

TOWN OF WATERPROOF, LOUISIANA
ANNUAL FINANCIAL STATEMENTS
AS OF JUNE 30, 2011
AND FOR THE YEAR ENDED
WITH
INDEPENDENT AUDITOR'S REPORT

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 FEB 01 2012



SILAS SIMMONS LLP
CERTIFIED PUBLIC ACCOUNTANTS *and* ADVISORS

TOWN OF WATERPROOF, LOUISIANA

Annual Financial Statements
As of and for the Year Ended June 30, 2011
With Supplemental Information Schedules

TABLE OF CONTENTS

	Statement	Page
INDEPENDENT AUDITOR'S REPORT -----		1-2
SECTION I - REQUIRED SUPPLEMENTAL INFORMATION		
Management's Discussion and Analysis -----		3-5
SECTION II - GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Statement of Net Assets -----	A	6
Statement of Activities -----	B	7
SECTION III - FUND FINANCIAL STATEMENTS		
Governmental Funds:		
Balance Sheet -----	C	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets -----	D	9
Statement of Revenues, Expenditures, and Changes in Fund Balance -----	E	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities -----	F	11
Proprietary Funds:		
Statement of Net Assets -----	G	12
Statement of Revenues, Expenses, and Changes in Net Assets -----	H	13
Statement of Cash Flows -----	I	14
NOTES TO THE FINANCIAL STATEMENTS -----		15-25
SECTION IV - ADDITIONAL REQUIRED SUPPLEMENTAL INFORMATION		
Budgetary Comparison Schedule -----		26
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION -----		27

TOWN OF WATERPROOF, LOUISIANA

Annual Financial Statements
As of and for the Year Ended June 30, 2011
With Supplemental Information Schedules

TABLE OF CONTENTS

	Statement	Page
SECTION V - REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> -----		28-29
SECTION VI - SCHEDULE OF FINDINGS		
Schedule of Findings -----		30
Schedule of Prior Audit Findings-----		31-33
Schedule of Current Year Findings, Recommendations, and Corrective Action Plan-----		34-40
SUPPLEMENTAL INFORMATION		
Compensation of the Governing Board -----		41



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INDEPENDENT AUDITOR'S REPORT

The Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We were engaged to audit the accompanying financial statements of the governmental activities and the business-type activities of the Town of Waterproof, Louisiana, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

The Town's attorney did not respond to our inquiry requesting a description of pending or threatened litigation and asserted and unasserted claims and assessments. As a result, we had insufficient information to support the adequacy of liabilities and disclosures related to uncertainties.

As a result a result of the insufficient information described above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 3 through 5 and Pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Silas Simms, LLP

Natchez, Mississippi
December 22, 2011

SECTION I
REQUIRED SUPPLEMENTAL INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

As management of the Town of Waterproof, Louisiana, we offer readers of the Town of Waterproof, Louisiana's financial statements this narrative overview of the financial activities of the Town for the fiscal years ended June 30, 2011 and June 30, 2010. The intent of this discussion and analysis is to look at the Town's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the Town's financial performance.

The Town of Waterproof, Louisiana is located on Highway 65 in South Tensas Parish, Louisiana.

FINANCIAL HIGHLIGHTS

The financial statements included in this report provide insight into the financial status for the year. Based upon the operations of the years ended June 30, 2011, the Town of Waterproof, Louisiana's net assets decreased and resulted in ending net assets of \$1,819,582 at June 30, 2011. Net assets decreased during the year ended June 30, 2010 and resulted in net assets of \$1,824,211.

1. The cash balance for the Town of Waterproof was \$11,636 at June 30, 2009. The balance was \$36,713 at June 30, 2010, and \$108,458 at June 30, 2011.
2. The governmental activities had \$364,102 in revenues in 2011 and \$303,515 in 2010. These revenues primarily consisted of fines, sales taxes, ad valorem taxes, and occupational licenses. Governmental activities had \$327,588 in expenditures in 2011 and \$348,405 in 2010.

The Town's business activities had \$566,191 in revenues in 2011 and \$592,043 in 2010. Revenues consisted primarily of gas and water sales. Business activities had \$623,115 in expenditures in 2011 and \$823,679 in 2010.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Waterproof, Louisiana's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year.

The government-wide financial statements outline functions of the Town that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt are also supported by taxes and intergovernmental revenue.

The government-wide financial statements can be found on pages 6-7 of this report.

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Financial Statements. A fund is an accountability unit to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole.

The basic governmental fund financial statements are presented on pages 8 - 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 - 250 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$1,819,582 as of June 30, 2011.

