

WATERWORKS DISTRICT NO. 3
OF BEAUREGARD PARISH
BEAUREGARD PARISH POLICE JURY
DERIDDER, LOUISIANA

ANNUAL FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT

DECEMBER 31, 2010

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 8/24/11

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John A. Windham, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Waterworks District No. 3
of Beauregard Parish
Ragley, Louisiana

I have audited the financial statements of the business-type activities and the major fund of Waterworks District No. 3 of Beauregard Parish, a component unit of the Beauregard Parish Police Jury, DeRidder, Louisiana, as of and for the year ended December 31, 2010, which collectively comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Waterworks District No. 3 of Beauregard Parish's management.

Except as state in the following paragraph, I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

Because of inadequacies in the district's accounting records, I was unable to form an opinion on \$1,795,103 of charges for services revenue and \$10,237 of worker's compensation insurance rebates in the statement of activities and the statement of revenues, expenses and changes in net assets.. The water billing registers were used to verify water sales for the year; the billing registers totaled an amount less than the amount shown on the financial statements. I was unable to reconcile the difference between the billing registers and water sales revenue as shown on the financial statements with information provided me by the district. Louisiana Workers' Compensation Corporation issued two rebates for the insurance premiums paid by the district and the district was unable to provide documentation for these rebates.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the charges for services and dividend rebate receipts, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities and the major fund of Waterworks District no. 3 of Beauregard Parish, as of December 31, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 17, 2011 on my consideration of Waterworks District No. 3 of Beauregard Parish's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Waterworks District No. 3 of Beauregard Parish, a component unit of the Beauregard Parish Police Jury, DeRidder, Louisiana, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Board of Commissioners
Waterworks District No. 3
of Beauregard Parish
Ragley, Louisiana

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks District No. 3 of Beauregard Parish's basic financial statements. The schedule of per diem paid to board members, prior year audit findings, and current year audit findings and management's response are presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of per diem paid to board members, prior year audit findings, and current year audit findings and management's response are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

John H. Windham, CPA

DeRidder, Louisiana
June 17, 2011

BASIC FINANCIAL STATEMENTS

Waterworks District No. 3 of Beauregard Parish
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement A

Statement of Net Assets
December 31, 2010

	<u>Business-type Activities</u>
ASSETS	
Cash	\$ 2,474,234
Receivables:	
Accounts	127,983
Prepaid insurance	10,247
Non-depreciable capital assets	359,487
Depreciable capital assets, net	7,956,968
Total assets	<u>\$ 10,928,919</u>
LIABILITIES	
Accounts payable	\$ 55,082
Payroll taxes payable	8,458
Customer deposits	30,920
Total current liabilities	<u>\$ 94,460</u>
NET ASSETS	
Invested in capital assets	\$ 8,316,455
Unrestricted	2,518,004
Total net assets	<u>\$ 10,834,459</u>
Total liabilities and net assets	<u>\$ 10,928,919</u>

The accompanying notes are an integral part of this statement.

Waterworks District No. 3 of Beauregard Parish
 Beauregard Parish Police Jury
 DeRidder, Louisiana

Statement B

Statement of Activities
 For the Year Ended December 31, 2010

Program Activities	Expenses	Program Revenues		Buisness-type Activities
		Charges for Services	Capital Grants and Contributions	
Business-type activities:				
Water and sewer	\$ 1,657,043	\$ 1,795,103	\$ 86,495	\$ 224,555
General revenues:				
Investment earnings				\$ 2,278
Total general revenues				\$ 2,278
Change in net assets				\$ 226,833
Net assets at beginning of year				10,607,626
Net assets at end of year				\$ 10,834,459

The accompanying notes are an integral part of the statement.

Waterworks District No. 3 of Beauregard Parish
 Beauregard Parish Police Jury
 DeRidder, Louisiana

Statement C

Statement of Net Assets
 Proprietary Fund
 December 31, 2010

	Business-type Activities - Enterprise Fund Water and Sewer
Assets	
Current Assets	
Cash	\$ 2,474,234
Receivables:	
Accounts	127,983
Prepaid insurance	10,247
Total current assets	\$ 2,612,464
Noncurrent Assets	
Non-depreciable capital assets	\$ 359,487
Depreciable capital assets, net	7,956,968
Total noncurrent assets	\$ 8,316,455
 Total assets	 \$ 10,928,919
Liabilities	
Current Liabilities	
Accounts payable	\$ 55,082
Payroll taxes payable	8,458
Customer deposits	30,920
Total current liabilities	\$ 94,460
Net Assets	
Invested in capital assets	\$ 8,316,455
Unrestricted	2,518,004
Total net assets	\$ 10,834,459
 Total liabilities and net assets	 \$ 10,928,919

The accompanying notes are an integral part of this statement.

