

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
A COMPONENT UNIT OF THE VERMILION PARISH
POLICE JURY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

Release Date 7/28/10

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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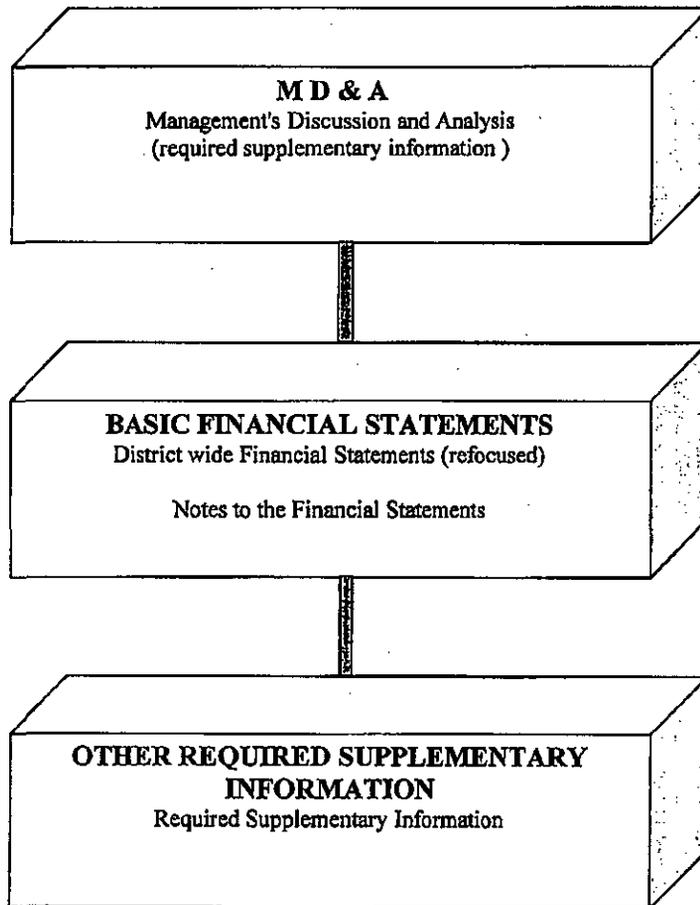
**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana's, (the District's) discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Government Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments" and is intended to provide the financial results for the fiscal years ending December 31, 2009 and 2008.

The following is an illustration on how this financial report is presented.



GASB 34 requires the presentation of two basic types of financial statements: District-wide and fund financial statements. However, due to the fact that the District consists of a single proprietary fund type, the District-wide and Fund financial statements are equivalent.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

DISTRICT-WIDE FINANCIAL STATEMENTS

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are three District-wide statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary of Net Assets

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets	\$ 665,750	\$ 646,508
Assets Limited as to Use	170,133	144,286
Capital Assets, net book value	6,162,220	6,270,139
Other Assets	<u>21,837</u>	<u>20,200</u>
 Total Assets	 <u>\$ 7,019,940</u>	 <u>\$ 7,081,133</u>
Liabilities		
Current Liabilities	\$ 13,742	\$ 13,969
Current Liabilities Payable With Assets Limited as to Use	73,324	72,126
Long-term Liabilities	<u>3,799,939</u>	<u>3,851,170</u>
 Total Liabilities	 <u>3,887,005</u>	 <u>3,937,265</u>
Net Assets		
Invested in Capital Assets, net of related debt	2,311,056	2,369,934
Restricted	96,809	72,160
Unrestricted	<u>725,070</u>	<u>701,774</u>
 Total Net Assets	 <u>3,132,935</u>	 <u>3,143,868</u>
 Total Liabilities and Net Assets	 <u>\$ 7,019,940</u>	 <u>\$ 7,081,133</u>

As indicated by the statement above, total net assets at December 31, 2009, are \$3,132,935. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$7,269,348 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition of each capital asset. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, and expensed over the estimated useful life of the asset. Total accumulated depreciation is \$1,107,128. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due from water system revenues that have been set aside for the debt retirement. Total debt associated with capital assets is \$3,851,164.

Restricted net assets consist of debt retirement funds, funds that are required to be set aside for contingencies, and customer security deposits. Restricted net assets represent an amount equal to the assets limited as to use, less the related liabilities. The breakdown of these funds is as follows:

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

	2009	2008
Revenue Bond Sinking Fund	\$ (29,949)	\$ (28,032)
Waterworks Reserve Fund	59,429	48,146
Waterworks Contingency Fund	60,808	49,491
Customer Security Deposits	3,221	2,555
Board Designated Funds	3,300	-
Total	\$ 96,809	\$ 72,160

The remaining net assets balance of \$725,070 is unrestricted. The unrestricted net assets is an accumulation of current and prior years' operating results. This balance is directly affected each year by the District's operating results.

