

**ST. MARY PARISH WATER AND SEWER
COMMISSION NO. 1 OF THE
PARISH OF ST. MARY,
STATE OF LOUISIANA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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.

JUN 13 2012

Release Date _____

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Darnall, Sikes, Gardes & Frederick.

(A Corporation of Certified Public Accountants)

E. Larry Sikes, CPA/PFS, CVA, CFP®
 Darby P. Frederick, CPA
 Clayton E. Darnall, CPA, CVA
 Eugene H. Darnall, III, CPA
 Stephanie M. Higginbotham, CPA
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 Craig C. Babineaux, CPA/PFS, CFP®
 Jeremy C. Meaux, CPA
 Chad M. Bailey, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
 St. Mary Parish Water and Sewer Commission No. 1
 Parish of St. Mary, State of Louisiana
 Amelia, Louisiana

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 Nicole B. Bruchez, CPA, MBA
 Brandon R. Dumphy, CPA
 Seth C. Norris, CPA
 W. Kyle George, CPA, MBA
 Mary Catherine Hollier, CPA.

We have audited the accompanying financial statements of the business-type activities of the St. Mary Parish Water and Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Council, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Commission's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the St. Mary Parish Water and Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana, as of December 31, 2011, and the respective 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*, we have also issued a report dated May 23, 2012 on our consideration of the Commission's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Member of:
 American Institute of
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Society of Louisiana
 Certified Public Accountants

www.dsfcpas.com

The St. Mary Parish Water and Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Supplemental Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the St. Mary Parish Water and Sewer Commission No. 1 of the Parish of St. Mary, State of Louisiana. Such information, except for that portion marked "unaudited" on which we express no opinion, 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole, except that:

1. the insurance coverage data has not been audited by us and we express no opinion on it, and
2. information as to the number of metered utility customers presented on page 24 is based on unaudited data obtained from the Commission's records, on which we express no opinion.

Danall, Sikes, Gaudes & Frederick
(A Corporation of Certified Public Accountants)

Morgan City, Louisiana
May 23, 2012

FINANCIAL SECTION

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Net Assets
December 31, 2011

ASSETS

| | |
|---|----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 2,991,905 |
| Investments | 132,004 |
| Receivables: | |
| Accounts | 92,377 |
| Ad valorem taxes | 1,107,398 |
| Inventories | 47,359 |
| Prepaid expenses | <u>21,096</u> |
| Total current assets | <u>4,392,139</u> |
| Restricted assets: | |
| Customer deposits | <u>73,620</u> |
| Capital assets: | |
| Land and improvements | 205,726 |
| Construction in progress | 59,072 |
| Buildings and improvements | 4,066,863 |
| Equipment and furniture | 281,068 |
| Improvements other than buildings | 10,977,303 |
| Net of accumulated depreciation | <u>(9,858,971)</u> |
| Total capital assets, net of accumulated depreciation | <u>5,731,061</u> |
| Total assets | <u>\$ 10,196,820</u> |

LIABILITIES

Current liabilities:

| | |
|--|----------------|
| Accounts payable - trade | \$ 79,603 |
| Accrued payroll and payroll taxes | 54,330 |
| Retainage payable | 46,447 |
| Due to St. Mary Parish Council | <u>8,111</u> |
| Total current liabilities | 188,491 |
| Current liabilities payable from restricted assets - | |
| Customer's meter deposits | <u>73,620</u> |
| Total liabilities | <u>262,111</u> |

NET ASSETS

| | |
|----------------------------|------------------|
| Invested in capital assets | 5,731,061 |
| Restricted for maintenance | 1,451,038 |
| Unrestricted | <u>2,752,610</u> |
| Total net assets | <u>9,934,709</u> |

