 1,375,000 |
| Principal paid on bonds | <u>(372,000)</u> |
| Net cash provided by capital and related financing activities | <u>899,252</u> |

INVESTING ACTIVITIES

| | |
|-------------------|------------|
| Interest received | <u>176</u> |
|-------------------|------------|

Net increase in cash 1,229,486

Cash and cash equivalents, beginning of period 501,026

Cash and cash equivalents, end of period \$ 1,730,512

(continued)

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Statement of Cash Flows (continued)
Year Ended December 31, 2013

| | |
|--|------------------------|
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | \$(327,498) |
| Adjustment to reconcile operating loss to net cash provided by operating activities - | |
| Depreciation | 146,125 |
| Changes in assets and liabilities: | |
| Receivables | (2,263) |
| Prepaid expenses | (780) |
| Accounts payable | 88,032 |
| Accrued liabilities | (3,642) |
| Deferred revenue | 5,305 |
| Refundable deposits | <u>(3,827)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (98,548)</u> |

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements

INTRODUCTION

The St. Martin Parish Water and Sewer Commission No. 1 (“Commission”) was created under the provisions of Louisiana Revised Statutes 33:7831 by ordinance issued by the St. Martin Parish Police Jury on March 2, 1993. The Commission is authorized to operate, maintain, improve, extend and/or dispose of all works and facilities for water, sewer, and sewerage treatment or disposal facilities and systems within the boundaries of Ward 6 of St. Martin Parish. The Commission is governed by five to seven board members appointed by the Council of St. Martin Parish Government.

(1) Summary of Significant Accounting Policies

The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

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

Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended, established criteria for determining which component units should be considered part of the St. Martin Parish Government for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability.

This criteria includes:

- 1) Appointing a voting majority of an organization’s governing body, and
 - a) The ability of the Parish 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 Parish.
- 2) Organizations for which the Parish does not appoint a voting majority but are fiscally dependent on the Parish Government.
- 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.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

Because the Parish Council appoints the Commission's governing body, the Commission was determined to be a component unit of the St. Martin Parish Government, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the Commission and do not present information on the Parish Government, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying financial statements of the Commission have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Financial Statements

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

Proprietary Funds

Proprietary funds are used to account for ongoing operations and activities that are similar to those often found in the private sector. The measurement focus is based upon determination of net position, changes in net position, and cash flows. The two types of proprietary funds are enterprise and internal service funds. The Commission's fund is an enterprise fund.

Enterprise funds

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

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

C. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

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

Basis of Accounting

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

Cash and interest-bearing deposits

For balance sheet purposes, cash and interest-bearing deposits include all demand accounts, savings accounts, and certificates of deposits. For the purpose of the cash flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less when purchased.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Unbilled utility service receivables resulting from utility services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the current reporting period are recorded as prepaid items.

Restricted Assets

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported on the balance sheet. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Commission maintains a threshold level of \$1,000 for capitalizing assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an expense in the statement of revenues, expenses and changes in net position, with accumulated depreciation reflected on the balance sheet. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|-------------------------|-----------|
| Buildings | 20 years |
| Water Plant | 40 years |
| Sewerage Plant | 40 years |
| Office Equipment | 5 years |
| Machinery and Equipment | 5-7 years |

Capitalized Interest

The Commission capitalizes net interest costs and interest earned as part of the cost of constructing various water and sewer projects when material.

Bad Debts

Uncollectible amounts due from utility services and ad valorem taxes are recognized as bad debts through the establishment of an allowance account at the time information becomes available indicating the uncollectability of the receivable.

Compensated Absences

Employees of the Commission earn from seven and one-half to thirteen and one-half days of vacation and seven and one-half to thirteen and one-half days of sick leave each year, depending on length of service with the Commission. All unused vacation and sick leave shall be carried forward to the succeeding fiscal year.

At December 31, 2013 accumulated vacation and sick leave benefits were immaterial.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

Long-term Debt

All long-term debt to be repaid from business-type resources is reported as liabilities in the financial statements. The long-term debt consists primarily of bonds payable.