RESULTS OF OPERATIONS

	2009		2008	
	Amount	% of Total	Amount	% of Total
Program Revenue				
Customer Charges	<u>\$ 611,429</u>	95.93%	<u>\$ 607,164</u>	94.82%
Other General Revenues				
Interest Income	15,715	2.47%	17,198	2.69%
Other Income	<u>10,253</u>	1.61%	<u>15,940</u>	2.49%
Total Other General Revenues	<u>25,968</u>	4.07%	<u>33,138</u>	5.18%
Total Revenues	<u>637,397</u>	100.00%	<u>640,302</u>	100.00%
Expenses				
Water Expenses	98,578	15.20%	86,513	13.49%
Salaries and Benefits	133,481	20.59%	138,295	21.57%
Depreciation	162,199	25.02%	156,250	24.37%
Insurance Expense	14,639	2.26%	14,222	2.22%
Repairs and Maintenance	23,484	3.62%	12,707	1.98%
General and Administrative	47,613	7.34%	63,205	9.86%
Interest Expense	<u>168,336</u>	25.97%	<u>169,921</u>	26.51%
Total Expenses	<u>648,330</u>	100.00%	<u>641,113</u>	100.00%
Increase (Decrease) in Net Assets	<u>\$ (10,933)</u>	-1.72%	<u>\$ (811)</u>	-0.13%

As indicated above, net assets decreased by \$10,933. The district had an increased amount of repairs and maintenance expense as compared to prior years which contributed to this decrease in net assets.

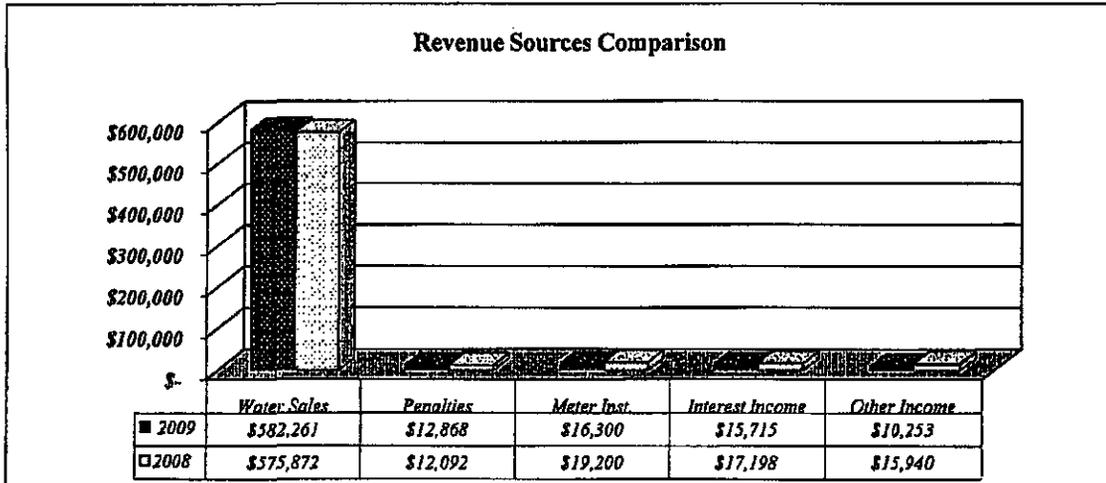
**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

REVENUES

The following chart illustrates the District's sources of revenues by percentages:



Water sales in the amount of \$582,261 represents ninety percent (91%) of total District revenues. The District has relied mainly on water charges to customers to fund its operations

No state or parish funds were received to supplement operations.

Prior to the implementation of GASB 34, the payments received from customers which was less that the actual cost of the extension were recorded as direct charges against the equity account Contributed Capital From Customers. However, with the implementation of GASB 34, the costs of these installations and extensions which are funded by customers are reported as revenue.