Total liabilities and net assets \$ 10,196,820

The accompanying notes are an integral part of these financial statements.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended December 31, 2011

| | |
|--|---------------------|
| Operating revenues: | |
| Water sales | \$ 431,197 |
| Sewer sales | 263,448 |
| Delinquent charges | 13,582 |
| Reconnect charges | 5,928 |
| Transfer fees | 2,980 |
| Sewer dumping fees | - |
| Commissions | 4,540 |
| Miscellaneous | <u>2,906</u> |
| Total operating revenues | 724,581 |
| Operating expenses: | |
| Salaries and payroll taxes | 320,486 |
| Installation and repair of lines, hydrants, pumps and meters | 77,925 |
| Plant maintenance | 49,316 |
| Sewer maintenance | 60,933 |
| Field maintenance | 11,114 |
| Repairs and maintenance of buildings and towers | 2,368 |
| Depreciation | 343,530 |
| Commissioners' fees | 4,560 |
| Utilities | 49,864 |
| Insurance | 63,167 |
| Miscellaneous | 6,261 |
| Employee medical insurance | 105,796 |
| Postage | 5,602 |
| Professional services | 9,791 |
| Contract labor | 2,475 |
| Stationery, printing and office supplies | 13,985 |
| Telephone and telegraph | 7,433 |
| Vehicle | 16,180 |
| Pension expense | 23,689 |
| Chemicals | 107,493 |
| Plant supplies | 7,712 |
| Pond testing fees | 28,173 |
| Permit fees | <u>2,836</u> |
| Total operating expenses | <u>1,320,689</u> |
| Operating loss | (596,108) |
| Nonoperating revenues: | |
| Donated property | 286,000 |
| Intergovernmental revenue | 28,777 |
| Interest | 7,614 |
| Ad valorem tax | <u>1,140,700</u> |
| Total nonoperating revenues | <u>1,463,091</u> |
| Change in net assets | 866,983 |
| Net assets, beginning | <u>9,067,726</u> |
| Net assets, ending | <u>\$ 9,934,709</u> |

The accompanying notes are an integral part of these financial statements.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Statement of Cash Flows
Year Ended December 31, 2011

| | |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers and users | \$ 724,429 |
| Payments to suppliers for goods and services | (630,489) |
| Payments to employees | <u>(324,041)</u> |
| Net cash provided by operating activities | <u>(230,101)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Ad valorem taxes | <u>878,978</u> |
| Net cash provided by noncapital financing activities | <u>878,978</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | <u>(62,318)</u> |
| Net cash used by capital and related financing activities | <u>(62,318)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of investments | (146) |
| Interest received | <u>7,614</u> |
| Net cash provided by investing activities | <u>7,468</u> |
| Net increase in cash and cash equivalents | 594,027 |
| Cash and cash equivalents - January 1, 2011 | <u>2,471,498</u> |
| Cash and cash equivalents - December 31, 2011 | <u>\$ 3,065,525</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | |
| Operating loss | \$ (596,108) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | 343,530 |
| Increase in accounts receivable | (3,992) |
| Increase in inventories | (4,690) |
| Increase in prepaid expenses | (762) |
| Increase in accounts payable | 31,636 |
| Increase in payroll related liabilities | (3,555) |
| Increase in due to other governments | 230 |
| Increase in customer meter deposits | <u>3,610</u> |
| Total adjustments | <u>366,007</u> |
| Net cash provided by operating activities | <u>\$ (230,101)</u> |
| Reconciliation of total cash: | |
| Current assets - cash | 2,991,905 |
| Restricted assets - cash | <u>73,620</u> |
| Total cash | <u>\$ 3,065,525</u> |
| NONCASH CAPITAL FINANCING ACTIVITIES | |
| Capital assets of \$286,000 were acquired through donation from Aucoin Land Company, LLC. | |