Equity Classifications

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position– Consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position– All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, the Commission’s policy is to use restricted resources first, then unrestricted resources as needed.

E. Revenues and Expenses

Operating Revenues and Expenses

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

Expenses

Expenses are classified by function for business-type activities and are further classified as operating and nonoperating.

Proprietary funds report expenses relating to use of economic resources.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

F. Budgets and Budgetary Accounting

Enterprise funds are not required under Louisiana Revised Statute 39:1301 et seq to adopt a budget and the Commission has elected to not formally adopt a budget. Accordingly, budgeted figures are not presented in this financial report.

G. Use of Estimates

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

(2) Cash and Interest-Bearing Deposits

Under state law, the Commission may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Commission may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At December 31, 2013, the Commission has cash and interest-bearing deposits (book balances) totaling \$1,730,512 as follows:

| | |
|-----------------|--------------------|
| Cash on hand | \$300 |
| Demand deposits | 1,292,330 |
| Time deposits | <u>437,882</u> |
| Total | <u>\$1,730,512</u> |

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent 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. Deposit balances (bank balances) at December 31, 2013, are as follows:

| | |
|---------------|--------------------|
| Bank balances | <u>\$1,736,638</u> |
|---------------|--------------------|

At December 31, 2013, the deposits are secured as follows:

| | |
|---|--------------------|
| Federal deposit insurance | \$ 508,975 |
| Collateralized by securities held by pledging financial institution | <u>1,227,663</u> |
| Total | <u>\$1,736,638</u> |

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered or will not be able to recover collateral securities that are in the possession of an outside party. The Commission does not have a policy to monitor or attempt to reduce exposure to custodial credit risk; however, at December 31, 2013 the Commission's total bank balances were fully insured and/or secured and therefore not exposed to custodial credit risk.

(3) Ad Valorem Taxes

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Commission in September or October and are actually billed to the taxpayers in November or December. Billed taxes become delinquent on January 1st of the following year.

The following is a summary of authorized and levied ad valorem tax millages:

| | Authorized/ Levied Millage |
|---|----------------------------------|
| Commission taxes: | |
| Special Assessment | 7.80 |
| District taxes: | |
| Maintenance- | |
| St. Martin Parish Sewerage District No. 1 | 4.88 |
| St. Martin Parish Waterworks District No. 2 | 5.00 |
| Bond and Interest- | |
| St. Martin Parish Waterworks District No. 2 | 4.75 |

Levied millages are reported as non-operating revenue on the statement of revenues, expenses and changes in net position.

Total taxes of \$433,433 were levied on property having assessed taxable valuations totaling \$19,323,494. At December 31, 2013, ad valorem taxes receivable consisted of the following:

| | Non Restricted | Restricted | Total |
|---|-------------------|------------|------------|
| Ad valorem taxes receivable | \$ 341,643 | \$ 91,790 | \$ 433,433 |
| Allowance for uncollectible receivables | (6,833) | (1,836) | (8,669) |
| Ad valorem taxes receivable, net | \$ 334,810 | \$ 89,954 | \$ 424,764 |

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(4) Restricted Assets - Proprietary Fund Type (Enterprise Utility Fund)

Restricted assets consisted of the following at December 31, 2013:

| | Cash | Taxes Receivable | Total |
|---|-------------|---------------------|-------------|
| <u>St. Martin Parish Water and Sewer Commission No. 1</u> | | | |
| Revenue Bond and Interest Sinking Fund | 186,374 | - | 186,374 |
| Depreciation and Contingency Fund | 44,982 | - | 44,982 |
| Operations and maintenance account | 1,126,577 | - | 1,126,577 |
| | 1,357,933 | - | 1,357,933 |
| <u>St. Martin Parish Waterworks District No. 2</u> | | | |
| General Obligation Refunding Bonds | 176,537 | 89,954 | 266,491 |
| Total | \$1,534,470 | \$ 89,954 | \$1,624,424 |

