

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

New Llano, Louisiana

Financial Report

Year Ended May 31, 2014

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INDEPENDENT AUDITORS' REPORT

* A Professional Accounting Corporation

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission), a component unit of the Vernon Parish Police Jury, as of and for the year ended May 31, 2014, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1, as of May 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an error

Due to errors in recording capital asset additions, computing accounts receivable, compensated absences and other liabilities in a prior year, as discussed in Note 9 to the financial statements, the Vernon Parish Water and Sewer Commission No. 1 has restated their beginning net position. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 12 to the financial statements, the Vernon Parish Water and Sewer Commission No. 1 adopted new accounting guidance, *GASB 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 Vernon Parish Water and Sewer Commission No. 1 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 November 25, 2014 on our consideration of the Vernon Parish Water and Sewer Commission No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

Oberlin, Louisiana
November 25, 2014

BASIC FINANCIAL STATEMENTS

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

Statement of Net Position
May 31, 2014

ASSETS

| | |
|---------------------------|------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 919,269 |
| Accounts receivable, net | 93,386 |
| Inventory | 22,138 |
| Prepaid items | <u>14,846</u> |
| Total current assets | 1,049,639 |
| Restricted assets - | |
| Customer deposits | 109,515 |
| Capital assets, net | <u>1,216,687</u> |
| Total assets | <u>2,375,841</u> |

LIABILITIES

| | |
|---|----------------|
| Current liabilities (payable from current assets): | |
| Accounts payable | 12,920 |
| Accrued liabilities | 1,789 |
| Salaries payable | 2,728 |
| Other liabilities | <u>12,098</u> |
| Total current liabilities (payable from current assets) | 29,535 |
| Current liabilities (payable from restricted assets): | |
| Customer deposits | <u>109,515</u> |
| Total current liabilities | 139,050 |
| Noncurrent liabilities: | |
| Compensated absences payable | <u>30,415</u> |
| Total liabilities | <u>169,465</u> |

NET POSITION

| | |
|----------------------------------|--------------------|
| Net investment in capital assets | 1,216,687 |
| Unrestricted | <u>989,689</u> |
| Total net position | <u>\$2,206,376</u> |

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

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended May 31, 2014

| | |
|--------------------------------------|--------------------|
| Operating revenues: | |
| Charges for services - | |
| Water sales | \$ 824,240 |
| Penalty, service and connection fees | 39,684 |
| Other fees | <u>15,724</u> |
| Total operating revenues | <u>879,648</u> |
| Operating expenses: | |
| Salaries and related benefits | 275,744 |
| Depreciation | 122,500 |
| Utilities and telephone | 78,176 |
| Repairs and maintenance | 118,089 |
| Insurance | 94,982 |
| Office expense | 28,369 |
| Professional fees | 19,298 |
| Commissioner fees | 3,660 |
| Truck expense | 23,072 |
| Land lease expense | 2,471 |
| Miscellaneous | <u>8,443</u> |
| Total operating expenses | <u>774,804</u> |
| Operating income | 104,844 |
| Nonoperating revenues (expenses): | |
| Interest income | <u>1,277</u> |
| Income before contributions | 106,121 |
| Capital contributions | <u>16,000</u> |
| Change in net position | 122,121 |
| Net position, beginning, as restated | <u>2,084,255</u> |
| Net position, ending | <u>\$2,206,376</u> |

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

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

Statement of Cash Flows
Year Ended May 31, 2014

| | |
|---|--------------------|
| Cash flows from operating activities: | |
| Receipts from customers | \$ 823,823 |
| Payments to suppliers | (402,440) |
| Payments to employees and related costs | (258,874) |
| Other receipts | <u>15,724</u> |
| Net cash provided by operating activities | <u>178,233</u> |
| | |
| Cash flows from noncapital financing activities: | |
| Decrease in meter deposits, net | <u>(11,115)</u> |
| | |
| Cash flows from capital and related financing activities: | |
| Proceeds from grants | 16,000 |
| Acquisition of capital assets | <u>(54,019)</u> |
| Net cash used by capital and related financing activities | <u>(38,019)</u> |
| | |
| Cash flows from investing activities: | |
| Interest income | <u>1,277</u> |
| | |
| Net increase in cash and cash equivalents | 130,376 |
| | |
| Cash and cash equivalents, beginning of period | <u>898,408</u> |
| | |
| Cash and cash equivalents, end of period | <u>\$1,028,784</u> |

(continued)