The accompanying notes are an integral part of these financial statements.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to Ordinance No. 1281 adopted by the St. Mary Parish Council on October 27, 1995, the St. Mary Parish Water and Sewer Commission No. 1 (the Commission) was created on January 24, 1996 to provide water and sewerage services to the customers of the former Waterworks District No. 3 of the Parish of St. Mary, State of Louisiana, the former Sewerage District No. 4 of the Parish of St. Mary, State of Louisiana, and that area of Sewerage District No. 1 of the Parish of St. Mary, State of Louisiana, outside the corporate limits of Morgan City, Louisiana. Effective July 1, 1996, the operations of Waterworks District No. 3 and Sewerage District No. 4 have been incorporated into the St. Mary Parish Water and Sewer Commission No. 1. Sewer District No. 1 of the Parish of St. Mary merged into the St. Mary Parish Water and Sewer Commission No. 1 in October 1999. The Commission is a component unit of the Parish of St. Mary. The Commission is an integral part of the Parish of St. Mary for financial reporting purposes. The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

Financial Reporting Entity

For financial reporting purposes in conformance with Governmental Accounting Standards Board Statement No. 14, the Commission is a component unit of the St. Mary Parish Council, the reporting entity (the Oversight Unit). The accompanying financial statements present information only as to the transactions of the Commission and are not intended to present fairly the financial position and results of operations of the St. Mary Parish Council.

Fund Accounting

The accounts of the Commission are organized and operated on a fund basis whereby a separate self-balancing set of accounts that comprise its assets, liabilities, net assets, revenues and expenses is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or regulations. The Commission is presented in the accompanying financial statements as follows:

PROPRIETARY FUND –

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The proprietary fund is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are water and sewer user fees. The operating cost of the proprietary fund is all costs associated with the operation of the water and sewer distribution system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In accordance with Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," it is the Commission's policy to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to December 1, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Restricted Resources

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

Inventories

Inventories consisting of parts and supplies are stated at specific cost.

Capital Assets

All capital assets of the proprietary fund purchased or acquired with an original cost of \$2,000 or more for furniture and \$5,000 or more for equipment are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. The costs of maintenance and repairs are charged to income as incurred; significant renewals and betterments are capitalized. Reductions are made for retirements resulting from renewals or betterments. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|----------------------------------|---------------|
| Buildings and improvements | 20 - 50 years |
| Equipment and furniture | 5 - 10 years |
| Improvements other than building | 25 years |

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Investments

Louisiana statutes permit the Commission to invest in obligations of the U. S. Government and agencies of the U. S. Government, which are federally sponsored, and certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and the state sponsored investment pool.

Ad Valorem Tax

The Commission levies an ad valorem tax based on property values determined by the Parish Tax Assessor's Office. The levy is effective and becomes an enforceable lien on the property upon mailing of the tax bills to property owners (usually between November 1 and November 15). Tax payment is due by December 31 and becomes delinquent on January 1 as which time interest begins to accrue. The taxes are billed and collected by the St. Mary Parish Sheriff's Office. The Commission is a proprietary fund and recognizes the taxes as non-operating revenues in the year in which they are levied.

Bad Debts

The Commission charges any uncollectible accounts directly to current operations. All accounts at December 31, 2011 are considered to be collectible.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Vacation and Sick Leave

Vacation and sick leave are accrued as an expense of the period in which incurred. Accrued vacation pay and sick leave for the year ended December 31, 2011 was \$42,593.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Commission has evaluated subsequent events through May 23, 2012, the date the financial statements were available to be issued

NOTE 2 CASH AND CASH EQUIVALENTS

The carrying value of the Commission's cash deposits with financial institutions at December 31, 2011 totaled \$3,065,525 and the bank balance was \$3,072,241. Cash and cash equivalents and investments are stated at cost, which approximates market. Custodial credit risk is the risk that in the event of a bank failure the Commission's deposits may not be recovered. Under state law these deposits 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 pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts.