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(5) Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

| | Balance 01/01/13 | Additions | Deletions | Balance 12/31/13 |
|---------------------------------------|---------------------|--------------------|---------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 91,117 | \$ - | \$ - | \$ 91,117 |
| Capital assets being depreciated: | | | | |
| Buildings | 70,677 | 7,800 | 1,650 | 76,827 |
| Water system | 1,254,902 | 8,500 | - | 1,263,402 |
| Sewerage plant | 4,086,756 | 28,231 | - | 4,114,987 |
| Office equipment | 21,839 | 4,021 | - | 25,860 |
| Machinery and equipment | 52,880 | 2,636 | 10,000 | 45,516 |
| Total capital assets | <u>5,578,171</u> | <u>51,188</u> | <u>11,650</u> | <u>5,617,709</u> |
| Less accumulated depreciation | | | | |
| Buildings | 46,957 | 1,730 | 1,650 | 47,037 |
| Water system | 941,172 | 24,001 | - | 965,173 |
| Sewerage plant | 2,444,552 | 115,166 | - | 2,559,718 |
| Office equipment | 17,127 | 1,707 | - | 18,834 |
| Machinery and equipment | 40,886 | 3,521 | 10,000 | 34,407 |
| Total accumulated depreciation | <u>3,490,694</u> | <u>146,125</u> | <u>11,650</u> | <u>3,625,169</u> |
| Capital assets, net | <u>\$2,087,477</u> | <u>\$ (94,937)</u> | <u>\$ -</u> | <u>\$1,992,540</u> |

Depreciation expense was charged to business-type activities in the amount of \$146,125.

No interest costs were capitalized for the year ended December 31, 2013. Total interest costs incurred and charged to expense was \$39,466.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(6) Changes in Long-Term Debt

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

| | <u>1/1/2013</u> | <u>Additions</u> | <u>Payments</u> | <u>12/31/2013</u> | <u>Due Within One Year</u> |
|--------------------------|-------------------|--------------------|---------------------|--------------------|--------------------------------|
| General Obligation Bonds | \$ 380,000 | \$ 700,000 | \$ (45,000) | \$ 1,035,000 | \$ 50,000 |
| Sewer Revenue Bonds | <u>327,000</u> | <u>675,000</u> | <u>(327,000)</u> | <u>675,000</u> | <u>70,000</u> |
| Total long-term debt | <u>\$ 707,000</u> | <u>\$1,375,000</u> | <u>\$ (372,000)</u> | <u>\$1,710,000</u> | <u>\$ 120,000</u> |

Bonds payable at December 31, 2013 are comprised of the following individual issues:

Sewer Revenue Bonds:

\$675,000 Sewer Revenue and Refunding Bonds, Series 2013, dated 12/27/2013, due in annual installments of \$53,000 - \$74,000 through September 1, 2023; interest at 3.75 percent; secured by system revenues \$ 675,000

General Obligation Bonds:

\$700,000 General Obligation Bonds, Series 2013, dated 12/27/2013, due in annual installments of \$5,000 - \$65,000 through March 1, 2033; interest at 4.75 percent; secured by ad valorem tax revenues 700,000

\$800,000 General Obligation Bonds, Series 1999, dated 3/01/1999, due in annual installments of \$25,000 - \$65,000 through March 1, 2019; interest at 4.75 - 5.50 percent; secured by ad valorem tax revenues 335,000

Total bonds payable \$ 1,710,000

Refunding Bonds

The Commission issued \$675,000 Sewer Revenue and Refunding Bonds, Series 2013 and used a portion of the proceeds and other available funds of the Commission to call and advance refund the outstanding balance of the Sewer Revenue Refunding Bonds, Series 2002. The Series 2013 refunding issue and the costs of issuance will result in an additional cash outlay for the Commission in excess the debt service requirements remaining on the Series 2002 bonds of approximately \$23,281 with an economic loss of approximately \$19,483.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

