

9988

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2

Annual Component Unit Financial Statements
With Independent Auditors' Report

and

Report on Internal Control Over Financial Reporting
and Compliance and Other Matters

For the Years Ended September 30, 2013 and 2012

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 APR 16 2014

CONTENTS

| <u>FINANCIAL INFORMATION SECTION</u> | <u>PAGE</u> |
|--|-------------|
| Independent Auditors' Report | 1-3 |
| Basic Financial Statements | |
| Comparative Statement of Net Position | 4 |
| Comparative Statement of Revenues, Expenses and Changes in Net Position | 5 |
| Comparative Statement of Cash Flows | 6 |
| Notes to the Financial Statements | 7-19 |
| <u>OTHER SUPPLEMENTAL SCHEDULES</u> | |
| Schedule of Gallons of Water Purchased and Sold and Number of Water Customers (Unaudited) | 20 |
| Water and Sewer Rates (Unaudited) | 21 |
| Insurance (Unaudited) | 22 |
| <u>INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS</u> | |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | 23-24 |
| Schedule of Findings, Questioned Costs, and Federal Awards | 25-26 |
| Summary of Prior year Findings and Related Corrective Action Prepared by St. Mary Parish Water & Sewer Commission No. 2 | 27 |
| Corrective Action Plan Prepared by Management of St. Mary Parish Water & Sewer Commission No. 2 | 28 |



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
St. Mary Parish Water and Sewer
Commission No. 2
Bayou Vista, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2 (Commission), a component unit of St. Mary Parish, as of and for the years ended September 30, 2013 and 2012, and the related notes to these financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Commission, as of September 30, 2013 and 2012 and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

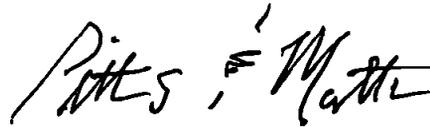
The Commission has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The schedules and statistical data listed in the table of contents as Other Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, 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 in considering the Commission's internal control over financial reporting and on compliance.

Handwritten signature in black ink, appearing to read "Pitts & McArthur".

CERTIFIED PUBLIC ACCOUNTANTS

Morgan City, Louisiana
March 24, 2014

**St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana**

Comparative Statement of Net Position
Water and Sewer Enterprise Fund
September 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 607,521 | \$ 437,979 |
| Investments | 1,267,106 | 1,262,266 |
| Accounts receivable | 150,713 | 156,339 |
| Inventory | 72,464 | 71,660 |
| Prepaid expenses | 9,797 | 13,339 |
| Total current assets | <u>2,107,601</u> | <u>1,941,583</u> |
| RESTRICTED ASSETS (cash and investments): | | |
| General obligation bond debt service cash | 48,280 | 23,665 |
| General obligation bond debt service investments | 15,970 | 15,957 |
| Customer meter deposits cash | 42,397 | 38,093 |
| Customer meter deposits investments | <u>162,128</u> | <u>162,065</u> |
| Total restricted assets | <u>268,775</u> | <u>239,780</u> |
| NONCURRENT ASSETS: | | |
| Property, plant and equipment (net of accumulated depreciation) | 4,775,192 | 4,670,516 |
| Other assets | - | 14,013 |
| Investment in Berwick-Bayou Vista Joint Waterworks Commission | <u>769,221</u> | <u>786,489</u> |
| Total noncurrent assets | <u>5,544,413</u> | <u>5,471,018</u> |
| TOTAL ASSETS | <u>\$ 7,920,789</u> | <u>\$ 7,652,381</u> |

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES (payable from current assets): | | |
| Accounts payable and accrued expenses | \$ 14,361 | \$ 19,124 |
| Contracts payable | 77,497 | - |
| Retainage payable | 25,597 | - |
| Due to other governmental units | 127,188 | 128,358 |
| CURRENT LIABILITIES (payable from restricted assets): | | |
| Bonds due within one year | 75,000 | 70,000 |
| Accrued interest on bonds | 1,143 | 1,149 |
| Customer meter deposits | <u>200,632</u> | <u>196,550</u> |
| Total current liabilities | 521,418 | 415,181 |
| LONG-TERM DEBT | | |
| Bonds due after one year | <u>530,000</u> | <u>605,000</u> |
| Total liabilities | <u>1,051,418</u> | <u>1,020,181</u> |
| NET POSITION | | |
| Net investment in capital assets | 4,170,192 | 4,008,380 |
| Restricted for: | | |
| Debt service | 64,250 | 39,622 |
| Unrestricted | <u>2,634,929</u> | <u>2,584,198</u> |
| Total net position | <u>6,869,371</u> | <u>6,632,200</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 7,920,789</u> | <u>\$ 7,652,381</u> |