The deposits at December 31, 2011 were secured as follows:

| | |
|--|---------------------|
| Bank Balances | <u>\$ 3,072,241</u> |
| Federal deposit insurance | 254,817 |
| Pledged Securities | <u>3,009,377</u> |
| Total federal deposit insurance and pledged securities | <u>3,264,194</u> |
| Excess | <u>\$ 191,953</u> |

NOTE 3 INVESTMENTS

Investments in the amount of \$132,004 at December 31, 2011 are in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool. In accordance with GASB Codification Section 1150.165, the investment in LAMP is not categorized in the three risk categories provided by GASB Codification Section 150.164 because the investment is in the pool of funds and thereby not evidenced by securities that exist in physical or book entry form.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana, and is governed by a board of directors comprised of representatives from various local governments and state wide professional organizations. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 3 INVESTMENTS (CONTINUED)

authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities.

NOTE 4 AD VALOREM TAXES

For the year ended December 31, 2011, the Commission levied taxes of 9.98 mills for maintenance and operation on property within the Commission's boundaries. The total assessed valuation on these properties was \$139,350,415 and total taxes levied were \$1,370,269. Taxes receivable at December 31, 2011 was \$1,107,398.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

| | Balance 12/31/2010 | Additions | Deletions | Balance 12/31/2011 |
|--|-----------------------|------------------|-------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 205,726 | \$ - | \$ - | \$ 205,726 |
| Construction in progress | <u>18,000</u> | <u>41,072</u> | <u>-</u> | <u>59,072</u> |
| Total capital assets not being depreciated | <u>223,726</u> | <u>41,072</u> | <u>-</u> | <u>264,798</u> |
| Other capital assets: | | | | |
| Building and improvements | 4,066,863 | - | - | 4,066,863 |
| Equipment and furniture | 259,822 | 21,246 | - | 281,068 |
| Improvements other than buildings | <u>10,691,303</u> | <u>286,000</u> | <u>-</u> | <u>10,977,303</u> |
| Total other capital assets | <u>15,017,988</u> | <u>307,246</u> | <u>-</u> | <u>15,325,234</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (2,043,064) | (83,596) | - | (2,126,660) |
| Equipment and furniture | (227,011) | (8,788) | - | (235,799) |
| Improvements other than buildings | <u>(7,245,366)</u> | <u>(251,146)</u> | <u>-</u> | <u>(7,496,512)</u> |
| Total accumulated depreciation | <u>(9,515,441)</u> | <u>(343,530)</u> | <u>-</u> | <u>(9,858,971)</u> |
| Other capital assets, net | <u>5,502,547</u> | <u>(36,284)</u> | <u>-</u> | <u>5,466,263</u> |
| Capital assets, net | <u>\$ 5,726,273</u> | <u>\$ 4,788</u> | <u>\$ -</u> | <u>\$ 5,731,061</u> |

Depreciation charged to income was \$343,530 for the year ended December 31, 2011.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 6 RESTRICTED ASSETS

The Commission's restricted assets consisted of the following at December 31, 2011:

Customers' meter deposits

Cash \$ 73,620

NOTE 7 EMPLOYEE RETIREMENT PLAN

Federal regulations require that all state and local government employees not covered by FICA be covered by some alternate retirement plan after June 30, 1991. The Commission chose to establish a simplified employee-retirement plan (SEP) whereby the Commission deposits an amount equal to 7.50% of total wages. Under a SEP, an individual retirement account (IRA) is set up for each participating employee and contributions are made directly into that IRA.

All employees 21 years of age or older who have been employed one year or more are covered under the plan, and eligible employee's benefits vest 100% upon meeting the above requirements.

Total pension expense recorded by the Commission for contributions to the retirement plan for the years ended December 31, 2011, 2010, and 2009 was \$23,689, \$23,661, \$23,424, respectively.

NOTE 8 NET ASSETS RESTRICTED FOR OPERATIONS AND MAINTENANCE

A portion of net assets has been reserved for future operations and maintenance of the Commission.

NOTE 9 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The Commission is insured up to policy limits for each of the above risks. There were no significant changes in coverage's, retentions or limits during the year ended December 31, 2011. Settled claims have not exceeded the commercial coverage in any of the previous three fiscal years.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Notes to the Financial Statements

NOTE 10 SUBSEQUENT EVENTS

Subsequent to year end, the Commission entered into two contracts for the replacement and addition of waterlines. The total cost of both projects is estimated at \$293,003.