Waterworks District No. 3 of Beauregard Parish
 Beauregard Parish Police Jury
 DeRidder, Louisiana

Statement D

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Fund
 For the Year Ended December 31, 2010

	<u>Business-type Activities - Enterprise Fund Water and Sewer</u>
Operating revenues	
Charges for services	\$ 1,795,103
Operating expenses	
Personal services	\$ 587,161
Supplies	143,519
Contractual services	479,857
Depreciation	446,414
Total operating expenses	<u>\$ 1,656,951</u>
Income (loss) from operations	<u>\$ 138,152</u>
Nonoperating revenues (expenses)	
Investment income	\$ 2,278
Interest expense	(92)
State grant revenue	86,495
Total nonoperating revenues (expenses)	<u>\$ 88,681</u>
Change in net assets	\$ 226,833
Net assets at beginning of year	<u>10,607,626</u>
Net assets at end of year	<u><u>\$ 10,834,459</u></u>

The accompanying notes are an integral part of this statement.

Waterworks District No. 3 of Beauregard Parish
 Beauregard Parish Police Jury
 DeRidder, Louisiana

Statement E

Statement of Cash Flows
 Proprietary Fund
 For the Year Ended December 31, 2010

	Business-type Activities - Enterprise Fund
	Water and Sewer
Cash flows from operating activities:	
Cash received from customers	\$ 1,789,417
Cash payments to suppliers for goods and services	(613,076)
Cash payments to employees for services	(585,890)
Net cash provided by operating activities	\$ 590,451
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	\$ (399,273)
Interest expense	(92)
Capital contributions	86,495
Net cash used by capital and related financing activities	\$ (312,870)
Cash flow from investing activities:	
Interest on cash and investments	\$ 2,278
Net increase (decrease) in cash and cash investments	\$ 279,859
Cash and cash investments, beginning	2,194,375
Cash and cash investments, ending	\$ 2,474,234

(Continued)

The accompanying notes are an integral part of this statement.

Waterworks District No. 3 of Beauregard Parish
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement E

Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2010

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Water and Sewer</u>
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	<u>\$ 138,152</u>
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	\$ 446,414
Change in assets and liabilities:	
Increase in accounts receivable	(33,886)
Increase in accounts payable	9,476
Increase in customer deposits	28,200
Decrease in prepaid insurance	824
Increase in payroll taxes payable	1,271
Net cash provided by operating activities	<u>\$ 590,451</u>
	(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Waterworks District No. 3 of Beauregard Parish
Notes to the Financial Statements
As of and for the Year Ended December 31, 2010

INTRODUCTION

Waterworks District No. 3 of Beauregard Parish was created by the Beauregard Parish Police Jury under Louisiana Revised Statute 33:3811. The purpose of the water district is to provide water service to rural residents of the district. The governing body is composed of five compensated board members appointed by the Beauregard Parish Police Jury.

The district is located in central Beauregard Parish in the southwestern region of the State of Louisiana. The district provides rural water service to approximately 6,300 residents and employs approximately twelve employees.

The accounting and reporting policies of Waterworks District No. 3 of Beauregard Parish conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Waterworks District No. 3 of Beauregard Parish is considered a component unit of the Beauregard Parish Police Jury. As a component unit, the accompanying financial statements are included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of Waterworks District No. 3 of Beauregard Parish. Business-type activities, which rely to a significant extent on fees and charges for support are the only activities reported in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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.

Waterworks District No. 3 of Beauregard Parish reports the following proprietary fund:

The Proprietary Fund accounts for operations (a) 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 government has elected not to follow subsequent private-sector guidance.