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana
Comparative Statement of Revenues, Expenses and Changes in Net Position
Water and Sewer Enterprise Fund
Years ended September 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| OPERATING REVENUES | | |
| Charges for water service | \$ 435,597 | \$ 440,864 |
| Charges for sewer service | 405,742 | 415,209 |
| Delinquent charges | 19,093 | 18,557 |
| Meter installation, reconnects, permits, etc. | 22,392 | 24,283 |
| Garbage collection fees | <u>13,829</u> | <u>13,820</u> |
| TOTAL OPERATING REVENUES | <u>896,653</u> | <u>912,733</u> |
| OPERATING EXPENSES | | |
| <i>Direct operating costs</i> | | |
| Cost of water purchases | 271,909 | 266,463 |
| Sewerage treatment fees | 245,077 | 240,939 |
| Repair and maintenance – water system | 130,192 | 85,360 |
| Repair and maintenance – sewerage system | 250,532 | 180,199 |
| <i>Personal services</i> | | |
| Clerical salaries | 57,402 | 55,195 |
| Other salaries | 59,975 | 59,546 |
| Board meetings | 14,017 | 14,823 |
| Retirement contributions | 14,852 | 14,771 |
| Health insurance | 34,610 | 29,840 |
| <i>Operating services</i> | | |
| Insurance | 25,009 | 22,543 |
| Accounting fees | 14,074 | 19,075 |
| Engineering fees | 24,892 | 1,200 |
| Computer consulting | 6,332 | 5,616 |
| Amortized tower maintenance | - | 24,218 |
| Utilities and telephone | 29,147 | 27,585 |
| Vehicle expense | 6,137 | 7,164 |
| Legal fees | 40 | 827 |
| <i>Materials and supplies</i> | | |
| Office expense | 4,337 | 1,362 |
| Postage | 6,812 | 6,807 |
| Advertising | 1,073 | 953 |
| Miscellaneous | 3,859 | 2,638 |
| <i>Depreciation</i> | | |
| Water System | 124,725 | 128,040 |
| Sewer System | <u>145,436</u> | <u>131,826</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 1,470,439</u> | <u>\$ 1,326,990</u> |

| | <u>2013</u> | <u>2012</u> |
|---------------------------------------|---------------------|---------------------|
| INCOME (LOSS) FROM OPERATIONS | <u>\$ (573,786)</u> | <u>\$ (414,257)</u> |
| NON-OPERATING REVENUE (EXPENSES) | | |
| Ad valorem taxes | | |
| Operations and maintenance | 783,360 | 783,282 |
| Debt service | 108,799 | 120,501 |
| Interest income | 5,458 | 14,294 |
| Pairsh Grant | - | 35,000 |
| Loss on disposition of fixed assets | - | (1,200) |
| Interest expense | <u>(27,755)</u> | <u>(34,752)</u> |
| TOTAL NON-OPERATING REVENUE | <u>869,862</u> | <u>917,125</u> |
| INCOME OR (LOSS) BEFORE CONTRIBUTIONS | 296,076 | 502,868 |
| Contributions, intergovernmental | | |
| Berwick-Bayou Vista Joint Water Works | <u>(58,905)</u> | <u>(30,918)</u> |
| CHANGE IN NET POSITION | 237,171 | 471,950 |
| NET POSITION : | | |
| NET POSITION - BEGINNING OF YEAR | <u>6,632,200</u> | <u>6,160,250</u> |
| NET POSITION - END OF YEAR | <u>\$ 6,869,371</u> | <u>\$ 6,632,200</u> |

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana
 Comparative Statement of Cash Flows - Water and Sewer Enterprise Fund
 Years Ended September 30, 2013 and 2012

Increase (Decrease) in Cash and Cash Equivalents

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Received from customers | \$ 902,279 | \$ 921,199 |
| Paid to suppliers and employees | <u>(1,081,941)</u> | <u>(1,261,145)</u> |
| Net cash provided (used) by operating activities | <u>(179,662)</u> | <u>(339,946)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Ad valorem taxes | 892,159 | 903,783 |
| Cash from meter deposits | 4,082 | 9,311 |
| Advanced from other government units | (1,170) | (13,360) |
| Parish Grant | - | 35,000 |
| Payment to Berwick-Bayou Vista Joint Water Works | <u>(58,905)</u> | <u>(221,201)</u> |
| Net cash provided by noncapital financing activities | <u>836,166</u> | <u>713,533</u> |
| CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal paid on bond | (70,000) | (285,000) |
| Interest paid on bond | (13,748) | (34,752) |
| Acquisition and construction of capital assets | <u>(374,837)</u> | <u>(322,861)</u> |
| Net cash (used) by capital and related activities | <u>(458,585)</u> | <u>(642,613)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale (Purchases) of investment securities | (4,916) | 209,407 |
| Interest income | <u>5,458</u> | <u>14,294</u> |
| Net cash provided by investing activities | <u>542</u> | <u>223,701</u> |
| Net increase (decrease) in cash and cash equivalents | 198,461 | (45,325) |
| Cash and cash equivalents at beginning of period | <u>499,737</u> | <u>545,062</u> |
| Cash and cash equivalents at end of period | <u>\$ 698,198</u> | <u>\$ 499,737</u> |