The Commission entered into an intergovernmental agreement with the St. Mary Parish Council to install a new 10 inch waterline from Taylor Road to Lake Palourde Bypass Road. St. Mary Parish will reimburse the Commission 100% for this project. The overall estimated cost of the improvements per the bid tabulation is \$220,209.

Currently the Commission has a 6 inch water transmission line along Hwy. 182 to Taylor Road. The Commission has decided to abandon the existing 6 inch water transmission line and replace it with a 10 inch water transmission line due to increased business activity in the area. This project will be funded 100% by the Commission. The expected cost of replacing the current 6 inch line with a 10 inch line is \$72,794, per the bid tabulation report.

NOTE 11 PENDING LITIGATION

The Commission is presently the plaintiff in litigation involving the contractor for the Siracusa sewer improvements. Management is in disagreement as to the timeliness of the completion of the project and has filed a petition for liquidated damages. However, the Commission is amenable to a reasonable settlement with the defendant if such an offer should be made.

The contractor (defendant) is requesting full payment for the retainage that is still owed by the Commission. Management has taken a conservative approach with regards to financial reporting and has reported the full amount in question in retainage payable until the issue is legally resolved.

**SUPPLEMENTAL
INFORMATION**

**INTERNAL CONTROL
AND
COMPLIANCE**



Darnall, Sikes, Gardes & Frederick

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E. Larry Sikes, CPA/PFS, CVA, CFP®
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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

Kathleen T. Darnall, CPA
 Dustin B. Baudin, CPA, MBA
 Kevin S. Young, CPA
 Adam J. Curry, CPA
 Christy S. Dew, CPA, MPA
 Blaine M. Crochet, M.S., CPA
 Rachel W. Ashford, CPA
 Veronica L. LeBlau, CPA, MBA
 Jacob C. Roberie, CPA/PFS
 Kyle P. Saltzman, CPA
 Christine A. Guidry, CPA, MBA
 Brandon L. Porter, CPA
 Tanya S. Nowlin, Ph.D., CPA
 Elise B. Fauchaux, CPA
 Nicole B. Bruchez, CPA, MBA
 Brandon R. Dunphy, CPA
 Seth C. Norris, CPA
 W. Kyle George, CPA, MBA
 Mary Catherine Hollier, CPA

The Board of Commissioners
 St. Mary Parish Water and Sewer Commission No. 1
 Parish of St. Mary, State of Louisiana
 Amelia, Louisiana

We have audited the financial statements of the business-type activities of the St. Mary Parish Water and Sewer Commission No. 1, of the Parish of St. Mary, State of Louisiana (the Commission), a component unit of the St. Mary Parish Council, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over 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 and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 and questioned costs (Item 2011-1) to be a material weakness.

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A *significant deficiency* is a deficiency, or 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 deficiency described in the accompanying schedule of findings and questioned costs (Item 2011-2) to be a significant deficiency.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, the St. Mary Parish Council, and the Legislative Auditor of the State of Louisiana. However, under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document; therefore, its distribution is not limited.

Dannall, Sikes, Gaudes & Frederick

(A Corporation of Certified Public Accountants)

Morgan City, Louisiana
May 23, 2012

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Summary Schedule of Prior Year Findings
Year Ended December 31, 2011

| | | |
|--------|----------|--|
| 2010-1 | Finding: | <u>Inadequate Segregation of Accounting Functions</u> |
| | Status: | This finding is unresolved. See current year finding 2011-1. |
| 2010-2 | Finding: | <u>Financial Statement Preparation</u> |
| | Status: | This finding is unresolved. See current year finding 2011-2. |

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Part 1: Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report – Financial Statements

An unqualified opinion has been issued on St. Mary Parish Water and Sewer Commission No. 1's financial statements as of and for the year ended December 31, 2011.