The following is a condensed statement of the Town of Waterproof, Louisiana's net assets as of June 30, 2011 and 2010:

	Governmental Activities	Business Type Activities	2011	2010
Current assets	\$ 108,255	\$ 112,917	\$ 221,172	\$ 138,652
Restricted assets	-	575	575	588
Noncurrent assets - capital assets	<u>328,741</u>	<u>1,906,169</u>	<u>2,234,910</u>	<u>2,328,651</u>
Total assets	\$ 436,996	\$ 2,019,661	\$ 2,456,657	\$ 2,467,891
Current liabilities	\$ 112,895	\$ 79,021	\$ 191,916	\$ 161,506
Noncurrent liabilities	-	<u>445,159</u>	<u>445,159</u>	<u>466,393</u>
Total liabilities	\$ 112,895	\$ 524,180	\$ 637,075	\$ 627,899
Net assets				
Investment in capital assets, net of related debt	\$ 324,101	\$ 1,450,134	\$ 1,774,235	\$ 1,835,848
Restricted for debt service and deposits	-	575	575	588
Unrestricted (deficit)	<u>-</u>	<u>44,772</u>	<u>44,772</u>	<u>3,556</u>
Total net assets	\$ 324,101	\$ 1,495,481	\$ 1,819,582	\$ 1,839,992

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following is a summary of the statement of activities:

	Governmental Activities	Business Type Activities	2011	2010
Revenues				
Program revenues	\$ 242,800	\$ 566,191	\$ 808,991	\$ 849,876
Operating revenues	55,690	-	55,690	-
General revenues	65,612	-	65,612	45,732
Transfers	11,469	(11,469)	-	-
	<u>\$ 375,571</u>	<u>\$ 554,722</u>	<u>\$ 930,293</u>	<u>\$ 895,608</u>
Expenses				
General government and public safety	\$ 326,426	\$ -	\$ 326,426	\$ 330,957
Interest on debt	1,162	-	1,162	1,667
Combined utility	-	623,115	623,115	823,679
	<u>\$ 327,588</u>	<u>\$ 623,115</u>	<u>\$ 950,703</u>	<u>\$ 1,156,303</u>
Decrease in net assets	\$ 47,983	\$ (68,393)	\$ (20,410)	\$ (260,695)
Net assets, beginning	276,118	1,563,874	1,839,992	2,100,687
Net assets, ending	<u>\$ 324,101</u>	<u>\$ 1,495,481</u>	<u>\$ 1,819,582</u>	<u>\$ 1,839,992</u>

COMMENTS ON GENERAL FUND COMPARISONS

The Town's budget was amended once during the last year. The budget expenditures were \$356,016 and the revenues net of transfers out were \$267,290.

CAPITAL ASSETS

As of June 30, 2011, the Town had \$328,741 invested in capital assets in the general fund and \$1,906,169 in the proprietary fund net of accumulated depreciation.

The following capital assets were purchased during the fiscal year ended June 30, 2011:

Trash truck	\$ 1,790
2004 Crown Vic	\$ 2,000
Software	\$ 875
Police radios	\$ 1,525
Telephone system	\$ 2,281
Engineering for street grant	\$ 53,690

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Any questions about this report or request for additional information may be directed to Mayor Caldwell Flood at (318) 749-5233.

SECTION II
GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 74,994	\$ 33,464	\$ 108,458
Receivables (net of allowance for uncollectible amounts)	33,261	75,572	108,833
Inventory	-	3,255	3,255
Other assets	-	626	626
Restricted assets	-	575	575
Capital assets (net)	<u>328,741</u>	<u>1,906,169</u>	<u>2,234,910</u>
Total assets	<u>\$ 436,996</u>	<u>\$ 2,019,661</u>	<u>\$ 2,456,657</u>
<u>LIABILITIES</u>			
Accounts, salaries, and other payables	\$ 100,275	\$ 34,234	\$ 134,509
Customer deposits	-	33,911	33,911
Long-term liabilities:			
Due within one year	12,620	10,876	23,496
Due in more than one year	<u>-</u>	<u>445,159</u>	<u>445,159</u>
Total liabilities	<u>\$ 112,895</u>	<u>\$ 524,180</u>	<u>\$ 637,075</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 324,101	\$ 1,450,134	\$ 1,774,235
Restricted for:			
Customer deposits	-	575	575
Unrestricted (deficit)	<u>-</u>	<u>44,772</u>	<u>44,772</u>
Total net assets	<u>\$ 324,101</u>	<u>\$ 1,495,481</u>	<u>\$ 1,819,582</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT B

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expenses), Revenues, and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Activities						
Governmental activities						
General government and public safety	\$ 326,426	\$ 242,800	\$ 55,690	\$ (27,936)	\$ -	\$ (27,936)
Interest on long-term debt	1,162	-	-	(1,162)	-	(1,162)
Total governmental activities	<u>\$ 327,588</u>	<u>\$ 242,800</u>	<u>\$ 55,690</u>	<u>\$ (29,098)</u>	<u>\$ -</u>	<u>\$ (29,098)</u>
Business-type activities						
Utilities	\$ 623,115	\$ 566,191	\$ -	\$ -	\$ (56,924)	\$ (56,924)
Total	<u>\$ 950,703</u>	<u>\$ 808,991</u>	<u>\$ 55,690</u>	<u>\$ (29,098)</u>	<u>\$ (56,924)</u>	<u>\$ (86,022)</u>
General Revenues:						
Taxes				\$ 65,612	\$ -	\$ 65,612
Transfers				11,469	(11,469)	-
Total general revenues and transfers				<u>\$ 77,081</u>	<u>\$ (11,469)</u>	<u>\$ 65,612</u>
Change in net assets				\$ 47,983	\$ (68,393)	\$ (20,410)
Net assets, beginning of year				276,118	1,563,874	1,839,992
Net assets, end of year				<u>\$ 324,101</u>	<u>\$ 1,495,481</u>	<u>\$ 1,819,582</u>

The accompanying notes are an integral part of this financial statement.