The bonds are due as follows:

| Year ending December 31, | Sewer Revenue Bonds | | | General Obligation Bonds | | |
|-----------------------------|---------------------|------------------|------------------|--------------------------|------------------|--------------------|
| | Principal | Interest | Totals | Principal | Interest | Totals |
| 2014 | \$ 70,000 | \$ 17,156 | \$ 87,156 | \$ 50,000 | \$ 37,261 | \$ 87,261 |
| 2015 | 70,000 | 22,686 | 92,686 | 50,000 | 45,600 | 95,600 |
| 2016 | 72,000 | 20,062 | 92,062 | 60,000 | 42,987 | 102,987 |
| 2017 | 53,000 | 17,362 | 70,362 | 60,000 | 40,138 | 100,138 |
| 2018 | 63,000 | 15,376 | 78,376 | 65,000 | 37,170 | 102,170 |
| 2019-2023 | 347,000 | 39,902 | 386,902 | 225,000 | 148,791 | 373,791 |
| 2024-2028 | - | - | - | 235,000 | 97,494 | 332,494 |
| 2029-2033 | - | - | - | 290,000 | 36,102 | 326,102 |
| Totals | <u>\$675,000</u> | <u>\$132,544</u> | <u>\$807,544</u> | <u>\$1,035,000</u> | <u>\$485,543</u> | <u>\$1,520,543</u> |

(7) Flow of Funds; Restrictions on Use - System Revenues

Under the terms of the \$675,000 Sewer Revenue and Refunding Bonds, Series 2013, the bonds are secured and payable by a pledge and dedication of the revenues of the system, subject to the prior payment of the reasonable and necessary expenses of operating and maintaining the system. The Commission is obligated to fix, establish, maintain and collect such rates and fees sufficient to pay the expenses of operating and maintaining the system, paying the principal and interest falling due on the bonds each year, and which will provide at least 105% of the largest amount of principal and interest falling due.

The Commission is also required to establish and maintain certain sinking and contingency funds as follows:

Sewer Revenue Bond and Interest Sinking Fund

The Commission is required to set aside into a Sewer Revenue Bond and Interest Sinking Fund, on or before the 20th day of each month, a sum equal to one-sixth (1/6th) of the total interest falling due on the next interest payment date and one-twelfth (1/12th) of the total amount of principal falling due on the next principal payment date. Funds deposited in this account are available only for the retirement of maturing bonds and interest.

Depreciation and Contingency Fund

The Sewer Depreciation and Contingency Fund is established to care for depreciation, extensions, additions, improvements, and replacements necessary to operate the system. The Commission is required the fund the Sewer Depreciation and Contingency Fund by transferring, on or before the 20th day of each month, a sum at least equal to five percent (5%) of the amount to be paid into the Sewer Revenue Bond and Interest Sinking Fund. Such payments continue until there has been accumulated a maximum of \$25,000.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(8) Employee Retirement

Substantially all employees of the Commission are members of the Parochial Employees' Retirement System of Louisiana. This system is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. This retirement system provides retirement, disability, and death benefits to plan members and their beneficiaries. Pertinent information relative to this plan follows:

Plan Description - The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the Commission are members of Plan A.

All permanent employees working at least twenty-eight hours per week who are paid wholly or in part from the Commission's funds are eligible to participate in the System. Under Plan A, employees who retire at or after age sixty with at least ten years of creditable service, at or after age fifty-five with at least twenty-five years of creditable service, or at any age with at least thirty years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to three per cent of their final-average salary for each year of creditable service. However, for those employees who were members of the supplemental plan only before January 1, 1980, the benefit is equal to one per cent of final average salary plus twenty-four dollars for each year of supplemental-plan-only service earned before January 1, 1980. Final average salary is the employee's average salary over the thirty-six consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by state statute.