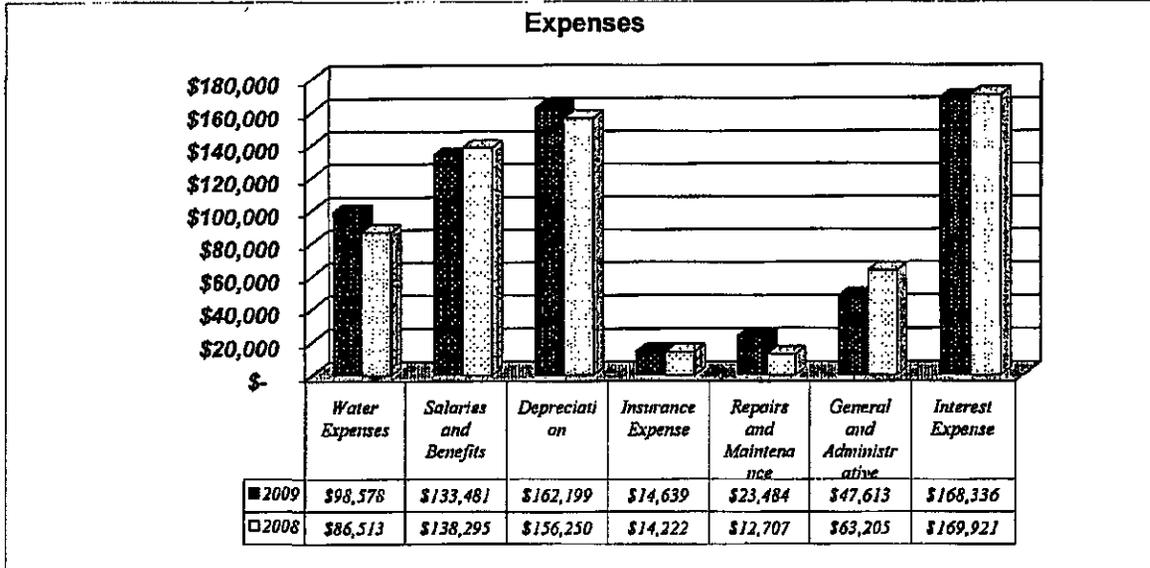
**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

EXPENSES

The following chart illustrates the District's expenses by percentages:



Major expenses include Water Expenses of \$98,578, Salaries and Benefits Expenses of \$133,481, Depreciation of \$162,199, General and Administrative Expense of \$47,613 and Interest on Long-term Debt of \$168,336.

CAPITAL ASSETS

At December 31, 2009, the District had \$6,162,220 invested in net capital assets as follows:

CAPITAL ASSETS

Land	\$ 17,477
Buildings	163,440
Property, Plant, and Equipment	7,085,319
Construction in Progress	<u>3,112</u>
Gross Capital Assets	7,269,348
Less: Accumulated Depreciation	<u>(1,107,128)</u>
 Net Capital Assets	 <u>\$ 6,162,220</u>

Purchases of fixed assets totaled \$54,610 and \$113,985, for the years ended December 31, 2009 and 2008, respectively.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008**

DEBT

At the end of this year, the District had \$3,851,164 in Revenue Bonds outstanding. This is a combination of the Series 1997 Revenue Bond issuance, the Series 1998 Revenue Bonds and the 2007 Revenue Bonds issuance. All issuances were used in the construction of the water system. As part of these bond issuances three cash accounts were created whose use was limited as follows:

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose. The balance in this fund is \$29,975.

Waterworks Reserve Fund - The District is required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007 through June 20, 2008 the sum of \$771 must be deposited monthly. Beginning July 20, 2008 the sum of \$906 must be deposited monthly until \$217,322 has been accumulated. The balance in this fund is \$59,429.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007 through June 20, 2008 the sum of \$773 must be deposited monthly. Beginning July 20, 2008 the sum of \$908 must be deposited monthly until \$217,322 has been accumulated. The balance in this fund is \$60,808.

There were no new issuances of debt during the fiscal year ended December 31, 2009 and 2008; retirements totaled \$49,041 and \$29,594 for they years ended December 31, 2009 and 2008.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Southeast Waterworks District 2, 417 Trahan Street, Abbeville, LA 70510.

**LANGLINAIS
BROUSSARD &
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A Corporation of Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited the accompanying component unit financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, (the District) a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2009 and 2008. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of State, Local Governments, and Non-profit Organizations; and USDA-OIG Rural Utilities Bulletin 1780-30. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2009 and 2008, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedules of expenses are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