SECTION III
FUND FINANCIAL STATEMENTS

**TOWN OF WATERPROOF, LOUISIANA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund
<u>ASSETS</u>	
Cash	\$ 74,994
Receivables (net of allowance for uncollectible accounts)	33,261
Total assets	\$ 108,255
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts, salaries, and other payables	\$ 100,275
 Fund balance:	
Unreserved	\$ 7,980
Total liabilities and fund balance	\$ 108,255

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances, total governmental funds (Statement C)	\$ <u>7,980</u>
Amounts reported for governmental activities in the statement of net assets (Statement A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:	
Land	\$ 23,308
Building improvements, net of \$118,119 accumulated depreciation	222,071
Automobiles and equipment, net of \$320,404 accumulated depreciation	29,672
Construction in progress	<u>53,690</u>
Total capital assets	\$ <u>328,741</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term liabilities at June 30, 2011	\$ <u>(12,620)</u>
Net assets of governmental activities (Statement A)	\$ <u>324,101</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund
<u>REVENUES</u>	
Taxes	\$ 65,612
Licenses and permits	2,529
Intergovernmental:	
State grant	55,690
Fines	198,176
Charges for services	25,080
Miscellaneous	17,015
Total revenues	\$ 364,102
 <u>EXPENDITURES</u>	
Current	
General government and public safety	\$ 298,353
Debt service:	
Principal	14,210
Interest	1,162
Capital outlays	62,161
Total expenditures	\$ 375,886
Excess of revenues under expenditures	\$ (11,784)
Other financing sources:	
Transfers in	\$ 272,036
Transfers out	(260,567)
Total other financing sources	\$ 11,469
Net changes in fund balances	\$ (315)
Fund balances, beginning of year	8,295
Fund balances, end of year	\$ 7,980

The accompanying notes are an integral part of this financial statement.

**TOWN OF WATERPROOF, LOUISIANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balance, total governmental funds (deficit), (Statement E)	\$	(315)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Thus, the change in net assets differs from the change in fund balance by the amount that capital outlays of \$62,161 exceeded depreciation of \$28,072 in the current period.		34,089
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balance by the amount that debt repayments of \$14,209 exceeds proceeds from the issuance of debt of \$0.		<u>14,209</u>
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Change in net assets of governmental activities, (Statement B)	\$	<u>47,983</u>
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**TOWN OF WATERPROOF, LOUISIANA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Utility Fund</u>
<u>ASSETS</u>	
<i>Current assets:</i>	
Cash	\$ 33,464
Accounts receivable, utility sales (net of allowance for doubtful accounts of \$202,266)	75,572
Inventory	3,255
Other	626
Total current assets	<u>\$ 112,917</u>
<i>Noncurrent assets - restricted assets:</i>	
Customer deposits	\$ 575
Total noncurrent assets - restricted assets	<u>\$ 575</u>
<i>Capital assets:</i>	
Property, plant, and equipment	\$ 5,510,133
Less accumulated depreciation	(3,603,964)
Net capital assets	<u>\$ 1,906,169</u>
Total assets	<u>\$ 2,019,661</u>
 <u>LIABILITIES</u>	
<i>Current liabilities (payable from current assets):</i>	
Accounts payable	\$ 34,234
Total current liabilities payable from current assets	<u>\$ 34,234</u>
<i>Current liabilities (payable from restricted assets):</i>	
Customer deposits	\$ 33,911
Current portion of long-term debt	10,876
Total current liabilities payable from restricted assets	<u>\$ 44,787</u>
Long-term liabilities	<u>\$ 445,159</u>
Total liabilities	<u>\$ 524,180</u>
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 1,450,134
Restricted for customer deposits	575
Unrestricted	44,772
Total net assets	<u>\$ 1,495,481</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Utility Fund</u>
Operating revenue:	
Charges for services	
Gas sales	\$ 251,656
Water sales	223,210
Sewer service sales	70,721
Garbage sales	20,550
Miscellaneous revenue	54
Total operating revenue	<u>\$ 566,191</u>
Operating expenses:	
Gas purchases	\$ 108,446
Water purchases	101,026
Salaries	71,985
Provision for bad debts	115,454
Depreciation	128,418
Utilities	17,040
Payroll taxes	6,291
Repairs	23,075
Testing and outside services	9,117
Office supplies	1,401
Telephone	1,449
Dues and subscriptions	1,117
Automobile expenses	6,903
Professional fees	6,350
Other expenses	4,390
Total operating expenses	<u>\$ 602,462</u>
Operating income	<u>\$ (36,271)</u>
Nonoperating revenue (expenses)	
Interest expense	<u>\$ (20,653)</u>
Total nonoperating revenue (expenses)	<u>\$ (20,653)</u>
Operating transfers	
Transfers in	\$ 260,567
Transfers (out)	<u>(272,036)</u>
Total operating transfers	<u>\$ (11,469)</u>
Net changes in fund balances (deficit)	\$ (68,393)
Fund balances, beginning of year	<u>1,563,874</u>
Fund balances, end of year	<u>\$ 1,495,481</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Cash received from customers	\$ 448,374
Cash paid to suppliers and employees	(374,171)
Net cash provided by operating activities	<u>\$ 74,203</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	\$ 260,567
Transfers to other funds	(272,036)
Decrease in customer deposits	(97)
Net cash used for noncapital financing activities	<u>\$ (11,566)</u>
Cash flows from capital and related financing activities:	
Principal paid on notes payable	\$ (10,527)
Interest paid on notes payable	(20,653)
Net cash used for capital and related financing activities	<u>\$ (31,180)</u>
Net increase in cash	\$ 31,457
Cash at beginning of year	<u>2,582</u>
Cash at end of year	<u>\$ 34,039</u>
Reconciliation of operating income to net cash provided by:	
Operating (loss)	\$ (36,271)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for bad debts	115,454
Depreciation	128,418
Changes in assets and liabilities:	
(Increase) in accounts receivable	(117,816)
(Decrease) in accounts payable	<u>(15,582)</u>
Net cash provided by operating activities	<u>\$ 74,203</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