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating income (loss) | \$ (573,786) | \$ (414,257) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 270,161 | 259,866 |
| Amortization | - | 24,455 |
| (Increase) decrease in accounts receivable | 5,626 | 8,466 |
| (Increase) decrease in inventory | (804) | 30,845 |
| Increase (decrease) in payable and accrued expenses | 98,331 | (205,793) |
| (Increase) decrease in prepaid expenses | 3,542 | 666 |
| (Increase) decrease in investment in Berwick-Bayou Vista Joint Waterworks | <u>17,268</u> | <u>(44,194)</u> |
| Net cash provided by (used in) operating activities | <u>\$ (179,662)</u> | <u>\$ (339,946)</u> |

Cash and cash equivalents are presented on the Comparative Statement of Net Position as follows:

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 607,521 | \$ 437,979 |
| Restricted Assets: | | |
| General obligation bond debt service cash | 48,280 | 23,665 |
| Customer meter deposits cash | <u>42,397</u> | <u>38,093</u> |
| Total cash and cash equivalents | <u>\$ 698,198</u> | <u>\$ 499,737</u> |

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA
Notes to Financial Statements
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On October 27, 2000, the St. Mary parish Council adopted Ordinance No. 1474 which created "St. Mary Parish Water and Sewer Commission No. 2, State of Louisiana (the Commission) which is a political subdivision of the Parish of St. Mary and the state of Louisiana, with authority to plan, finance, construct, acquire, improve, operate and maintain water, sewer and sewerage disposal improvements within its designated boundaries. The Commission was created, by combining the former Waterworks District No. 2 and Sewerage District No. 2.

The accounting and reporting practices of the Commission conform to 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 following is a summary of the significant accounting policies used in preparing the financial statements:

A. Reporting Entity

In evaluating how to define the governmental unit, for financial reporting purposes, consideration has been given to the following criteria as set forth in GAAP:

- a. Financial benefit or burden
- b. Appointment of a voting majority
- c. Imposition of will
- d. Fiscally dependent

Based upon the above criteria, the Commission is a component unit and integral part of the St. Mary parish Council (the primary government).

These financial statements include only the operations of the Commission.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

The financial statements of the Commission are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Commission has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

Enterprise Fund

An Enterprise Fund is used to account for the Commission's operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Revenues

The following is a summary of the Commission's recognition policies for its major revenue sources:

Charges for water service come from metered sales to residential, industrial and municipal customers. Charges for sewerage service are based upon gallons of water used by customers. Revenues for water and sewer services are recognized in the month when the water is used by the customers.

Ad valorem taxes (which is based upon homesteads in the Parish) are recorded in the year the taxes are assessed and collected.

Investment earnings are recorded when earned.

Substantially all other revenues are recorded when they are earned by the Commission.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Deferred Outflows and Inflows of Resources

In 2013, the Commission implemented the provision of GASBS 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASBS 65, "Items Previously Reported as Assets and Liabilities". As required by these standards the Commission is now reporting net position instead of net assets. These statements also require certain financial statement items to be reported as deferred inflows and deferred outflows, that were previously reported as assets and liabilities. The Commission has evaluated its transactions with the requirements of these pronouncements, related to deferred items, and determined that there are no transactions that presently meet the requirements of these statements. Therefore as of September 30, 2013, the Commission is not presenting any Deferred Outflows or Inflows in its financial statements.

E. Expenses

Expenses are recognized under the accrual basis of accounting where liabilities are recorded at the time expenses are incurred.

F. Budgets and Budgetary Accounting

The St. Mary Parish Water and Sewer Commission No. 2 follows these procedures in establishing administrative budgetary accounting:

- a. An administrative budget is employed as a management planning and control device during the year for the Proprietary Fund. The forecasted budget is prepared on a basis consistent with GAAP.
- b. These financial statements do not present budget and actual comparisons of the administrative budget because it is not a legally adopted budget.

G. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include bank deposits and/or certificates of deposit with original maturates of less than three months.