LANGLINAIS BROUSSARD & KOHLENBERG

A Corporation of Certified Public Accountants

June 28, 2010

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENT OF NET ASSETS

DECEMBER 31,

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 348,329	\$ 499,116
Accounts Receivable, less allowance for doubtful accounts of \$28,577 in 2009, and \$24,036 in 2008	58,481	61,943
Investments	<u>258,940</u>	<u>85,449</u>
Total Current Assets	<u>665,750</u>	<u>646,508</u>
ASSETS LIMITED AS TO USE		
Revenue Bond Sinking Cash	29,975	29,648
Waterworks Reserve Fund Cash	59,429	48,146
Waterworks Contingency Fund Cash	60,808	49,491
Customer Security Deposits Cash	16,621	17,001
Board Designated	<u>3,300</u>	<u>-</u>
Total Assets Limited as to Use	<u>170,133</u>	<u>144,286</u>
CAPITAL ASSETS		
Land	17,477	17,477
Buildings	163,440	160,000
Property, Plant, and Equipment	7,085,319	7,066,450
Construction In Progress	<u>3,112</u>	<u>-</u>
Gross Capital Assets	7,269,348	7,243,927
Less: Accumulated Depreciation	<u>(1,107,128)</u>	<u>(973,788)</u>
Net Capital Assets	<u>6,162,220</u>	<u>6,270,139</u>
OTHER ASSETS		
Bond Issue Costs	16,545	17,167
Prepaid Expenses	4,583	3,033
Accrued Interest Receivable	<u>709</u>	<u>-</u>
Total Other Assets	<u>21,837</u>	<u>20,200</u>
TOTAL ASSETS	<u>\$ 7,019,940</u>	<u>\$ 7,081,133</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENT OF NET ASSETS

DECEMBER 31,

<u>LIABILITIES AND NET ASSETS</u>	<u>2009</u>	<u>2008</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 10,267	\$ 9,643
Payroll Liabilities	3,475	3,690
Other Current Liabilities	-	636
Total Current Liabilities	<u>13,742</u>	<u>13,969</u>
CURRENT LIABILITIES PAYABLE WITH ASSETS LIMITED TO USE		
Accrued Interest Payable	8,699	8,645
Current Portion of Long-Term Debt	51,225	49,035
Customer Security Deposits Liability	13,400	14,446
Total Current Liabilities Payable with Assets Limited as to Use	<u>73,324</u>	<u>72,126</u>
LONG-TERM LIABILITIES		
Revenue Bonds Payable	<u>3,799,939</u>	<u>3,851,170</u>
Total Long-Term Liabilities	<u>3,799,939</u>	<u>3,851,170</u>
TOTAL LIABILITIES	<u>3,887,005</u>	<u>3,937,265</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	2,311,056	2,369,934
Restricted	96,809	72,160
Unrestricted	725,070	701,774
TOTAL NET ASSETS	<u>3,132,935</u>	<u>3,143,868</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,019,940</u>	<u>\$ 7,081,133</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

DECEMBER 31,

	2009	2008
OPERATING REVENUES		
Water Sales	\$ 582,261	\$ 575,872
Meter Installation Charges	16,300	19,200
Penalties	12,868	12,092
Total Operating Revenues	611,429	607,164
OPERATING EXPENSES		
Water Expenses	98,578	86,513
Salaries and Benefits	133,481	138,295
Depreciation	162,199	156,250
Insurance Expense	14,639	14,222
Repairs and Maintenance	23,484	12,707
General and Administrative Expenses	47,613	63,205
Total Operating Expenses	479,994	471,192
OPERATING INCOME	131,435	135,972
NON-OPERATING INCOME (EXPENSES)		
Interest Income	15,715	17,198
Miscellaneous Income	10,583	15,919
Gain (Loss) on Sale of Equipment	(330)	21
Interest Expense	(168,336)	(169,921)
Total Non-Operating Income	(142,368)	(136,783)
CHANGE IN NET ASSETS	(10,933)	(811)
NET ASSETS - BEGINNING	3,143,868	3,144,679
NET ASSETS - ENDING	\$ 3,132,935	\$ 3,143,868

The Accompanying Notes are an Integral Part of these Financial Statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF CASH FLOW

DECEMBER 31,

	2009	2008
CASH FLOWS FROM OPERATING INCOME		
Receipts from Customers	\$ 602,380	\$ 595,565
Payments to Suppliers	(201,249)	(261,682)
Payments to Employees	(106,944)	(114,571)
NET CASH PROVIDED BY OPERATING ACTIVITIES	294,187	219,312
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Miscellaneous Income	10,583	15,919
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	10,583	15,919
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Fixed Assets	(54,610)	(113,985)
Proceeds from the Sale of Fixed Assets	-	50
Principal Payments - Revenue Bonds	(49,041)	(29,594)
Interest Paid	(168,282)	(219,884)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(271,933)	(363,413)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	15,715	17,198
Proceeds from the Sale of Investments	51,379	221,673
Purchases of Investments	(224,871)	(100,700)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(157,777)	138,171
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(124,940)	9,989
CASH AND EQUIVALENTS - BEGINNING	643,402	633,413
<i>(Including Restricted Cash of \$144,286 and \$145,395 for 2009 and 2008 respectively)</i>		
CASH AND EQUIVALENTS - ENDING	518,462	643,402
<i>(Including Restricted Cash of \$170,133 and \$144,286 for 2009 and 2008 respectively)</i>		

The Accompanying Notes are an Integral Part of these Financial Statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF CASH FLOW