INTRODUCTION

The Town of Waterproof is a municipal corporation governed by an elected mayor.

1. The Town of Waterproof, Louisiana was incorporated under the provisions of the Lawrason Act as a Town in 1862.
2. The purpose of the municipality is to provide utility services, public safety (police and fire), streets, sanitation, and general administrative services.
3. The Board of Aldermen consists of five elected members that were each paid \$750 per month through December 31, 2010, and \$500 per month, thereafter.
4. The Town of Waterproof is located in the southern portion of Tensas Parish, Louisiana. Tensas Parish is located in northeast Louisiana.
5. The population of the municipality is approximately 1,000 people.
6. The Town of Waterproof has approximately 15 full time employees.
7. The Town of Waterproof has approximately 400 utility customers.

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, the municipality is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the municipality may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes, set rates or charges, and issue bonded debt.

NOTE 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 the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The municipality reports the following major governmental fund:

The General Fund is the municipality's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The municipality reports the following major proprietary fund:

The Utility Enterprise Fund accounts for operations where the intent of the governing body is that 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. In the case of the Town of Waterproof, this includes the operation of the Town's gas, water, garbage, and sewer systems.

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.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation* (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 on-going operations. The principal operating revenues of the proprietary funds are the sales of water, gas, garbage, and sewer services to both residential and commercial customers. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, 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 municipality's policy to use restricted resources first, then unrestricted resources as they are needed.

C. *Deposits*

The municipality'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 the municipality's investment policy allow the municipality to invest in collateralized certificates of deposit, government-backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government-backed securities.

D. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. *Receivables and Payables* (continued)

All fines and utility charges receivables are shown net of an allowance for uncollectibles. The Town provides for uncollectibles based upon analysis of the receivables portfolio and historical collection statistics.

Property taxes are levied on a calendar year basis and become due on January 1 of each year. The following is a summary of authorized and levied ad valorem taxes:

	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
Taxes due for:			
General fund	8.38	8.38	1-1-12
Corporate purposes	15.64	15.64	1-1-12

The following are the principal taxpayers and related property tax revenue for the municipality:

	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Ad Valorem Tax</u>
Cross Keys Bank	\$ 411,485	28%	\$ 9,884
BellSouth Telecommunication	80,526	5%	1,934

E. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased. 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. *Restricted Assets*

Certain assets of the business-type activities fund of the Town have been restricted for debt service grant expenditures and customers' deposits.

G. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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 municipality maintains a threshold level of \$500 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 were no major projects capitalized during the current fiscal year.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets (continued)

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

Description	Estimated Lives
Gas lines, sewer lines, and water plant	50 years
Vehicles and equipment	3-10 years

H. Compensated Absences

The municipality has the following policy relating to vacation and sick leave:

The Town grants one week vacation after one year of service and two weeks vacation after two years of service. Each employee is entitled to ten sick days per year. Vacation or sick pay does not accumulate. The Town's policy concerning compensation for unpaid vacation pay or sick pay is that upon termination of an employee, vacation days and sick days not previously used by the employee are not reimbursed.

I. Long-Term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGET INFORMATION The municipality uses the following budget practices:

1. The Town prepares a proposed budget and submits it to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year. The Town approves a budget for the general fund only.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

2. A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through the passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
5. Budgetary amendments involving the transfer to funds from one department, program, or function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Board of Aldermen.
6. All budgetary appropriations lapse at the end of each fiscal year.
7. Budgets are adopted on a cash basis.

NOTE 3 - PRIOR PERIOD ADJUSTMENT

The effect of error corrections on the prior period financial statements are summarized in the tables below:

<u>Governmental Activities:</u>	<u>Net Change in Net Assets</u>	<u>Net Assets</u>
As previously reported	\$ (53,965)	\$ 260,337
Sales taxes liability	<u>15,781</u>	<u>15,781</u>
As adjusted	<u>\$ (37,914)</u>	<u>\$ 276,118</u>
<u>General Fund</u>	<u>Net Change in Fund Balance</u>	<u>Fund Balance</u>
As previously reported	\$ (37,290)	\$ (7,486)
Sales taxes liability	<u>15,781</u>	<u>15,781</u>
As adjusted	<u>\$ (21,509)</u>	<u>\$ 8,295</u>

NOTE 4 - CASH AND CASH EQUIVALENTS

At June 30, 2011, the municipality has cash and cash equivalents (book balances) totaling \$109,033. 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.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 4 - CASH AND CASH EQUIVALENTS (continued)