Waterworks District No. 3 of Beauregard Parish

Notes to the Financial Statements (Continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. Charges for services of providing water and sewer services to residents comprise the operating revenue of the district's enterprise fund. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. 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 law and Waterworks District No. 3 of Beauregard Parish's investment policy allow the entity to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

D. Receivables and Payables

A customer deposit fee is collected at the time a customer's account is established. Due to the policy of the district concerning delinquent accounts, this fee covers the majority of the delinquent accounts, and any allowance account would be immaterial, therefore one has not been established.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the business-type activities column in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The district maintains a threshold level of \$5,000 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 of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense incurred during the year therefore no interest was included as part of the cost of capital assets under construction in connection with the district's construction projects.

All capital assets, other than land and work in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Distribution system	40-50 years
Buildings and building improvements	40-50 years
Furniture and fixtures	5-15 years
Equipment	3-15 years

Waterworks District No. 3 of Beauregard Parish

Notes to the Financial Statements (Continued)

G. Compensated Absences

The district has the following policy relating to annual leave:

Two weeks annual leave for salaried employees based upon the number of days worked per week. Unused annual leave cannot be carried over.

H. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the district, which are either unusual in nature or infrequent in occurrence.

I. Estimates

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

2. CASH AND CASH EQUIVALENTS

At December 31, 2010, the district has cash (book balances) totaling \$2,474,234 as follows:

Demand deposits	\$ 1,469,770
Petty cash	590
Savings account	1,003,874
Total	<u>\$ 2,474,234</u>

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

At December 31, 2010, the district has \$2,497,726 in deposits (collected bank balances). These deposits are secured from risk by \$500,000 of federal deposit insurance and \$1,997,726 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

3. RECEIVABLES

The receivables of \$127,983 at December 31, 2010, are as follows:

	Proprietary
<u>Class of receivable</u>	<u>Fund</u>
Accounts	<u>\$ 127,983</u>

Waterworks District No. 3 of Beauregard Parish

Notes to the Financial Statements (Concluded)

4. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended December 31, 2010, for the primary government is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 68,658	\$ 12,168	\$ -	\$ 80,826
Work in progress	20,201	258,460	-	278,661
Total capital assets, not being depreciated	<u>88,859</u>	<u>270,628</u>	<u>-</u>	<u>359,487</u>
Capital assets being depreciated				
Buildings	34,000	-	-	34,000
Utility plant and improvements	13,652,274	108,397	-	13,760,671
Machinery and equipment	536,702	20,336	-	557,038
Furniture and fixtures	11,365	-	-	11,365
Total capital assets being depreciated	<u>14,234,341</u>	<u>128,733</u>	<u>-</u>	<u>14,363,074</u>
Less accumulated depreciation for:				
Buildings	5,574	850	-	6,424
Utility plant and improvements	5,830,022	404,029	-	6,234,051
Machinery and equipment	120,987	40,517	-	161,504
Furniture and fixtures	3,109	1,018	-	4,127
Total accumulated depreciation	<u>5,959,692</u>	<u>446,414</u>	<u>-</u>	<u>6,406,106</u>
Total business-type assets being depreciated, net	<u>\$ 8,274,649</u>	<u>\$ (317,681)</u>	<u>\$ -</u>	<u>\$ 7,956,968</u>

5. ACCOUNTS AND OTHER PAYABLES

The payables of \$63,540 at December 31, 2010, are as follows:

	Proprietary Fund
Accounts	\$ 55,082
Payroll taxes	8,458
Total	<u>\$ 63,540</u>

6. RETIREMENT SYSTEMS

All employees of the district are members of the Federal Social Security System. The district contributes 7.65% of gross salaries up the appropriate statutory limits to that system. The Federal Social Security System administrates the plan and pays benefits.

7. CONSTRUCTION COMMITMENTS

Waterworks District No. 3 of Beauregard Parish has an active construction project as of December 31, 2010. At year end the commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Camp Edgewood Road Waterline Project	\$ 238,911	\$ 24,845
New Office Building Project	39,750	411,950
Total	<u>\$ 278,661</u>	<u>\$ 436,795</u>

OTHER SUPPLEMENTAL INFORMATION

Waterworks District No. 3 of Beauregard Parish
Beauregard Parish Police Jury
DeRidder, Louisiana

Schedule 1

Schedule of Per Diem Paid to Board Members
For the Year Ended December 31, 2010

<u>Board Member</u>	<u>Number of Meetings</u>	<u>Amount of Per Diem</u>	<u>Amount</u>
Robert A. Welborn	1	\$ 60	\$ 60
John M. Williams	10	60	600
Julian Campbell	14	60	840
Bob McLamore	15	60	900
Leona Hollingsworth	15	60	900
Giles Brown	13	60	780
Total			<u>\$ 4,080</u>