DECEMBER 31,

	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING INCOME:		
Operating Income	\$ 131,435	\$ 135,972
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING INCOME:		
Depreciation	162,199	156,250
Amortization	622	622
Provision for Doubtful Accounts	4,541	24,036
Increase in Accounts Receivable	(1,078)	(12,549)
Increase in Prepaid Expenses	(1,549)	(36)
Increase in Accrued Interest Receivable	(709)	-
Increase (Decrease) in Accounts Payable	623	(86,567)
Increase (Decrease) in Other Current Liabilities	(851)	634
Increase (Decrease) in Customer Security Deposits	(1,046)	950
Total Adjustments	162,752	83,340
NET CASH FLOWS FROM OPERATING INCOME	\$ 294,187	\$ 219,312

The Accompanying Notes are an Integral Part of these Financial Statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Waterworks District Number 2, of the Parish of Vermilion, State of Louisiana (the District), which is a component unit of the Vermilion Parish Police Jury, was created under the provisions of Louisiana Revised Statutes (LRS) 33:3811, for the purpose of providing water to rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury. The Vermilion Parish Police Jury exercises oversight responsibility with the District; however, the Police Jury does not exercise any control over specific expenditures of the District.

All activities over which the District exercises oversight responsibility have been incorporated to form the District's reporting entity. Oversight responsibility is determined by financial interdependency, selection of governing board, designation of management, accountability for financial matters, and an ability to significantly influence operations.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

During fiscal year 2002, the District elected to early implement Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments, as amended by GASB Statements Number 37 and 38, and applied those standards on a retroactive basis. GASB Statement Number 34 establishes standards of reporting for state and local governments.

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a Proprietary Fund, the District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers related to the sale of water. The District also recognizes as operating revenue for the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the District's proprietary fund include water expenses, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the District in the financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in obligations of the U.S. Treasury, certificates or other obligations of the United States of America, and time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana.

Most political subdivisions in the State of Louisiana are limited to receiving interest rates from financial institutions at rates not less than fifty basis points below the prevailing market interest rate on direct obligations of the United States Treasury with a similar length of maturity. However, as a result of the enactment of Act number 1223 from the 2001 regular session of the Louisiana Legislature, the District is entitled to the prevailing rate of interest on time certificates of deposit that is offered by the bank to its other customers if that rate is greater than fifty basis points below the prevailing market interest rate on direct obligations of the United States Treasury with a similar length of maturity.

RECEIVABLES AND CUSTOMERS

The District accounts for bad debts using the allowance method. Expense is recognized during the period in which a specific account is determined to be uncollectible and an allowance for doubtful accounts decreases the net receivable amount.

At December 31, 2009, the District had 1,910 customers connected for service. Of that total 1,851 were residential customers and 59 were commercial customers.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

The following represents the aged receivable balances at December 31, 2009 and 2008:

	2009		2008
Unbilled	\$ 27,688	\$	24,910
0-30 days	14,781		22,839
31-60 days	11,085		10,331
61-90 days	4,927		3,863
Over 90 days	28,577		24,036
	87,058		85,979
Less: Allowance for Doubtful Accounts	(28,577)		(24,036)
Total Receivables	\$ 58,481	\$	61,943

ASSETS LIMITED AS TO USE

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The "Revenue Bond Sinking Fund" is used to accumulate resources necessary to meet annual debt service requirements. The "Waterworks Reserve Fund" is used to segregate from funds available for operations, funds equal to five percent of the original bond issuance. These funds serve to prevent the District from defaulting on debt service payments in the event of deficiencies in utility operations. The "Waterworks Contingency Fund" is used to accumulate resources to meet any unexpected contingencies or to fund significant asset replacements or repairs. The "Customer Security Deposits" represents advance deposits received from water customers which shall be either refunded upon termination of services or applied toward billings in arrears. During the fiscal year ended December 31, 2009, the board designated \$3,300 for a grant which was still in the application stage at year end.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to capital assets and long-term liabilities are determined by its measurement focus. Property, plant, and equipment in the Proprietary Fund of the District are recorded at cost. Property, plant, and equipment donated to these Proprietary Fund operations are recorded at their estimated fair value at the date of donation.

Property, plant, and equipment are depreciated in the Proprietary Fund using the straight line method over the following estimated useful lives:

	Years
Buildings	50
Utility System Improvements	25 - 50
Equipment	5 - 10

Long-term debt and other obligations of the Proprietary Fund of the District are reported as liabilities. For the Proprietary Fund, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

NET ASSETS

Net Asset classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt", above.

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

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The District regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

VACATION AND SICK LEAVE

Employees of the District are entitled to a one week vacation. The earned days do not vest; therefore, no liability has been recorded for compensated absences in the financial statements.

RECLASSIFICATIONS

To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net assets.

NEW ACCOUNTING PRONOUNCEMENTS

FASB issued Statement No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007.