At June 30, 2011, the municipality has \$111,368 in deposits (collected bank balances). These deposits are secured from risk by \$111,368 of federal deposit insurance and \$0 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 municipality that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 5 - RECEIVABLES

The receivables for June 30, 2011, are as follows:

<u>Class of Receivables</u>	<u>General Fund</u>	<u>Utility Fund</u>
Fines	\$ 33,261	\$ -
Utility fees	-	277,838
Less allowance for uncollectibles	-	(202,266)
Total	<u>\$ 33,261</u>	<u>\$ 75,572</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2011, for the primary government, are as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 23,308	\$ -	\$ -	\$ 23,308
Construction in progress	-	53,690	-	53,690
Total capital assets not being depreciated	<u>\$ 23,308</u>	<u>\$ 53,690</u>	<u>\$ -</u>	<u>\$ 76,998</u>
Capital assets being depreciated				
Buildings	\$ 340,190	\$ -	\$ -	\$ 340,190
Vehicles	135,553	3,790	-	139,343
Machinery and equipment	206,052	4,681	-	210,733
Total capital assets being depreciated	<u>\$ 681,795</u>	<u>\$ 8,471</u>	<u>\$ -</u>	<u>\$ 690,266</u>
Less accumulated depreciation for:				
Buildings	\$ (109,411)	\$ (8,708)	\$ -	\$ (118,119)
Vehicles	(122,269)	(4,291)	-	(126,560)
Machinery and equipment	(178,771)	(15,073)	-	(193,844)
Total accumulated depreciation	<u>\$ (410,451)</u>	<u>\$ (28,072)</u>	<u>\$ -</u>	<u>\$ (438,523)</u>
Governmental activities capital assets, net	<u>\$ 294,652</u>	<u>\$ 34,089</u>	<u>\$ -</u>	<u>\$ 328,741</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 38,860	\$ -	\$ -	\$ 38,860
Capital assets being depreciated				
Water system lines and equipment	\$ 3,005,787	\$ -	\$ -	\$ 3,005,787
Gas system lines and equipment	812,157	-	-	812,157
Sewer system lines and equipment	1,417,244	-	-	1,417,244
Garbage vehicles and equipment	232,523	-	-	232,523
Mowing equipment	3,562	-	-	3,562
Total capital assets being depreciated	<u>\$ 5,471,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,471,273</u>
Less accumulated depreciation for:				
Water system lines and equipment	\$ (1,830,331)	\$ (61,472)	\$ -	\$ (1,891,803)
Gas system lines and equipment	(741,786)	(29,283)	-	(771,069)
Sewer system lines and equipment	(712,758)	(28,304)	-	(741,062)
Garbage vehicles and equipment	(187,109)	(9,359)	-	(196,468)
Mowing equipment	(3,562)	-	-	(3,562)
Total accumulated depreciation	<u>\$ (3,475,546)</u>	<u>\$ (128,418)</u>	<u>\$ -</u>	<u>\$ (3,603,964)</u>
Business-type activities, capital assets, net	<u>\$ 2,034,587</u>	<u>\$ (128,418)</u>	<u>\$ -</u>	<u>\$ 1,906,169</u>

Depreciation expense of \$28,072 for the year ended June 30, 2011, was charged to the following governmental functions:

Police and fire	<u>\$ 28,072</u>
-----------------	------------------

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers consist of operating transfers between the general fund and the utility fund as follows:

<u>Transfers in</u>	<u>Transfers out</u>		
Governmental fund	Proprietary fund	\$	272,036
Proprietary fund	Proprietary fund	\$	260,567

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 8 - LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended June 30, 2011:

	Bonded Debt	Grants and Notes Payable	Capital Leases	Total
Long-term obligations at beginning of year	\$ 466,562	\$ 23,634	\$ 3,195	\$ 493,391
Additions				
Deductions	<u>(10,527)</u>	<u>(11,014)</u>	<u>(3,195)</u>	<u>(24,736)</u>
Long-term obligations at end of year	<u>\$ 456,035</u>	<u>\$ 12,620</u>	<u>\$ -</u>	<u>\$ 468,655</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2011:

	Bonded Debt	Grants and Notes Payable	Capital Leases	Total
Current portion	\$ 10,876	\$ 12,620	\$ -	\$ 23,496
Long-term portion	<u>445,159</u>	<u>-</u>	<u>-</u>	<u>445,159</u>
Long-term obligations at end of year	<u>\$ 456,035</u>	<u>\$ 12,620</u>	<u>\$ -</u>	<u>\$ 468,655</u>

Long-term debt at June 30, 2011, consists of the following:

Water Revenue Bonds - \$534,881 in revenue bonds due in annual installments of \$31,181 through July 2035, bearing interest at a rate of 4.5%.	\$ 456,035
Grant repayment to the Department of Justice for the 1999/2000 COPS grant due in monthly installments of \$1,189 through August 2008, bearing interest at a rate of 1%.	4,081
Note payable to finance company - \$38,724 due in monthly installments of \$777 through April 2012, bearing interest at 7.5%.	<u>8,539</u>
Total	<u>\$ 468,655</u>

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 8 - LONG-TERM OBLIGATIONS (continued)

The annual requirements to amortize long-term debt outstanding at June 30, 2011, are as follows:

<u>Year ending June 30,</u>	<u>Bonded Debt</u>		<u>Grants and Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 10,876	\$ 20,305	\$ 12,620	\$ 253
2013	11,376	19,805	-	-
2014	11,898	19,283	-	-
2015	12,445	18,736	-	-
2016	13,016	18,165	-	-
2017-2021	74,621	81,284	-	-
2022-2026	93,409	62,496	-	-
2027-2031	116,930	38,975	-	-
2032-2036	111,464	10,433	-	-
Total	\$ 456,035	\$ 289,482	\$ 12,620	\$ 253

The Water Revenue Bonds contain the following bond indenture restrictions:

1. The Town shall maintain a reserve fund into which monthly deposits of \$130 will be made. The reserve fund balance was \$230 at June 30, 2011. Deposits shall be made into the fund until a balance of \$31,180 has been accumulated into the fund. At June 30, 2011, the Town was not in compliance with this covenant.
2. The Town shall maintain a contingency fund into which monthly deposits of \$129 will be made. The depreciation fund balance was \$230 at June 30, 2011. At June 30, 2011, the Town was not in compliance with this covenant.

NOTE 9 - RETIREMENT SYSTEMS

Employees of the Town of Waterproof are members of the Federal social security system. The employer portion of the social security payroll tax is reflected in payroll taxes in the various statements of income. A 401(k) was established, but we were unable to determine any information about the plan, the participants, or the contributions.

NOTE 10 - CONTINGENT LIABILITIES

Litigation - At June 30, 2011, the Town of Waterproof was involved in one or more lawsuits for various claims totaling unknown amounts. Management does not expect an adverse result from any of these lawsuits that is material to these financial statements.

SECTION IV
ADDITIONAL REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF WATERPROOF, LOUISIANA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts Budget Basis	Differences Over/(Under)
	Original	Final		
Revenue:				
Taxes	\$ 67,000	\$ 80,000	\$ 65,612	\$ (14,388)
Licenses and permits	14,000	13,000	2,529	(10,471)
Intergovernmental:				
State grant	-	12,800	55,690	42,890
Fines	245,000	188,000	189,764	1,764
Charges for services	-	-	25,080	25,080
Miscellaneous	27,280	13,490	17,015	3,525
Total revenues	<u>\$ 353,280</u>	<u>\$ 307,290</u>	<u>\$ 355,690</u>	<u>\$ 48,400</u>
Expenditures:				
General government and public safety	\$ 295,996	\$ 356,016	\$ 337,569	\$ (18,447)
Debt service:				
Principal	-	-	14,210	14,210
Interest	-	-	1,162	1,162
Capital outlays	-	-	2,000	2,000
Total expenditures	<u>\$ 295,996</u>	<u>\$ 356,016</u>	<u>\$ 354,941</u>	<u>\$ (1,075)</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 57,284	\$ (48,726)	\$ 749	\$ 49,475
Other financing sources:				
Transfers in	-	-	272,036	272,036
Transfers out	-	(40,000)	(236,726)	(196,726)
Total other financing sources	<u>\$ -</u>	<u>\$ (88,726)</u>	<u>\$ 35,310</u>	<u>\$ 75,310</u>
Net change in fund balances	57,284	-	36,059	124,785
Fund balance, beginning of year	(7,486)	(7,486)	(7,486)	-
Fund balance, end of year	<u>\$ 49,798</u>	<u>\$ (96,212)</u>	<u>\$ 28,573</u>	<u>\$ 124,785</u>

See Independent Auditor's Report.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

Budgetary Comparison Schedule

1. Basis of Presentation

The budgetary comparison schedule presents the original legally adopted budget, the actual data on the cash basis, and variances between the final budget and the actual data.

2. Budget/GAAP Reconciliation

The major differences between the budgetary basis and the GAAP basis are:

- a. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- b. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles net change in fund balances on the budgetary basis schedules to the GAAP basis financial statements for the general fund.

	<u>General Fund</u>
Net change in fund balance – budget basis	\$ 36,059
Increase (decrease)	
Net adjustments for revenue accruals	8,412
Net adjustments for expenditure accruals	<u>(44,786)</u>
Net change in fund balance – GAAP basis	<u>\$ (315)</u>

See Independent Auditor's Report.

SECTION V
REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE



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

The Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We were engaged to audit the financial statements of the governmental activities and the business-type activities of the Town of Waterproof, Louisiana as of and for the year ended June 30, 2011, which collectively comprise the Town of Waterproof, Louisiana's basic financial statements and have issued our report thereon dated December 22, 2011. We did not express an opinion on the financial statements described above because we could not satisfy ourselves as to the adequacy of recorded liabilities and disclosures in the financial statements.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Town of Waterproof, Louisiana's internal control over financial reporting 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 Town of Waterproof, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Waterproof, Louisiana's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting 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 the deficiency described in the accompanying schedule of findings as item 2011-1(2) to be a material weakness.

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 the deficiencies referenced as 2011-1(4), 2011-1(6) 2011-1(8) and 2011-3 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Waterproof, Louisiana'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 object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2011-1(1), 2011-1(3), 2011-1(5), 2011-1(7), 2011-1(9), 2011-2, and 2011-4.