Internal Control Deficiency – Financial Reporting

Two significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements and are shown as items 2011-1 and 2011-2 in Part 2. Item 2011-1 is considered a material weakness.

Material Noncompliance – Financial Reporting

There were no material instances of noncompliance noted during the audit of the financial statements.

FEDERAL AWARDS

This section is not applicable for the year ended December 31, 2011.

Part 2: Findings Relating to an Audit in Accordance with *Governmental Auditing Standards*

2011-1 Inadequate Segregation of Accounting Functions

Finding:

Due to the small number of accounting personnel, the St. Mary Parish Water and Sewer Commission No. 1 did not have adequate segregation of functions within the accounting systems.

Recommendation:

Based upon the size of the operation and the cost benefit of additional personnel it may not be feasible to achieve complete segregation of duties.

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Part 2: Findings Relating to an Audit in Accordance with *Governmental Auditing Standards (continued)*

2011-2 Financial Statement Preparation

Finding:

Management does not have the sufficient capable expertise to prepare financial statements and related footnote disclosures.

Recommendation:

Due to the size of the entity and the cost benefit of training management to address this issue it may not be feasible to achieve the expertise required by standards to prepare financial statements and related disclosures.

Part 3: Findings and Questioned Costs Relating to Federal Programs

At December 31, 2011, the St. Mary Parish Water and Sewer Commission No. 1 did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore this section is not applicable.

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA**

**Management's Corrective Action Plan For Current Year Findings
Year Ended December 31, 2011**

Response to Finding 2011-1:

No response is considered necessary.

Response to Finding 2011-2:

No response is considered necessary.

OTHER SUPPLEMENTARY INFORMATION

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Number of Utility Customers
(Unaudited)
December 31, 2010 and 2011

Records maintained by the Commission indicated the following number of water customers were being served during the month of December:

| | |
|------|-------|
| 2010 | 1,153 |
| 2011 | 1,174 |

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA**

**List of Insurance Policies in Force
(Unaudited)
December 31, 2011**

| <u>Type of Coverage</u> | <u>Expiration Date</u> | <u>Coverage</u> |
|--------------------------------------|------------------------|-----------------|
| Property and office building: | | |
| Water storage towers | April 30, 2012 | 1,500,000 |
| Water treatment facilities | April 30, 2012 | 1,946,000 |
| Buildings | April 30, 2012 | 629,000 |
| General liability coverage: | | |
| General aggregate | April 30, 2012 | 3,000,000 |
| Products aggregate | April 30, 2012 | 3,000,000 |
| Personal injury | April 30, 2012 | 1,000,000 |
| Each occurrence | April 30, 2012 | 1,000,000 |
| Damage to premises rented | April 30, 2012 | 1,000,000 |
| Medical expense | April 30, 2012 | 10,000 |
| Wrongful acts | April 30, 2012 | 1,000,000 |
| Business auto | | |
| Commercial auto | April 30, 2012 | 1,000,000 |
| Uninsured motorists | April 30, 2012 | 100,000 |
| Crime | April 30, 2012 | 10,000 |
| Umbrella | | |
| Each occurrence | April 30, 2012 | 2,000,000 |

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 1
PARISH OF ST. MARY, STATE OF LOUISIANA

Schedule of Compensation Paid to the Board of Commissioners.
Year Ended December 31, 2011

| | <u>Number of Meetings Attended</u> | <u>Total Compensation</u> |
|--------------------------------------|--|-------------------------------|
| Donald Patureau, President | 12 | \$ 720 |
| Leroy Trim, Vice President | 11 | 660 |
| William Whitten, Secretary/Treasurer | 9 | 540 |
| Roland H. Verret, Commissioner | 10 | 600 |
| Alvin Wilkerson, Commissioner | 12 | 720 |
| Ann Hebert, Commissioner | 12 | 720 |
| Shirley Bailey, Commissioner | 10 | <u>600</u> |
| | | <u>\$ 4,560</u> |