Investments

The Commission invests in bank certificates of deposit (CDs) and external investment pools. The CDs (nonparticipating contracts) are recorded at cost, unless there is significant impairment of the credit standing of the issuer. The pooled investments are recorded at amortized costs which approximate fair market value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Receivables

Accounts receivable consist of amounts due from customers for metered water and sewerage usage. The financial statements do not contain an allowance for uncollectible accounts receivable which is a generally accepted accounting principle. Uncollectible receivables are charged off at the time information becomes available which would indicate the uncollectibility of the particular receivable. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

I. Restricted Assets

Amounts received as utility deposits are held in separate accounts. These funds are classified as restricted assets on the balance sheet because their use is limited.

In accordance with the 2002 general obligation bond issue requirements, certain funds are accumulated in a sinking fund account that is restricted for the purpose of payment of the bond principal and interest.

J. Joint Venture

The Commission and the Town of Berwick jointly constructed a treatment plant to provide a water supply to each entity. Each participant has a 50% interest in the venture. The cost of constructing the plant was borne by the two communities, and they have appointed a board to operate and maintain the plant. The Berwick-Bayou Vista Joint Waterworks Commission was created to maintain, operate and administer the joint water treatment plant. The Commission has included its share of the joint venture cost and current operations in these financial statements using the equity method of accounting. See Note 9 for additional disclosure.

K. Inventory and Prepaid Items

Materials and supplies inventory is valued at cost. Cost is determined primarily by the first-in, first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

L. Property, Plant, and Equipment

Fixed assets including water plant, water and sewer lines, water towers, pump stations and all other water distribution and sewerage disposal assets are capitalized in the proprietary fund. Property, plant and equipment owned by the proprietary fund is recorded at cost or, if contributed property, at their market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment in the proprietary fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

| | |
|------------------------------|-------------|
| Water Plant | 20-40 years |
| Water distribution system | 10-33 years |
| Sewerage distribution system | 10-45 years |
| Buildings | 10-40 years |
| Furniture and equipment | 3-25 years |
| Automobiles and trucks | 6 years |

M. Accumulated Vacation, Compensatory Time and Sick Leave

Accumulated vacation, compensatory time and sick leave are recorded as an expense of the period in which paid. At September 30, 2013 and 2012 unrecorded liabilities for the above are immaterial.

N. Equity Classifications

Equity is classified as net position and displayed in three components – net invested in capital assets, restricted net position; and unrestricted net position. These classifications are defined as follows:

- Net Invested in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding debt that is attributable to the acquisition, construction, or improvement of these assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds are not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net position component as the proceeds.
- Restricted Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – The component of net position consist of net position that do not meet definition of “restricted” or “net invested in capital assets.”

NOTE 2 - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for all real property, merchandise and movable property located in the Commission's boundaries. Assessed values are established by the St. Mary Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana Law. Taxes are due and payable December 31 and are delinquent after that date with interest being charged. Lien date for all delinquent properties is April 1. The St. Mary Parish Sheriff bills and collects property taxes for the Commission using the assessed values determined by the tax assessor of St. Mary Parish. Commission property tax revenues are budgeted in the year billed.

The Commission authorized the following millages for the purpose of operating and maintaining the water and sewer system for the constituents of the Commission. The millage was dedicated as follows:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|--------------|--------------|
| Operations and maintenance | 9.00 | 9.75 |
| Debt service | <u>1.25</u> | <u>1.50</u> |
| | <u>10.25</u> | <u>11.25</u> |

Based upon the taxable assessed value of the property within the District each mil of assessment generated approximately \$87,000 and \$80,000 of tax revenues in 2013 and 2012 respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Commission does not have a formal investment policy related to interest rate risk (the risk of an investment decreasing in value due to increasing interest rates).

In addition, the Commission does not have a formal investment policy related to credit risk (including concentrations of credit). However the Commission does follow state law as to limitations on types of deposits and investments as described below.

The Commission does not invest in any investments subject to foreign currency risk.

Cash and cash equivalents

Under state law the Commission may deposit its funds with certain state and federally chartered financial institutions. These deposits are required to be insured or collateralized by the financial institutions.

At year end 2013 and 2012 the carrying amounts of the Commission's cash were \$698,198 and \$499,737 respectively and the bank balances were \$719,083 and \$500,740 respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

In 2012 the entire balance was covered by FDIC insurance. In 2013, \$368,708 was covered by FDIC and \$350,375 was secured by collateralized securities held by the financial institution not in the Commission's name.

Investments

Under state law the Commission may invest in certain federal or federally guaranteed securities, certain bank time certificates of deposit, mutual or trust funds, and in the Louisiana Asset Management Pool (LAMP). LAMP is an external investment pool operated to allow local government to pool their investment funds. LAMP is not registered with the SEC as an investment company. LAMP is subject to regulatory oversight of the Louisiana State Treasurer and the LAMP board of directors. Share values for the pool are valued at fair value based on quoted market rates determined on a weekly basis.