GRANTS AND DONATIONS

Grants and donations (including capital contributions of assets) are recognized as revenue when all eligibility requirements, including time requirements, imposed by the provider have been met.

INCOME TAXES

The District is a political subdivision and exempt from taxes.

ADVERTISING

The District expenses advertising costs as incurred.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS

At year end, the District's carrying amount of deposits was \$518,461 and the bank balance was \$524,108. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized with securities held by the pledging financial institution's trust department or agent in the financial institution's name. For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The District's investments generally are reported at fair value. In accordance with SFAS No. 157, the District groups assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Federal Home Loan Mortgage Corporation Medium Term Note	\$ 97,018.00	\$ 97,018.00	\$ -	\$ -
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-B	35,631.00	35,631.00	-	-
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-C-1	126,291.00	126,291.00	-	-
Total	\$ 258,940.00	\$ 258,940.00	\$ -	\$ -

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 3: CAPITAL ASSETS

Capital Assets, by major category, is as follows at December 31, 2009 and 2008:

	ASSET LIFE IN YEARS	12/31/2008	ADDITIONS	DEDUCTIONS	12/31/2009
Land		\$ 17,477	\$ -	\$ -	\$ 17,477
Buildings	50	160,000	3,440	-	163,440
Property, Plant, and Construction in Progress	5-50	7,066,450	48,058	(29,189)	7,085,319
		-	3,112	-	3,112
Gross Capital Assets		7,243,927	54,610	(29,189)	7,269,348
Less: Accumulated Depreciation		(973,788)	(162,199)	28,859	(1,107,128)
Net Capital Assets		\$ 6,270,139	\$ (107,589)	\$ (330)	\$ 6,162,220

NOTE 4: LONG-TERM DEBT

The District issues revenue bonds which it pledges income derived from the water system to pay the debt. Revenue bonds outstanding at year end are as follows:

	2009	2008
1) Utility Revenue Bonds dated May 12, 1997; payable in monthly installments of \$3,644 through March 12, 2035; including interest at 4.5%	\$ 659,007	\$ 672,749
2) Utility Revenue Bonds dated March 16, 1998; payable in monthly installments of \$1,554 through March 12, 2038; including interest at 4.875%	287,071	291,599
3) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$1,012 beginning August 12, 2008 through July 12, 2047 at 4.25% .	227,637	230,049
4) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$11,900 beginning August 12, 2008 through July 12, 2047 at 4.25% Interest only payment of \$112,906 was due on July 12, 2008.	2,677,449	2,705,808
Total Revenue Bonds	3,851,164	3,900,205
Less: Current Portion	(51,225)	(49,035)
Total Long-term Debt	\$ 3,799,939	\$ 3,851,170

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 4: LONG-TERM DEBT CONT'D

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ended December 31</u>	<u>Total Debt Service</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 217,322	\$ 51,225	\$ 166,097
2011	217,322	53,514	163,808
2012	217,322	55,904	161,418
2013	217,322	58,402	158,920
2014	217,322	61,012	156,310
2015-2019	1,086,612	348,482	738,130
2020-2024	1,086,612	433,666	652,946
2025-2029	1,086,612	539,724	546,888
2030-2034	1,086,612	671,785	414,827
2035-2039	851,324	576,506	274,818
2040-2044	774,734	624,983	149,751
2045-2047	397,513	375,961	21,552
Total Debt Service to Maturity	<u>\$ 7,456,629</u>	<u>\$ 3,851,164</u>	<u>\$ 3,605,465</u>

Long-term debt activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Revenue Bonds	<u>\$ 3,900,205</u>	<u>\$ -</u>	<u>\$ (49,041)</u>	<u>\$ 3,851,164</u>

NOTE 5: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES

Under the terms of the bond indenture on the outstanding revenue bonds, all income and revenues of every nature, earned or derived from operations of the water utility system are pledged and dedicated to the retirement of said bonds and are to be set aside into the following special funds.

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund beginning June 1997, and may be used only for such purpose.

Waterworks Reserve Fund - The District is also required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007 through June 20, 2008 the sum of \$771 must be deposited monthly. Beginning July 20, 2008 the sum of \$906 must be deposited monthly until \$217,322 has been accumulated.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007 through June 20, 2008 the sum of \$773 must be deposited monthly. Beginning July 20, 2008 the sum of \$908 must be deposited monthly until \$217,322 has been accumulated.