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

Statement of Cash Flows (Continued)
Year Ended May 31, 2014

| | |
|---|--------------------|
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 104,844 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 122,500 |
| (Increase) decrease in operating assets - | |
| Accounts receivable | (40,101) |
| Inventory | (5,922) |
| Prepaid items | (895) |
| Increase (decrease) in operating liabilities - | |
| Accounts payable | (19,948) |
| Accrued liabilities | 1,048 |
| Salaries payable | 2,728 |
| Compensated absences payable | 14,142 |
| Other liabilities | <u>(163)</u> |
| Net cash provided by operating activities | <u>\$ 178,233</u> |
| Cash and cash equivalents reported on statement of net position as: | |
| Cash and cash equivalents, beginning of period - | |
| Current | \$ 732,063 |
| Restricted | <u>166,345</u> |
| | <u>\$ 898,408</u> |
| Cash and cash equivalents, end of period - | |
| Current | \$ 919,269 |
| Restricted | <u>109,515</u> |
| | <u>\$1,028,784</u> |
| Net increase | <u>\$ 130,376</u> |

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

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

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The Commission was created in 1984 under the provisions of Louisiana Revised Statutes 33:3811-3837, for the purpose of providing water service to the rural areas of Vernon Parish. The Commission is governed by a board of commissioners composed of five members appointed by the Vernon Parish Police Jury.

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

Because the Vernon Parish Police Jury appoints the Commission's governing body, the Commission was determined to be a component unit of the Vernon Parish Police Jury, the governing body of the parish and the governmental entity with oversight responsibility. The accompanying financial statements present information only on the proprietary fund maintained by the Commission and do not present information on the Vernon Parish Police Jury, the general government services provided by that governmental entity, or the other governmental entities that comprise the financial reporting entity.

B. Basis of Presentation

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

C. Fund Accounting

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

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

Notes to Basic Financial Statements (Continued)

The Commission maintains only one fund and it is described below:

Proprietary Fund –

Enterprise Fund

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

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

Basis of Accounting

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

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

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits. They are stated at cost, which approximates market. See Note (2) for other GASB No. 3 disclosures as amended by GASB No. 40.

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

Notes to Basic Financial Statements (Continued)

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts, if any. There was no allowance recorded at May 31, 2014 due to immateriality.

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

Inventory

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond May 31, 2014, are recorded as prepaid items.

Capital Assets

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

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

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

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

Notes to Basic Financial Statements (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has no deferred outflows of resources.

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

Compensated Absences

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

Equity Classifications

In the Proprietary Fund, equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints may be 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.

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

Notes to Basic Financial Statements (Continued)

- c. Unrestricted net position – Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

F. Revenues and Expenses

Operating Revenues and Expenses

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

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

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. These estimates include assessing the collectability of accounts receivable and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

H. Restricted or Unrestricted Resources

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

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

Notes to Basic Financial Statements (Continued)

(2) Cash and Cash Equivalents

Under state law, the Commission may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Commission may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana. At May 31, 2014, the Commission had cash and cash equivalents (book balances) totaling \$1,028,784.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered or the Commission will not be able to recover the collateral securities that are in the possession of an outside party. 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 pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at May 31, 2014, are as follows:

| | |
|--|--------------------|
| Bank balances | <u>\$1,044,403</u> |
| At May 31, 2014, the deposits are secured as follows: | |
| Federal deposit insurance | 250,000 |
| Uninsured and collateral held by the pledging bank, not in the Commission's name | <u>794,403</u> |
| Total | <u>\$1,044,403</u> |

As of May 31, 2014, the Commission's total bank balances were insured and/or collateralized with pledged securities held by the custodial bank in the name of the pledging financial institution for the Commission and; therefore, they were not exposed to custodial credit risk.

(3) Accounts Receivable

Accounts receivable at May 31, 2014 of \$93,386 consisted of the following:

| | |
|----------------|------------------|
| Accounts, net | \$ 4,846 |
| Unbilled water | <u>88,540</u> |
| Total | <u>\$ 93,386</u> |

(4) Restricted Assets

Restricted assets consisted of the following at May 31, 2014:

| | |
|-------------------|------------------|
| Customer deposits | <u>\$109,515</u> |
|-------------------|------------------|

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

Notes to Basic Financial Statements (Continued)