The following is a summary of investments held by the Commission at September 30,

| | <u>2013</u> | | <u>2012</u> | |
|---|--------------------|--|--------------------|--|
| | <u>Amount</u> | <u>Percentage of Total Investments</u> | <u>Amount</u> | <u>Percentage of Total Investments</u> |
| LAMP (rated AAAM by Standard & Poors) | \$646,152 | 45% | \$645,654 | 45% |
| Money Market Accounts | 237,120 | 16% | 237,097 | 16% |
| Bank certificates of deposit: | | | | |
| Fully FDIC insured | 131,292 | 9% | 456,757 | 32% |
| Collateralized with securities held by financial institution's agent not in the Commission's name | <u>430,640</u> | <u>30%</u> | <u>100,780</u> | <u>7%</u> |
| | <u>\$1,445,204</u> | <u>100%</u> | <u>\$1,440,288</u> | <u>100%</u> |

As of September 30, 2013, all investments had maturity dates of one through five years except LAMP and the money market. The money market accounts mature in less than one year. LAMP determines its maturities using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 60 days, and consists of no securities with a maturity in excess of 397 days. The WAM for LAMP's total investments is 56 days as of September 30, 2013.

NOTE 4 - DUE TO/FROM OTHER GOVERNMENTAL UNITS

The following is a detail of due from/to other governments at September 30,

| | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|
| Due to other governments: | | |
| Due to Berwick-Bayou Vista Joint Waterworks (water purchases) | \$25,009 | \$35,400 |
| Due to Joint Sewer Commission Wards 5 & 8 (Sewerage treatment fees) | 20,515 | 18,291 |
| Due to St. Mary Parish Council (Intergovernmental service-garbage/mosquito fees) | <u>81,664</u> | <u>74,667</u> |
| | <u>\$127,188</u> | <u>\$128,358</u> |

NOTE 5 - PENSION PLAN

All employees participate in the Federal Social Security System. The Commission is required to remit an amount to the Social Security Administration equal to the employee's contribution. The Commission does not guarantee any of the benefits granted by the Social Security System.

In addition, the Commission contributes 5% of the gross wages of each qualified employee to their individual SEP/IRA Retirement Plan account on a monthly basis.

The Commission's contributions to the above plans was approximately \$14,000 in each of the years ended September 30, 2013 and 2012.

NOTE 6 - FIXED ASSETS

CAPITAL ASSETS

Capital asset and depreciation activity for the years ended September 30, 2013 and 2012 is as follows:

| | <u>Balance</u> <u>9/30/2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>9/30/2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>9/30/2013</u> |
|---|------------------------------------|-------------------|-------------------|------------------------------------|-------------------|------------------|------------------------------------|
| Capital assets not being depreciated: | | | | | | | |
| Land, right of ways | \$ 51,709 | | | \$ 51,709 | | | \$ 51,709 |
| Construction in process | 335,476 | \$ 189,784 | 495,286 | 29,974 | \$ 366,536 | \$ 10,482 | 386,028 |
| Total capital assets not being depreciated | <u>387,185</u> | <u>189,784</u> | <u>495,286</u> | <u>81,683</u> | <u>366,536</u> | <u>10,482</u> | <u>437,737</u> |
| Other capital assets: | | | | | | | |
| Buildings | \$ 48,533 | | | \$ 48,533 | | | \$ 48,533 |
| Distribution system - sewerage | 4,455,237 | 566,573 | 456 | 5,021,354 | 2,975 | | 5,024,329 |
| Distribution system - water | 3,916,610 | 57,643 | 7,300 | 3,966,953 | 15,808 | | 3,982,761 |
| Water Plant | 838,485 | | | 838,485 | | | 838,485 |
| Furniture & Equipment | 113,787 | 4,147 | 6,868 | 111,066 | | | 111,066 |
| Vehicles | 27,911 | - | - | 27,911 | - | - | 27,911 |
| Total other capital assets at historical cost | <u>9,400,563</u> | <u>628,363</u> | <u>14,624</u> | <u>10,014,302</u> | <u>18,783</u> | <u>-</u> | <u>10,033,085</u> |
| Less accumulated depreciation for: | | | | | | | |
| Buildings | \$ 45,656 | 273 | | \$ 45,929 | 274 | | \$ 46,203 |
| Distribution system - sewerage | 2,229,210 | 129,131 | 456 | 2,357,885 | 142,740 | | 2,500,625 |
| Distribution system - water | 1,950,080 | 122,751 | 6,184 | 2,066,647 | 119,941 | | 2,186,588 |
| Water Plant | 838,485 | | | 838,485 | | | 838,485 |
| Furniture & Equipment | 95,032 | 5,262 | 6,784 | 93,510 | 4,757 | | 98,267 |
| Vehicles | 20,564 | 2,449 | - | 23,013 | 2,449 | - | 25,462 |
| Total accumulated depreciation | <u>5,179,027</u> | <u>259,866</u> | <u>13,424</u> | <u>5,425,469</u> | <u>270,161</u> | <u>-</u> | <u>5,695,630</u> |
| Other capital assets, net | <u>4,221,536</u> | <u>368,497</u> | <u>1,200</u> | <u>4,588,833</u> | <u>(251,378)</u> | <u>-</u> | <u>4,337,455</u> |
| Total capital assets, net | <u>\$ 4,608,721</u> | <u>\$ 558,281</u> | <u>\$ 496,486</u> | <u>\$ 4,670,516</u> | <u>\$ 115,158</u> | <u>\$ 10,482</u> | <u>\$ 4,775,192</u> |