OTHER REPORTS

Waterworks District No. 3 of Beauregard Parish
Beauregard Parish Police Jury
DeRidder, Louisiana

Schedule 2

Schedule of Prior Year Audit
Year Ended December 31, 2010

Financial Statement Audit Findings

Audit Finding No. 2009-1

Noncompliance with Louisiana Records Retention Law

- Condition:** The billing registers and daily sales reports used to support charges for services revenue were not available and had been destroyed during the year.
- Criteria:** Billing registers and daily sales reports are the main items used to document and verify water sales revenue. Louisiana records retention laws require that those documents be stored in a safe and secure place for at least three years.
- Cause:** The bookkeeper stated that she did not know the billing registers and daily sales reports needed to be printed and saved each month and due to lack of storage space the daily sales reports were destroyed.
- Effect:** Documentation of charges for services revenue was severely limited and I was unable to form an opinion on whether the charges for services revenue was correctly stated. Also, Louisiana Revised Statutes require that all non-exempt governmental records be available for public inspection for at least three years. This statute has been violated by the destruction of these records. This is a repeat comment from the prior years' audit.
- Recommendation:** I recommend that billing registers for charges for services revenue be printed out and reconciled to the revenue account each month. Also, all non-exempt governmental records should be saved and stored in a secure place according to Louisiana record retention laws.

Date of Initial Occurrence: December 31, 2009

Corrective Action Taken: Yes

Audit Finding No. 2009-2

Noncompliance with Louisiana Audit Law

- Condition:** The district is not in compliance with the Louisiana Audit Law (LRS 24:513), which requires political subdivisions to submit annual financial reports to the Office of the Louisiana Legislative Auditor no later than six months after their fiscal year end.
- Criteria:** The Louisiana Audit Law (LRS 24:513) requires political subdivisions to submit annual financial reports to the Office of the Louisiana Legislative Auditor no later than six months after their fiscal year end.
- Cause:** An independent CPA hired by the district to prepare the financial statements for the audit did not submit the financial statements to the auditor timely enough to meet the statutory deadline.
- Effect:** The district is not in compliance with the Louisiana Audit Law (LRS 24:513). This is a repeat comment from prior year's audits.
- Recommendation:** I recommend that the district stay in compliance with Louisiana Audit Law (LRS 24:513) by having financial statements accurately prepared and submitting these statements to the engaged auditor timely so that the annual audit can be completed and submitted to the Office of the Louisiana Legislative Auditor by the statutory deadline.

Date of Initial Occurrence: December 31, 2007

Corrective Action Taken: Yes

Waterworks District No. 3 of Beauregard Parish
Beauregard Parish Police Jury
DeRidder, Louisiana

Schedule 2

Schedule of Prior Year Audit
Year Ended December 31, 2010

Audit Finding No. 2009-3

Sales tax returns filed incorrectly

- Condition:** Monthly state sales tax returns filed by the district were filled out incorrectly by using all bank deposits for the month as gross sales. Bank deposits contain many items that are not water sales and should not be reported on the sales tax returns. One month a cash transfer deposit of over \$778,000 was shown as water sales on the sales tax return when water sales rarely exceed \$130,000 per month.
- Criteria:** Only gross sales of water to customers should be included as water sales on sales tax returns submitted to the State of Louisiana Sales Tax Division.
- Cause:** The bookkeeper did not realize that bank deposits could not be used to fill out sales tax returns since they contained deposits other than water sales.
- Effect:** Sales Tax returns filed with the Louisiana State Sales Tax Division were incorrectly filed.
- Recommendation:** Care should be taken to report only water sales on the state sales tax returns each month. Other deposits such as installation fees, reconnect fees, and transfers should not be shown as gross sales on the returns. All incorrectly filled out sales tax returns reported to the state should be amended and resubmitted to the State of Louisiana Sales Tax Division.