Funding Policy - Under Plan A, members are required by state statute to contribute 9.5% of their annual covered salary and the Commission is required to contribute at an actuarially determined rate. The current rate is 16.75% of annual covered payroll. Contributions to the System also include one-fourth of 1% (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the Commission are established and may be amended by state statute. As provided by R.S. 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Commission's contributions to the System under Plan A for the years ended December 31, 2013, 2012, and 2011, were \$11,160, \$8,571, and \$7,288, respectively, equal to the required contributions for each year.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana, 70898-4619, or by calling (225) 928-1361.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(9) Restricted Net position

At December 31, 2013, the statement of net position reports the following restricted net position:

| | |
|----------------------|---------------------|
| Debt service | \$ 470,033 |
| Capital improvements | <u>1,126,577</u> |
| | <u>\$ 1,596,610</u> |

(10) Prior Period Adjustments

During the year ended December 31, 2013, the Commission implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also requires bond issue cost be expensed as incurred instead of being amortized over the life of the bond issue. As a result, beginning net position is restated as follows:

| | |
|--|---------------------|
| Net position, as previously reported | \$ 2,241,268 |
| Adjustment to expense previously incurred bond issue costs | <u>(5,003)</u> |
| Net position, as restated | <u>\$ 2,236,265</u> |

(11) Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The Commission is insured up to policy limits for each of the above risks. There were no significant changes in coverage, retentions, or limits during the year ended December 31, 2013. Settled claims have not exceeded the commercial coverage in any of the previous three fiscal years.

(12) Contingencies

The Commission operates a sewerage plant, which is regulated by the Department of Environmental Quality and the Environmental Protection Agency. In the opinion of the Board of Commissioners, all applicable regulations have received full compliance, however, due to the complexity of the regulations, differing interpretations of the regulations by DEQ and/or the EPA may result in instances of noncompliance.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Notes to Basic Financial Statements (continued)

(13) Compensation Paid to Board Members

The schedule of compensation paid to the board of commissioners is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Louisiana Revised Statute 33:7833 limits compensation paid to board members, with the approval of the board, for per diem and travel allowance to an amount not to exceed \$250 per month.

Board members:

| | |
|----------------|------------------|
| Eroy Acosta | \$ 3,000 |
| Jimmy Bailey | 3,000 |
| Shelby Daigle | 3,000 |
| Stanley Daigle | 3,000 |
| Jesse Doiron | <u>3,000</u> |
| Total | <u>\$ 15,000</u> |

(14) New Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through plans covered by GASB Statement No. 67. The provisions of GASB Statement No. 68 must be implemented by the Commission for the year ended December 31, 2015. The effect of implementation of this statement on the Commission's financial statements has not yet been determined.

(15) Subsequent Events

On January 22, 2014, the Commission issued \$356,000 General Obligation Refunding Bonds, Series 2014 payable through March 1, 2019. The bonds are being issued to refund the outstanding balance of the Commission's General Obligation Bonds, Series 1999. The Bonds are payable from and secured by the levy and collection of an existing ad valorem tax.

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Commissioners
St. Martin Parish Water and Sewer Commission No. 1
Stephensville, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of St. Martin Parish Water and Sewer Commission No. 1 (hereinafter, the "Commission"), a component unit of the Parish of St. Martin, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 28, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results and findings, we identified certain

deficiencies in internal control that we consider to be material weaknesses and which are described in the accompanying schedule of audit results and findings as items 2013-001, 2013-002, and 2013-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of audit results and findings as item 2013-004.

Commission's Response to Finding

The Commission's responses to the findings identified in our audit are described in the accompanying corrective action plan for current audit findings. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Although the intended use of this report may be limited under the provisions of Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document in accordance with Louisiana Revised Statute 44:6.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
June 28, 2014

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Schedule of Audit Results and Findings
Year Ended December 31, 2013

Part I. Summary of Auditors' Results:

The auditors' report expresses an unmodified opinion on the financial statements of the Commission's business-type activities.

Material weaknesses in internal control were disclosed by the audit of the financial statements and are shown as items 2013-001, 2013-002, and 2013-003.

An instance of noncompliance required to be reported under *Government Auditing Standards* is reported in Part II of this schedule.

A management letter was not issued.

Part II. Findings reported in accordance with *Governmental Auditing Standards*:

A. Internal Control –

2013-001 - Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

CRITERIA: Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The Commission's internal control over financial reporting includes those policies and procedures that pertain to the Commission's ability to record, process, summarize, and report financial data consistent with the assertions embodied in financial statements.