Depreciation expense for the years ended September 30, 2013 and 2012 was approximately \$270,000 and \$260,000, respectively.

NOTE 7 - LONG TERM DEBT

The following is a summary of long-term debt activity:

| | |
|-------------------------------|-------------------|
| Balance at September 30, 2011 | \$960,000 |
| Repaid during 2012 | <u>285,000</u> |
| Balance at September 30, 2012 | 675,000 |
| Repaid during 2013 | <u>70,000</u> |
| Balance at September 30, 2013 | <u>\$ 605,000</u> |

A detail of long-term debt is as follows:

\$1,400,000 of General Obligation Bonds, Series 2002 were issued in 2002 for the purpose of constructing and acquiring improvements to the waterworks and sewer plant and systems. The bonds currently bear interest at rates ranging from 1.25 percent to 3.0 percent and are payable through the year 2020. The bonds are being retired from the operating revenues and the portion of ad valorem taxes dedicated to debt service

\$605,000

Less: current maturities
Long-term debt

(75,000)
\$ 530,000

Debt Maturity

Debt Service requirements at September 30, 2013, are as follows:

| <u>Year Ended</u> <u>September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|------------------|-----------------|------------------|
| 2014 | \$75,000 | \$13,244 | \$88,244 |
| 2015 | 80,000 | 12,075 | 92,075 |
| 2016 | 80,000 | 10,575 | 90,575 |
| 2017 | 85,000 | 8,818 | 93,818 |
| 2018 | 90,000 | 6,738 | 96,738 |
| 2019-2020 | <u>195,000</u> | <u>5,807</u> | <u>200,807</u> |
| Total | <u>\$605,000</u> | <u>\$57,257</u> | <u>\$662,257</u> |

The Commission is subject to certain affirmative and negative covenants pursuant to its bond agreement. These covenants include but are not limited to:

1. Establishment and funding of certain debt service funds
2. Preparation and independent audit of financial statements
3. Restrictions on sale of property securing payments

NOTE 7 - LONG TERM DEBT (continued)

During 2012 the District paid in advance \$220,000 of debt which would have been due in 2021 and 2022. In order to save the District future interest costs, the District also renegotiated the existing interest rate, on the remaining debt, which ranged from 5.0 percent to 6.0 percent down to rates ranging from .1 percent to 3.0 percent. The renegotiation of interest rates results in a reduction of future interest payments of approximately \$87,000. The economic gain (the difference in the present value of the new debt payments compared to the present value of the old debt payments) is approximately \$81,000.

NOTE 8 - RELATED PARTY - INVESTMENT IN BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION

All of the water sold by the Commission is obtained from Berwick-Bayou Vista Joint Waterworks Commission (Joint Waterworks Commission). The Joint Waterworks Commission was created and established with the sole responsibility and duty to maintain, operate, and administer the joint water treatment plant for the Commission and Town of Berwick (Berwick). The water treatment plant was constructed and is owned by the Commission and Berwick. The Commission and Berwick appoint the members of the board for the Joint Waterworks Commission. The Commission's portion of the cost of the plant is carried in property, plant and equipment. Amounts reported as an investment in other assets represents the Commission's equity in the joint venture. Separate financial statements for the Joint Waterworks Commission are available from the Commission or the Joint Waterworks Commission. The following is a summary of selected financial information of the Joint Waterworks Commission:

| | Year Ended <u>9/30/13</u> | Year Ended <u>9/30/12</u> |
|------------------------|------------------------------|------------------------------|
| Total assets | \$1,588,963 | \$1,668,674 |
| Total liabilities | 50,524 | 95,696 |
| Total net position | 1,538,439 | 1,572,978 |
| Total revenues | 668,780 | 1,122,135 |
| Total expenditures | 703,319 | 630,381 |
| Change in net position | (34,539) | 491,754 |

NOTE 8 - RELATED PARTY - INVESTMENT IN BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION (continued)