Date of Initial Occurrence: December 31, 2009

Corrective Action Taken: Partial

Audit Finding No. 2009-4

Restricted cash account for customer deposits never set up

- Condition:** During the year the district began collecting cash customer deposits for all new and reconnect customers. This money should have been set up in a new bank account as restricted cash for customer deposits. The restricted cash account was not established and customer deposits were comingled with the operating cash account.
- Criteria:** The cash customer deposits collected by the district are held in a custodial nature for the customer and should be segregated to assure separation of funds not belonging to the District.
- Cause:** This was the first year that cash customer deposits were collected by the district and the bookkeeper did not know that these funds should be placed in a separate restricted cash bank account.
- Effect:** Cash funds not belonging to the district has been comingled with the district's cash in the general operating account.
- Recommendation:** I recommend that a restricted cash bank account be opened and all customer deposits be deposited to this account. The cash already collected for customer deposits should be moved from the operating bank account and deposited into the new restricted cash account. This restricted cash bank account should at all times have a balance at least as high as the district's liability for customer deposits.

Date of Initial Occurrence: December 31, 2009

Corrective Action Taken: No

Schedule of Current Year Audit Findings and Management's Response
Year Ended December 31, 2010

Financial Statement Audit Findings

Audit Finding No. 2010-1

Deposits Being Held too Long

- Condition:** Cash and checks for installation fees and other services are not being deposited in a timely manner.
- Criteria:** Cash and checks are collected at the water district for installation fees and water services. This money is being held by the bookkeeper for longer periods of time than deemed necessary.
- Cause:** *Revenues are not being recorded in the proper periods. This is creating a timing difference and not allowing revenues and expenses to be properly matched together.*
- Effect:** Revenues for each period are not being properly stated, and the year-end figures are not correct as well, due to the timing difference in collections, deposits, and financial recognition.
- Recommendation:** I recommend that in order to maintain good segregation of duties, an individual who does not take in the payments be responsible for making daily deposits. If daily deposits are so small as not to warrant a trip to the bank, the deposits need to be kept in a safe secure lock box and made as soon as possible.

Audit Finding No. 2010-2

Inadequate Records and Document Retention

- Condition:** The district received a Louisiana Workers' Compensation Corporation (LWCC) dividend. No documentation could be produced to verify the amount of the dividend.
- Criteria:** Adequate documentation should be maintained in order to verify financial statement amounts and comply with the Louisiana records retention law. The receipt of money for the LWCC dividend has no documentation.
- Cause:** The bookkeeper did not keep sufficient documentation in order to verify financial statement amounts.
- Effect:** Lack of supporting documentation for monies received could cause the district to be susceptible to misappropriation of assets and noncompliance with the Louisiana records retention law.
- Recommendation:** I recommend that the district keep proper documentation in order to verify all financial statement amounts for the length of time as described in the Louisiana records retention law.

Schedule of Current Year Audit Findings and Management's Response
Year Ended December 31, 2010

Audit Finding No. 2010-3

Restricted Cash Account for Customer Deposits Never Set Up

- Condition:** The district collects water deposits from customers when they set up new accounts with the district. This money should have been set up in a new bank account as restricted cash for customer deposits. The restricted cash account was not established and customer deposits were comingled with the operating cash account. This is a repeat comment from the prior year.
- Criteria:** The cash customer deposits collected by the district are held in a custodial nature for the customer and should be segregated to assume separation of funds not belonging to the district.
- Cause:** The bookkeeper did not set up a separate account upon recommendation by the auditor following the prior year audit.
- Effect:** Cash funds not belonging to the district have been comingled with the districts cash in the general operating account.
- Recommendation:** I recommend that a restricted cash bank account be opened and all customer deposits be deposited to this account. The bookkeeper has established this account as of the audit report date; however, it was not set up as of December 31, 2010.

Audit Finding No. 2010-4

Incorrectly Filed Sales Tax Returns as of December 31, 2009 Not Amended

- Condition:** For the year ended December 31, 2009 the sales tax returns remitted to the state sales tax department were filled out incorrectly. The prior year audit had recommended that these incorrect returns be amended and resubmitted to the state. These returns were not amended and resubmitted to the state. This is a repeat comment from the prior year audit.
- Criteria:** Sales tax returns should be correctly filed with the state sales tax department. If returns are found to be incorrect they should be corrected and resubmitted to the state.
- Cause:** The bookkeeper stated that correcting the prior years sales tax returns had been overlooked during the current year..
- Effect:** Sales tax returns which had overstated sales for the year of 2009 are still incorrectly filed with the state sales tax department.
- Recommendation:** I recommend that these incorrectly filed state sales tax returns be amended and resubmitted to the state sales tax department.