The Town of Waterproof, Louisiana's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Town of Waterproof, Louisiana's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Aldermen, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Silas Simmons, LLP

Natchez, Mississippi
December 22, 2011

**SECTION VI
SCHEDULE OF FINDINGS**

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditor's report issued on the basic financial statements: | |
| Governmental Activities | Disclaimer |
| Business-Type Activities | Disclaimer |
| Major Funds: | |
| General Funds | Disclaimer |
| Utility Fund | Disclaimer |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to the basic financial statements? | Yes |

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding to the Financial Statements:	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements:				
2010-1	6/30/2006	<p><u>Controls Over Financial Reporting</u> As discussed in current year finding 2011-1, the Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period ended June 30, 2010 was convicted of malfeasance and felony theft, and the Police Chief was indicted on similar charges – many of which were detailed in the LLAAS report.</p> <p>None of the recommendations in the LLAAS report had been acted upon by year-end, and we found most documentation related to transactions occurring through June 30, 2009, to be non-existent. As a result, we will disclaim an opinion on these financial statements.</p>	Partially	See current year findings 2011-1 for detail of the findings that have not yet been implemented.
2010-02	6/30/2007	<p><u>Late Report</u> The Town is required to submit an audit of its annual financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end.</p> <p><u>Recommendation</u> It was recommended that financial records be ready for audit and a CPA engaged to start the audit within forty-five days of year end.</p>	Yes	

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/ Partial Corrective Action Taken
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)				
2010-03	6/30/2007	<p><u>Controls Over Expenditures</u> During the engagement, original invoices and other supporting documentation were not available. Also, all forms 941 were not available and it appears federal and state taxes withheld may have not been correctly accounted for.</p>	Yes	
		<p><u>Recommendation</u> We recommended that the Town implement appropriate procedures to ensure expenditures are properly authorized, documented, filed, and paid on a timely basis.</p>		
2010-04	6/30/2010	<p><u>Controls Over Recording</u> During the fiscal year ended June 30, 2010, the Town's financial transactions were not posted to the general ledger in a timely manner.</p>	Yes	
		<p><u>Recommendation</u> We recommended that the Town take steps to ensure that the books of account are prepared and maintained on a monthly basis.</p>		

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)				
2010-05		<p><u>Controls Over Account Reconciliation</u> Several general ledger accounts, primarily cash, accounts receivable, and accounts payable are not being reconciled on a timely basis.</p> <p><u>Recommendation</u> We recommended that accounting personnel reconcile cash, accounts receivable, and accounts payable to supporting documentation and the general ledger on a monthly basis.</p>	Partially	See current year finding 2011-1, item 2.
2010-06		<p><u>Controls Over Expenditures</u> During the engagement, original invoices and other supporting documentation were not available. Also, all forms 941 were not available and it appears federal and state taxes withheld may have not been correctly accounted for.</p> <p><u>Recommendation</u> We recommended the Town implement appropriate procedures to ensure expenditures are properly authorized, documented, filed, and paid on a timely basis.</p>	Yes	

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011**

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
2011-1	<p>Section I - Internal Control and Compliance Material to the Financial Statements:</p> <p><u>Controls Over Financial Reporting</u> The Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period ended June 30, 2010 was convicted of malfeasance and felony theft, and the Police Chief was indicted on similar charges - many of which were detailed in the LLAAS report. The following is a detail of findings and recommendations in the "Advisory Services Report" that have not been completely implemented:</p>		
1.	<p>Management failed to comply with the Local Government Budget Act The Town's General Fund budget failed to include a budget message as required by law.</p>	<p>The Mayor and Board of Aldermen will attach a budget message to the fiscal year ended June 30, 2012, budget and all future budgets.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
	<p><u>Recommendation</u> Management should strictly comply with all provision of the Local Government Budget Act by including a budget message with each adopted budget.</p>		
2.	<p>Controls over Utility Accounts and Meter Deposits Management continues to provide utility services to past due customers.</p>	<p>The Mayor and Board of Aldermen are actively pursuing collections from past due customers. The Mayor and Board are trying to work out payment schedules with</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>

TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011

Ref. No.	Description of Finding Section I – Internal Control and Compliance Material to the Financial Statements	Corrective Action Planned	Name(s) of Contact Person(s)
		(continued) customers who have accumulated large past due balances.	
	The accounts receivable balance in the utility system (subsidiary ledger) was not reconciled with the balance in the account system (general ledger).	The Mayor and Board of Aldermen will ask the CP/A firm that posts their general ledger to assist them in implementing a system prior to the end of the current fiscal year.	Mayor Caldwell Flood and members of the Board of Aldermen
	Management failed to ensure that meter deposit monies collected from utility customers were maintained in a restricted bank account, and reconciled to the general ledger on a monthly basis.	The Mayor and Board of Aldermen will make every effort to accumulate funds in restricted accounts to match meter deposits. In addition, they will ask the CPA firm that posts their general ledger to assist them in implementing a system reconciling meter deposits prior to the end of the current fiscal year.	Mayor Caldwell Flood and members of the Board of Aldermen

Recommendation

Management should adopt and enforce a cut-off policy to ensure utility services are promptly terminated on all customers who do not pay their bill by the due date.

TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)			
3.	<p>No Personnel Policy The Town did not have a formal policy regulating the employment of its employees as required by law [R.S. 33:362.A(3)].</p> <p>Recommendation Management should comply with state law and adopt, by ordinance, policies and procedures regulating the employment of Town personnel. We suggest that management use the Louisiana Municipal Association Handbook for Guidance.</p>	<p>A policy was adopted at the Board of Aldermen's meeting on November 12, 2011.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
4.	<p>Leave Records Written leave records were not maintained to account for vacation and sick leave earned and taken by all employees.</p> <p>Recommendation Management should ensure that detailed records are maintained of the annual and sick leave earned and taken by all employees.</p>	<p>The Mayor began keeping vacation and sick leave records subsequent to June 30, 2012.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
5.	<p>Town Decal Not on All Vehicles The vehicles driven by the Mayor and Police Chief are not marked with insignia/ decal containing the name of the Town as required by Louisiana law.</p> <p>Recommendation Management should comply with state law and ensure that all Town vehicles are properly identified with decals.</p>	<p>There remains one Town vehicle that is not marked with an insignia/ decal, and it will be so marked immediately.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>

**TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2011**

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Corrective Action Planned</u>	<u>Name(s) of Contact Person(s)</u>
Section I – Internal Control and Compliance Material to the Financial Statements: (continued)			
6.	<p>Capital Assets The Town did not have a listing of its capital assets.</p> <p>Recommendation The Mayor and Clerk should ensure that a current listing of the Town's capital assets is prepared in accordance with state law. All assets should be tagged and appropriately cross-referenced to the listing, and periodic physical inventories should be taken and differences, if any, should be resolved immediately.</p>	<p>The Town will begin an inventory and listing of capital assets, including tagging and periodic physical inventories.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
7.	<p>Written Policies and Procedures The Town's written policies and procedures are not complete. Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done and ensure the procedures followed meet management's expectations. Also, written procedures aid in the continuity of operations and for staff cross-training.</p> <p>Recommendation We recommend that management develop and implement written policies and/or procedures.</p>	<p>Written policies and procedures were adopted at the Board of Aldermen's meeting on November 12, 2011.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen.</p>

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2011

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section 1 - Internal Control and Compliance Material to the Financial Statements: (continued)			
8.	<p>Ordinance Book. The ordinance book was not up-to-date with all town ordinances as required by R.S. 33.406D(1).</p> <p>Recommendation Management should comply with Louisiana law and ensure that the ordinance book is updated to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g. public works, public safety, etc.).</p>	<p>The Mayor had begun the process of updating the ordinance book and will continue to proceed with the project.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
9.	<p>Disaster Recovery and Business Continuity. The Town does not have a written disaster recovery/business continuity plan as required by R.S. 33.406D(1).</p> <p>Recommendation Management should comply with Louisiana law and ensure that the ordinance book is updated to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g. public works, public safety, etc.).</p>	<p>The Town is part of the disaster recovery/business continuity plan for Tensas Parish and will use the Parish plan as a model for its own plan.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011**

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section 1 - Internal Control and Compliance Material to the Financial Statements: (continued)			
2011-2	<p><u>Adoption of Budget</u> According to the July 12, 2010 minutes of the Board of Aldermen, the budget for fiscal year ended June 30, 2011, had not been prepared. This is a violation of the state law, RS 39:1309 (The Local Government Budget Act), which requires the adoption of budgets before the end of the prior fiscal year.</p> <p><u>Recommendation</u> We recommend that the Town comply with all provisions of the Local Government Budget Act.</p>	<p>The budget for the fiscal year ended June 30, 2012, will be prepared prior to the end of fiscal year ended June 30, 2011.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
2011-3	<p><u>Violation of Debt Covenants</u> The Water Revenue Bonds in the Proprietary (Utility) Fund contain covenants requiring the deposit of \$130 a month into a reserve fund until a balance of \$31,180 has been accumulated and the deposit of \$129 a month into a contingency fund. Deposits were not made into these two funds until May 2011 and they were made in a General Fund account, rather than a Utility Fund account. As a result, the total balance in the reserve account is far short of the amount required based on approximately 71 months from the date of the bonds through June 30, 2011, times \$130 of required monthly deposits.</p> <p><u>Recommendation</u> We recommend that management and the Board comply with the terms of all contractual/indenture agreements. Management should take steps to fully fund the reserve account and should ensure that monthly deposits of the required amounts are made to both of these accounts in the future as required by the indenture agreements.</p>	<p>The Town began funding these funds in May of 2011; and will continue to fund them monthly as well as attempting to restore the required balance in the reserve fund.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2011

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)			
2011-4	<p><u>Budget Preparation.</u> The final amended budget for the fiscal year ended June 30, 2011, includes proposed expenditures in excess of the estimated funds available in violation of R.S. 39:1305.</p>	<p>The final amended budget for the fiscal year ended June 30, 2012, and all subsequent years will be in compliance with the Local Government Budget Act.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>

Recommendation
 As noted in 2011-2 above, we recommend that the Town comply with all provisions of the Local Government Budget Act.

SUPPLEMENTAL INFORMATION

**TOWN OF WATERPROOF, LOUISIANA
COMPENSATION OF THE GOVERNING BOARD
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

Caldwell Flood, Mayor	\$	8,125
Elizabeth Cooper		7,500
Edna Cooper		4,500
George Taylor		6,500
Lionel Travers, Jr.		6,500
Bobby Wilkerson		6,250
Johnnie Raymo		<u>3,000</u>
	<u>\$</u>	<u>42,375</u>

See Independent Auditor's Report.