All revenues received in any year, and not required to be paid into any of the aforementioned funds, are regarded as surplus and may be used for any lawful purposes.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 6: DIRECTORS' FEES

The following is a schedule of directors' fees paid by the District for the year ended December 31, :

	2009	2008
David Greco	\$ 975	\$ 810
Nally Simon	1,050	885
Marty Benoit	-	375
Curnal Cessac	975	885
Clint Dugas	1,125	810
Susan Wilhelm	825	300
Byron Perry	975	225
Total	\$ 5,925	\$ 4,290

NOTE 7: INSURANCE IN FORCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The following is a schedule of insurance in force at December 31, 2009:

DESCRIPTION OF COVERAGE	COVERAGE AMOUNTS
Worker's Compensation	Statutory
Surety Bonds:	
Board President	\$ 220,000
Vice-President	\$ 220,000
Secretary	\$ 220,000
Office Manager	\$ 220,000
Plant Manager	\$ 220,000
Office Secretary	\$ 220,000
Automobile Liability (Each Accident)	\$ 1,000,000
General Premises Liability (Each Occurrence)	\$ 1,000,000
General Premises Liability (General Aggregate)	\$ 3,000,000
Blanket Building and Contents	\$ 1,134,000.00

NOTE 8: WATER RATES

The following represents water rates in force at December 31, 2009:

<u>Residential</u>		
First 2,000 Gallons	\$	13.50
All Over 2,000 Gallons Per 1,000 Gallons	\$	2.75
<u>Commercial</u>		
First 2,000 Gallons	\$	17.00
All Over 2,000 Gallons Per 1,000 Gallons	\$	2.75
<u>Penalty</u>		
10% of Water Charge Paid After Due Date		

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 2: DEFINED CONTRIBUTION RETIREMENT PLAN

All full-time employees participate in a defined contribution plan after one year of service. The District contributes 7.50 percent (7.50%) of each participant's gross pay. All amounts are vested immediately. The plan was not set-up to allow employee contributions to the plan. The covered payroll for the plan was \$89,981 and \$76,780 for 2009 and 2008, respectively. The District's total payroll for the same period was \$106,944 and \$114,571 for 2009 and 2008, respectively. Total contributions for the year ended December 31, 2009 and 2008, were \$6,956 and \$5,074 or approximately 7.50 percent (7.50%) of covered payroll.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

SCHEDULE OF EXPENSES

DECEMBER 31,

	2009	2008
WATER EXPENSES		
Chemicals	\$ 39,786	\$ 28,184
Engineering Fees	400	7,499
Meter Readers	22,362	15,745
Line Location and Testing	1,888	1,477
Supplies	7,263	1,941
Utilities	26,879	31,667
 Total Water Expenses	\$ 98,578	\$ 86,513
 GENERAL AND ADMINISTRATIVE EXPENSES		
Advertising	\$ 526	\$ 680
Amortization	622	622
Fuel Expenses	3,951	8,390
Bank Charges	809	800
Bad Debt Expense	4,541	24,036
Finance Charge - Credit and Debit Cards	595	851
Freight	1,081	705
Legal, Auditing and Accounting	6,315	6,155
Office	12,592	8,895
Operations	2,231	1,525
Postage	8,186	5,617
Printing	826	833
School and Training	508	-
Telephone & Cellular	4,830	4,096
 Total General and Administrative Expenses	\$ 47,613	\$ 63,205



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

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited the component unit financial statements of the Southeast Waterworks District Number 2, Parish of Vermilion, State of Louisiana (the District), a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with generally accepted accounting principles of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the District as of and for the years ended December 31, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider all weaknesses described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be material weaknesses.

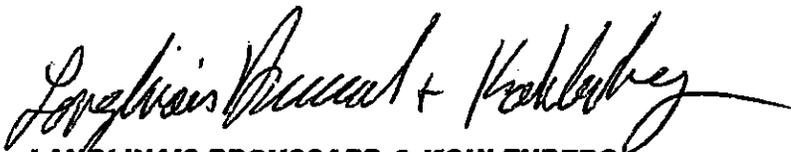
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all weaknesses described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be significant deficiencies.

COMPLIANCE

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

The District's response to the findings identified in our audit are described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We did not audit the District's response and accordingly we express no opinion on it.

This communication is intended solely for the information and use of management Southeast Waterworks District Number 2, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties



LANGLINAIS BROUSSARD & KOHLENBERG
(A corporation of Certified Public Accountants)

June 28, 2010

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED OCTOBER 31, 2009**

We have audited the financial statements of Southeast Waterworks District Number 2, a component unit of the Vermilion Parish Police Jury, State of Louisiana (The District), as of and for the year ended December 31, 2009 and 2008, and have issued our report thereon dated June 28, 2010.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audits of the financial statements as of December 31, 2009 and 2008 resulted in unqualified opinions.

Section I: Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes

Compliance	
Compliance Material to Financial Statements	Yes

Section II: Financial Statement Findings

A – Issues of Noncompliance

Finding 2009-1 Compliance

Condition: The District was unable to produce the minutes of the board meeting held in May of 2009.