CAUSE: The cause of the condition is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

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

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended December 31, 2013

2013-002 – Financial Reporting

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

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

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

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

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

2013-003–Material Financial Statement Adjustments

CONDITION: Misstatements in the financial statements were not prevented, nor detected and corrected by the Commission's internal control resulting in proposed audit adjustments material to the financial statements.

CRITERIA: Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The Commission's internal control over financial reporting includes those policies and procedures that pertain to the Commission's ability to record, process, summarize, and report financial data consistent with the assertions embodied in financial statements.

Such internal controls also allow management to prevent or detect and correct misstatements on a timely basis.

CAUSE: The condition results from the failure to design and implement or follow implemented policies and procedure which provide assurance that the financial statements are not materially misstated.

EFFECT: Material audit adjustments were necessary to correct misstatements in the financial statements.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended December 31, 2013

RECOMMENDATION: We recommend the Commission design and implement policies and procedures or follow implemented policies and procedures which provide assurance to the fair presentation of the financial statements.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended December 31, 2013

B. Compliance –

2013-004 – Publication of Minutes of Board Meetings

CONDITION: The Commission did not publish the proceedings of its board in a newspaper.

CRITERIA: RS 33:7831(B) designates water and sewer commissions, once created, and its boundaries and jurisdictions fixed, a political subdivision of the state. RS 43:171(A)(1) requires, in part "...other political subdivisions of the state and parishes, shall have the proceedings of their board and such other financial statements required by and furnished to the legislative auditor published in a newspaper."

As required by RS 42:20(B), "minutes shall be public records and shall be available within a reasonable time after the meeting."

CAUSE: The condition results from a failure to comply with statutory requirements.

EFFECT: The Commission may not have complied with the provision of RS 43:171.

RECOMMENDATION: We recommend the Commission comply with the requirements of state statute and publish the proceedings of its board in a newspaper.

C. OMB A-133 –

This section was not applicable.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2013

A. Internal Control –

2012-1 – Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

CURRENT STATUS: See schedule of audit results and findings item 2013-001.

2012-2 – Financial Reporting

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

RECOMMENDATION: the additional costs required to achieve the desired benefit may not be economically feasible.

CURRENT STATUS: See schedule of audit results and findings item 2013-002.

B. Compliance –

There were no findings previously reported under this section.

C. OMB A-133 –

This section was not applicable.

ST. MARTIN PARISH WATER AND SEWER COMMISSION NO. 1
Stephensville, Louisiana

Corrective Action Plan for Current Audit Findings
Year Ended December 31, 2013

2013-001 – Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

MANAGEMENT'S RESPONSE: Due to the size of the operation and the cost-benefit of additional personnel, we were advised that a response to this issue is not required.

2013-002 – Financial Reporting

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

MANAGEMENT'S RESPONSE: The Commission has determined that it would be more cost effective to outsource the preparation of the Commission's financial statements to its independent auditors rather than incur the costs to employ someone with the appropriate skill and expertise to prepare the financial statements in accordance with generally accepted accounting principles.

2013-003 – Material Financial Statement Adjustments

CONDITION: Misstatements in the financial statements were not prevented, nor detected and corrected by the Commission's internal control resulting in proposed audit adjustments material to the financial statements.

MANAGEMENT'S RESPONSE: The Commission has evaluated the cost/benefit of establishing internal controls over the preparation of the financial statement in accordance with generally accepted accounting principles and determined that it is the best interest of the Commission to outsource this task to its independent auditors and we will assign someone to averse their services and we will also review, approve and accept responsibility for the content and presentation of the statements and related notes prior to issuance.

2013-004 – Publication of Minutes of Board Meetings

CONDITION: The Commission did not publish the proceedings of its board in a newspaper.

MANAGEMENT'S RESPONSE: Due to employee turnover, the publication of meeting minutes were overlooked. The Commission has been made aware of the omission and will once again begin publishing meeting minutes as required by state statute.