The Commission purchased the following quantities and amounts of water from the Joint Waterworks Commission:

| | Year Ended <u>9/30/13</u> | Year Ended <u>9/30/12</u> |
|----------------------------|------------------------------|------------------------------|
| Gallons of water purchased | 206,028,000 | 220,972,000 |
| Cost of water purchases | \$271,909 | \$266,463 |

NOTE 9 - COMPENSATION OF BOARD MEMBERS

Board Members received the following per diems for the years ended September 30, 2013 and 2012:

| | <u>2013</u> | | <u>2012</u> | |
|--|------------------------------|-----------------|------------------------------|-----------------|
| | <u>Meetings Attended</u> | <u>Amount</u> | <u>Meetings Attended</u> | <u>Amount</u> |
| Herbert Adams, President (2013) Sec/Tres(2012) | 7 | \$2,480 | 9 | \$2,357 |
| Galen Guillot, Commissioner | 9 | 1,880 | | |
| Albert Hebert, Commissioner | 12 | 2,480 | 12 | 2,357 |
| Tony Hensgens, Commissioner (Sec/Tres) 2013 | 7 | 2,480 | 9 | 2,357 |
| Erving Richard, Commissioner | | -- | 3 | 1,105 |
| Stan Robison, Vice President | 10 | 2,480 | 11 | 2,357 |
| Don Ryan, President (2012) | 3 | <u>777</u> | 12 | <u>3,060</u> |
| | | <u>\$12,577</u> | | <u>\$13,593</u> |
| Berwick-Bayou Vista Joint Waterworks Commission | | | | |
| Erving Richard, Commissioner | | -- | 3 | \$ 150 |
| Tony Hensgens, Commissioner | 5 | \$ 720 | 7 | 720 |
| Albert Hebert | 11 | <u>720</u> | 6 | <u>360</u> |
| | | <u>\$1,440</u> | | <u>\$1,230</u> |

NOTE 10 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements of claims have not exceeded coverage in the past three years. See the insurance schedule included in the supplemental information section for risks covered by commercial insurance.

NOTE 12 – CONCENTRATIONS

The District received approximately fifty and forty-nine percent of its revenues from ad valorem taxes in 2013 and 2012.

OTHER SUPPLEMENTAL SCHEDULES

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

**Schedule of Gallons of Water Purchased and Sold
and Number of Water Customers**

For the year ended September 30, 2013 and 2012

(Unaudited)

| | <u>9-30-13</u> | <u>9-30-12</u> |
|----------------------------------|----------------|----------------|
| Gallons purchased for the period | 206,028,000 | 220,972,000 |
| Gallons sold for the period | 146,536,510 | 148,407,310 |
| Number of users at year end | 1,908 | 1,914 |
| Gallons not sold for the period | 59,491,490 | 72,564,690 |
| Cost per 1000 gallons purchased | \$1.32 | \$1.21 |
| Cost of gallons not sold | \$78,529 | \$87,803 |
| Percentage of gallons not sold | 29% | 33% |

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Water and Sewer Rates
 September 30, 2013
 (Unaudited)

The board of commissioners approved a water and sewer rate increase on April 14, 2008 effective May 1, 2008. The new rate is as follows:

| <u>Water</u> | <u>Sewer</u> |
|---|--|
| \$6.00 flat fee(\$7.15 out of district) | \$6.00 flat fee(\$7.15 out of district) |
| \$2.00 (\$3.00 out of district) per 1,000 gallons of water used | \$2.00 (\$3.00 out of district) per 1000 gallons of water used |

For the period January 2007 to April 30, 2008, the water and sewer rates were as follows:

| <u>Water</u> | <u>Sewer</u> |
|--|--|
| \$6.00 flat fee | \$6.00 flat fee |
| \$1.75 per 1,000 gallons of water used | \$1.75 per 1,000 gallons of water used |

For the period October 1995 to December 31, 2006, the water and sewer rates were as follows:

| <u>Water</u> | <u>Sewer</u> |
|---------------------------------------|--|
| First 3,000 gallons - \$6.00 | \$7.00 flat fee |
| Over 3,000 gallons - \$1.90 per 1,000 | \$1.15 per 1,000 gallons of water used |

For the period October 1992 to September 30, 1995, the water and sewer rates were as follows:

| <u>Water</u> | <u>Sewer</u> |
|------------------------------------|--|
| First 3,000 gallons - \$4.75 | \$6.00 flat fee |
| Over 3,000 gallons - \$.17 per 100 | \$1.00 per 1,000 gallons of water used |

For period August 1988 to September 30, 1992, the water rates were as follows:

| <u>Water</u> |
|------------------------------------|
| First 3,000 gallons - \$4.00 |
| Over 3,000 gallons - \$.14 per 100 |