Criteria: To ensure good internal controls, best practices for governmental entities, and compliance with Louisiana and United States law and regulations.

Effect: The District may have violated Louisiana State RS 42:7.1.

Recommendation: The District should monitor recordkeeping to ensure the minutes are available for public inspection and keep duplicate copies of the minutes in separate locations.

Management's Response: The Water District's office manager will keep a copy of the minutes until the official copy of the minutes is received from the Board's secretary and the following year's audit is completed.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED OCTOBER 31, 2009**

Finding 2009-2 Budget

Condition: The District did not prepare a budget for the fiscal year under audit.

Criteria: To ensure good internal controls and best practices for governmental entities, and to be in compliance with Louisiana and United States laws and regulations.

Effect: It appears that the District may not be in compliance with LA R.S. 39:1305.

Recommendation: The District should prepare a budget annually; and the board should approve the budget and record the approval in the minutes to the board meeting.

Management Response: The Water District did indeed prepare and submit a budget for 2009, although it was submitted past the deadline. The Water District has plans to prepare a budget annually and in a more timely fashion.

B- Significant Deficiencies

Finding 2009-3 Financial Statement Preparation

Condition: The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The District should continue to outsource the preparation of its financials to its independent auditors and carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

Management Response: It is not cost effective for the Water District to hire someone who is qualified to prepare financial statements. We will continue to review the financials before accepting them.

Finding 2009-4 Segregation of Duties

Condition: The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED OCTOBER 31, 2009**

Finding 2009-4 Segregation of Duties (cont'd)

Recommendation: The authorization, recording, and reconciliation of transactions and decisions and the custody of assets related to those transactions should be segregated. The District should segregate these duties amongst employees and/or mitigate lack of segregation with increased management oversight.

Management Response: Due to the small number of employees employed by the Water District, we cannot segregate duties any more than they are at present. It is cost prohibitive for the Water District to hire more employees so that duties can be segregated.

Finding 2009-5 Journal Entries

Condition: There are excessive audit adjustments that were proposed.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The District should monitor the general ledger to the extent of the abilities of its accounting staff.

Management Response: The Water District will make it a policy that adjustments be posted to the general ledger in a more timely fashion and it will be monitored more closely.

SECTION III: Management Letter Items

There are no management letter items at December 31, 2009.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2009

Section I: Internal Control and Compliance Material to the Financial Statements

2008-1 Related Party

The District hired an immediate family member of a management employee; the manager was in direct supervision of the new employee.

Resolved.

2008-2 Budget

The District did not prepare a budget for the fiscal year under audit.

Unresolved. See 2009-2.

2008-3 Independent Contractors

The District did not send an IRS form 1099 to independent contractors who were paid for services.

Resolved.

2008-4 Financial Statement Preparation

The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Unresolved. See 2009-3.

2008-5 Segregation of Duties

The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Unresolved. See 2009-4.

2008-6 Journal Entries

There are excessive audit adjustments that need to be made; in addition prior year audit adjustments were not made in a timely fashion.

Unresolved. See 2009-5.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2009

2008-7 Off-site Backups

Backups of District information are not stored off-site.

Resolved.

Commissioners

*Curtal Cessac - Chairman
Clint Dugas - Vice-Chairman
Nadly Simon - Secretary/Treasurer
David Green - Member
Susan Wilhelm - Member
Byron Perry - Member*

**Southeast Waterworks District No. 2
of Vermilion Parish
417 Trahan Street
Abbeville, Louisiana 70510-8433**



*Anthony Richard
Plant Operator*

*Connie V. Sagrera
Office Manager*

June 28, 2010

RE: 2009 Audit Findings

To the Legislative Auditor:

We are writing this letter to address our auditor's findings.

- 2009-1 The Water District's Office Manager will keep a copy of the minutes until the official copy of the minutes is received from the Board's Secretary and the following year's audit is completed.
- 2009-2 The Water District did indeed prepare and submit a budget for 2009, although it was submitted past the deadline. The Water District has plans to prepare a budget annually and in a more timely fashion.
- 2009-3 It is not cost effective for the Water District to hire someone who is qualified to prepare financial statements. We will continue to review the financials before accepting them.
- 2009-4 Due to the small number of employees employed by the Water District, we cannot segregate duties any more than they are at present. It is cost prohibitive for the Water District to hire more employees so that duties can be segregated.
- 2009-5 The Water District will make it a policy that adjustments be posted to the general ledger in a more timely fashion and it will be monitored more closely.

Sincerely,

Connie V. Sagrera
Office Manager

Phone: 337-892-1072

Quality on Tap!!!

Fax: 337-892-1036

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