(5) Capital Assets

Capital asset activity for the year ended May 31, 2014 was as follows:

| | Beginning Balance <u>06/01/13</u> | Increases | Decreases | Ending Balance <u>05/31/14</u> |
|---------------------------------------|---|--------------------|-------------|--------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 21,661 | \$ - | \$ - | \$ 21,661 |
| Capital assets being depreciated: | | | | |
| Buildings | 104,336 | - | - | 104,336 |
| Land improvements | 22,982 | - | - | 22,982 |
| Equipment and vehicles | 224,939 | 6,524 | - | 231,463 |
| Water distribution system | <u>3,335,134</u> | <u>47,495</u> | <u>-</u> | <u>3,382,629</u> |
| Total capital assets | <u>3,709,052</u> | <u>54,019</u> | <u>-</u> | <u>3,763,071</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 90,930 | 2,331 | - | 93,261 |
| Land improvements | 8,671 | 2,298 | - | 10,969 |
| Equipment and vehicles | 126,616 | 19,998 | - | 146,614 |
| Water distribution system | <u>2,197,667</u> | <u>97,873</u> | <u>-</u> | <u>2,295,540</u> |
| Total accumulated depreciation | <u>2,423,884</u> | <u>122,500</u> | <u>-</u> | <u>2,546,384</u> |
| Capital assets, net | <u>\$ 1,285,168</u> | <u>\$ (68,481)</u> | <u>\$ -</u> | <u>\$ 1,216,687</u> |

Depreciation expense included in the financial statements for 2014 totaled \$122,500.

(6) Capital Contributions

Capital contributions consisted of the following at May 31, 2014:

| | |
|---|------------------|
| Grant monies from the State of Louisiana Division of Administration Facility Planning and Control passed through Vernon Parish Police Jury | <u>\$ 16,000</u> |
|---|------------------|

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

Notes to Basic Financial Statements (Continued)

(7) Compensation of Board Members

The following is a list of the commissioners and compensation paid for the year ended May 31, 2014:

| <u>Commissioner</u> | <u>Compensation</u> |
|---------------------|---------------------|
| Susan Redmond | \$ 840 |
| Carney Jean Midkiff | 720 |
| Lorin Mullins | 660 |
| Sue Bailey | 660 |
| Cecil Thompson | 780 |
| | <u>\$ 3,660</u> |

(8) Risk Management

The Commission is exposed to risks of loss in the areas of general liability, property hazards and worker's compensation. All of these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year.

(9) Prior Period Adjustment

Net position at the beginning of the year ended May 31, 2013 has been adjusted to correct errors from prior years. Accounts receivable was overstated by \$10,690, capital assets was understated by \$16,500, compensated absences liability was understated by \$16,273 and other liabilities was understated by \$12,261. A prior period adjust is necessary to record the cumulative decrease in net position of \$22,724.

(10) Pending Litigation

There was no litigation pending against the Vernon Parish Water and Sewer Commission No. 1 at May 31, 2014.

(11) Subsequent Event

The Commission has evaluated subsequent events through November 25, 2014, the date which the financial statements were available to be issued.

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

Notes to Basic Financial Statements (Continued)

(12) New Accounting Pronouncement

During the fiscal year ended May 31, 2014, the Vernon Parish Water and Sewer Commission No. 1 adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which provides clarity for reporting deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Certain items previously reported as assets or liabilities are now reported as deferred outflows of resources or deferred inflows of resources.

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

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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*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Vernon Parish Water and Sewer Commission No. 1 (Commission), a component unit of the Vernon Parish Police Jury, as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 25, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying summary schedule of current and prior year audit findings and management's corrective action plan as items #2014-001 and #2014-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vernon Parish Water and Sewer Commission No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Purpose of this Report

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

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

Oberlin, Louisiana
November 25, 2014

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

Summary Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
For the Year Ended May 31, 2014

| Ref. No. | Fiscal Year Finding Initially Occurred | Description of Finding | Corrective Action Taken | Corrective Action Plan | Name of Contact Person | Anticipated Date of Completion |
|---------------------------|---|---|-------------------------------|--|--|--------------------------------------|
| CURRENT YEAR (5/31/14) -- | | | | | | |
| <u>Internal Control:</u> | | | | | | |
| 2014-001 | Unknown | Due to the small number of employees, the District did not have adequate segregation of functions within the accounting system. | | No response is considered necessary. | Connie James, Office Administrator | N/A |
| 2014-002 | 2010 | The District does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes. | | The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to outsource this task to its independent auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation. | Connie James, Office Administrator | N/A |
| PRIOR YEAR (5/31/13) -- | | | | | | |
| <u>Internal Control:</u> | | | | | | |
| 2013-001 | Unknown | Due to the small number of employees, the District did not have adequate segregation of functions within the accounting system. | No | See finding 2014-001 | | |
| 2013-002 | 2010 | The District does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes. | No | See finding 2014-002 | | |