**WATERWORKS DISTRICT NO. 3
OF BEAUREGARD PARISH**

P O Box 69
Ragley, Louisiana 70657
(337) 725-3000

June 28, 2011

Mr. Daryl G. Purpera, CPA
Louisiana Legislative Auditor
1600 North 3rd Street
Baton Rouge, LA. 70804

Dear Sir:

In response to our Auditor's Financial Statement Audit Findings I will try to bring you up to date concerning our efforts to make permanent changes in our Accounting Departments Systems and Procedures to bring them into compliance with current AICPA rules and regulations.

AUDIT FINDINGS NO. 2010-1

DEPOSITS BEING HELD TOO LONG

We have recently hired an accountant with many years experience in dealing with these type situations.

He has been hired to correct our systems and procedures, write new ones, working closely with our CPA and to change our single entry system to a standard double entry system. This will cause the revenues and expenses to be properly matched according to the period in which they occur.

We have also arranged for this employee, who passes very close to one of our bank offices each day to make daily deposits.

We project that a majority of this change will be accomplished within the next six months and cause our books to be in an auditable form for the CPA at year's end. We realize that we have had problems in our Accounting Systems and Procedures, which is why this employee has been added to our staff.

AUDIT FINDING NO. 2010-2

NONCOMPLIANCE WITH PROPER RECORD RETENTION

Our Controller has instructed all concerned employees that there is not to be ANY trashing or destroying of company documents until he or an informed person, with my permission instructs them to do so.

We are going to initiate a written Material Requisition, Purchase Order, Receiving Report type of payment system. All payments in the near future will be made by this method and a voucher will be prepared to support each expenditure.

AUDIT FINDING NO. 2010-3

RESTRICTED CASH ACCOUNT FOR CUSTOMER DEPOSITS

An escrow account was set up on February 17, 2011 and the first deposit was made on that date. Regular deposits have been routinely made as necessary since that time.

Audit Findings No. 2010-4

Incorrectly Filed Sales Tax Returns as of December 31, 2009 not amended.

Our newly hired accountant, is a retired Sales Tax Auditor (007LTA), and he is assigned the responsibility to correct this within the month of July, 2011.

It is our plan to have these and other shortcomings in our Systems and Procedures corrected by Audit time at the end of December this year.

Respectfully yours,

Ray A. Hauser

Ray Hauser

General Manager

John A. Windham, CPA

A Professional Corporation

1620 North Pine Street
DeRidder, LA 70634
Tel: (337) 462-3211
Fax: (337) 462-0640

John A. Windham, CPA

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

Board of Commissioners
Waterworks District No. 3 of Beauregard Parish
Ragley, Louisiana

I have audited the financial statements of the business-type activities and the major fund of Waterworks District No. 3 of Beauregard Parish, as of and for the year ended December 31, 2010, which collectively comprise the Waterworks District No. 3 of Beauregard Parish's basic financial statements and have issued my report thereon dated June 17, 2011. The report on the statement of activities and the statement of revenues, expenses and changes in net assets was qualified because the accounting records were in adequate form to form an opinion regarding the charges for service revenue of \$1,795,103 and the workers compensation dividend rebate of \$10,237. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Waterworks District No. 3 of Beauregard Parish's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waterworks District No. 3 of Beauregard Parish's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Waterworks District No. 3 of Beauregard Parish's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of current year audit findings and management's response, I identified certain deficiencies in internal control over financial reporting that I 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 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. I consider the deficiency described in the accompanying schedule of current year audit findings and management's response to be a material weakness as items, Audit Finding No. 2010-1 and 2010-2.

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. I consider the deficiency described in the accompanying schedule of current year audit findings and management's response to be significant deficiencies as items, Audit Finding No. 2010-1 and 2010-2.

Board of Commissioners
Waterworks District No. 3
of Beauregard Parish
Ragley, Louisiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterworks District No. 3 of Beauregard Parish's, financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Waterworks District No. 3 of Beauregard Parish's response to the findings identified in my audit is described in the accompanying schedule of current year audit findings and management's response. I did not audit Waterworks District No. 3 of Beauregard Parish's response and, accordingly, I express no opinion on it.

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



DeRidder, Louisiana
June 17, 2011