Prior to August, 1988 the water rates were as follows:

- First 3,000 gallons - \$3.35
- Next 3,000 gallons - \$1.05 per 1,000
- Next 3,000 gallons - \$1.00 per 1,000
- Next 3,000 gallons - \$.95 per 1,000
- Next 3,000 gallons - \$.90 per 1,000
- Next 3,000 gallons - \$.85 per 1,000
- Next 3,000 gallons - \$.80 per 1,000
- Next 3,000 gallons - \$.70 per 1,000

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

Insurance
September 30, 2013
(Unaudited)

| <u>Insurer</u> | <u>Amount of Policy</u> | <u>Risk Covered</u> | <u>Expiration Date</u> |
|---|-----------------------------|--|----------------------------|
| La. Citizens Property Insurance Company | \$100,000 | Building (600 Saturn Rd) | 4/23/14 |
| | \$25,000 | Office building and contents (1333 Belleview) | |
| | \$48,000 | Warehouse and contents | 4/23/14 |
| Louisiana Workers Compensation Corp | \$1,000,000 | Worker's Compensation | 4/26/14 |
| St. Paul Insurance Company | \$2,000,000 | Comprehensive general liability | 4/23/14 |
| | \$1,000,000 | Auto liability | 4/23/14 |
| | \$1,000,000 | Public Management Liability | 4/23/14 |

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



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

Board of Commissioners
St. Mary Parish Water and Sewer
Commission No. 2
Bayou Vista, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the major fund of the St. Mary Parish Water and Sewer Commission No. 2 (Commission), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial

statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-1, to be a material weakness.

Compliance and Other Matters

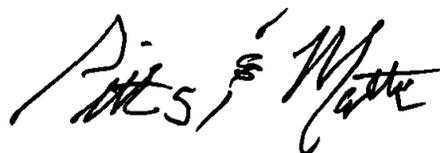
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

St. Mary Parish Water and Sewer Commission No. 2's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



CERTIFIED PUBLIC ACCOUNTANTS

Morgan City, Louisiana
March 24, 2014

**St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana**

**Schedule of Findings, Questioned Costs and Federal Awards
For the Year Ended September 30, 2013**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the St. Mary Parish Water and Sewer Commission No. 2.
2. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control over Financial Reporting

There was one significant deficiency in internal control over financial reporting noted during the audit of the financial statements. This condition is reported as a material weakness.

Compliance and Other Matters

There were no instances of noncompliance nor other matters noted during the audit of the financial statements that are required to be reported.

3. Federal Awards

This section is not applicable for the year ended September 30, 2013.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

ITEM 2013-1 - SEGREGATION OF DUTIES

Auditors' Comments

Condition: While performing audit tests and inquiring about internal control, we discovered that there is little segregation of duties in the area of billings and collections.

Criteria: Ordinarily, the accounting duties performed in an organization are segregated to reduce possible errors or irregularities that could occur in the accounting records and not be detected.

Effect: Lack of segregation of duties results in a material weakness in internal accounting controls.

Cause: The Commission has limited personnel.

Management's Comments: We will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions.

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

This section is not applicable for the year ended September 30, 2013.

SUMMARY OF PRIOR YEAR FINDINGS AND RELATED CORRECTIVE ACTION
PREPARED BY ST. MARY PARISH
WATER AND SEWER COMMISSION NO. 2

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND
OTHER MATTERS MATERIAL TO THE FINANCIAL STATEMENTS

Internal Control

Material Weakness

Item 2012-1 Segregation of Duties

Condition: While performing audit tests and inquiring about internal control, our auditors discovered that there is very little segregation of duties within the Commission's accounting function.

Corrective Action: The Board will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions.

INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable to prior year.

ST. MARY PARISH WATER & SEWER COMMISSION NO. 2
P.O. BOX 635
PATTERSON, LA. 70392-0635
985-395-2747

March 24, 2014

Mr. Daryl Purpera, CPA, CFE
Legislative Auditor, State of Louisiana
P.O. Box 94397
Baton Rouge, La. 70804-9397

Dear Mr. Purpera:

The St. Mary Parish Water & Sewer Commission No. 2 respectfully submits the following corrective action plan for our year ended September 30, 2013:

Person Responsible: Herbert Adams, President
St. Mary Parish Water & Sewer Commission No. 2

Time for completion: September, 2014

Item 2013-1 Segregation of Duties

Finding:

Our auditors noted that there is little segregation of duties in the area of billings and collections.

Corrective Active:

We will constantly monitor the activity of the employees in an effort to minimize any errors or omissions.

If you have any questions concerning this corrective action plan, please contact me.

Sincerely,



Herbert Adams, President
St. Mary Parish
WATER & SEWER COMMISSION NO. 2