

**PECAN ISLAND WATERWORKS
DISTRICT NO. 3 OF VERMILION PARISH,
LOUISIANA**

Financial Report

Years Ended December 31, 2012 (Compiled) and 2011 (Audited)

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INDEPENDENT ACCOUNTANT’S COMPILATION REPORT

Board of Commissioners
 Pecan Island Waterworks District No. 3
 of Vermilion Parish, Louisiana
 Kaplan, Louisiana

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We have compiled the accompanying financial statements of the business-type activities of the Pecan Island Waterworks District No. 3 of Vermilion Parish, Louisiana, component unit of Vermilion Parish Police Jury, (the District) as of December 31, 2012, and the basic financial statements as listed in the table of contents. We have not audited or reviewed the 2012 financial statements, and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The financial statements for the year ended December 31, 2011, were audited by us and we expressed an unqualified opinion on them in our report dated May 3, 2012, but we have not performed any auditing procedures since that date.

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The supplementary information on pages 13 & 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

Dannall, Sikes, Gaudes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana

May 30, 2013

BASIC FINANCIAL STATEMENTS

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Statements of Net Assets
December 31, 2012 and 2011

	Compiled 2012	Audited 2011
ASSETS		
Current assets:		
Cash	\$ 123,068	\$ 102,979
Accounts receivable	5,149	6,427
Prepaid insurance	<u>4,745</u>	<u>4,745</u>
Total current assets	<u>132,962</u>	<u>114,151</u>
Restricted assets:		
Cash - customer deposits	<u>15,540</u>	<u>15,150</u>
Capital assets:		
Buildings and improvements	178,891	178,891
Equipment	16,518	16,518
Improvements other than buildings	<u>2,007,249</u>	<u>2,007,249</u>
	2,202,658	2,202,658
Less: Accumulated depreciation	<u>(562,834)</u>	<u>(475,905)</u>
Total capital assets, net of accumulated depreciation	<u>1,639,824</u>	<u>1,726,753</u>
Total assets	<u>\$ 1,788,326</u>	<u>\$ 1,856,054</u>
LIABILITIES		
Current liabilities:		
Contracts payable	\$ 1,419	\$ 1,419
Accrued payroll and payroll taxes	1,104	1,170
Accrued expenses and sales taxes	<u>724</u>	<u>-</u>
Total current liabilities	3,247	2,589
Current liabilities payable from restricted assets -		
Customer's meter deposits	<u>15,325</u>	<u>15,025</u>
Total liabilities	<u>18,572</u>	<u>17,614</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,639,824	1,726,753
Unrestricted	<u>129,930</u>	<u>111,687</u>
Total net assets	<u>1,769,754</u>	<u>1,838,440</u>
Total liabilities and net assets	<u>\$ 1,788,326</u>	<u>\$ 1,856,054</u>

The accompanying notes are an integral part of this statement.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	Compiled 2012	Audited 2011
	<u> </u>	<u> </u>
OPERATING REVENUE		
Water sales	\$ 123,921	\$ 108,516
Delinquent charges	592	466
Meter fees	<u>1,579</u>	<u>1,529</u>
Total operating revenues	<u>126,092</u>	<u>110,511</u>
OPERATING EXPENSE		
Chemicals	20,439	20,039
Depreciation	86,929	67,974
Dues and subscriptions	1,244	1,373
Freight	377	1,536
Insurance	14,686	8,862
License and permits	385	742
Meter readings and installations	-	9,780
Miscellaneous	4,641	4,003
Office supplies	4,109	5,437
Professional fees	7,294	12,952
Repairs and maintenance	12,134	20,287
Salaries and payroll taxes	34,254	34,331
Telephone and utilities	6,335	6,359
Tools and supplies	529	2,821
Vehicle	<u>2,200</u>	<u>4,317</u>
Total operating expenses	<u>195,556</u>	<u>200,813</u>
Operating loss	(69,464)	(90,302)
NONOPERATING INCOME (EXPENSE)		
Capital grant income	-	589,563
Grant expense	-	(15,896)
Miscellaneous income	-	1,224
Interest income	<u>778</u>	<u>721</u>
	<u>778</u>	<u>575,612</u>
Increase (decrease) in net assets	(68,686)	485,310
NET ASSETS		
Balance, beginning of year	<u>1,838,440</u>	<u>1,353,130</u>
Balance, end of year	<u>\$ 1,769,754</u>	<u>\$ 1,838,440</u>

The accompanying notes are an integral part of this statement.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	Compiled 2012	Audited 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 127,370	\$ 114,596
Payments to vendors for goods and services	(73,649)	(103,480)
Payments to employees for services	(34,320)	(33,640)
Net cash provided (used) by operating activities	<u>19,401</u>	<u>(22,524)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Net cash collected for meter deposits	<u>300</u>	<u>2,250</u>
Net cash provided by noncapital and related financing activities	<u>300</u>	<u>2,250</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from grants for capital purposes	-	574,891
Purchase of capital assets	-	(532,135)
Net cash provided by capital and related financing activities	<u>-</u>	<u>42,756</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>778</u>	<u>721</u>
Net cash provided by investing activities	<u>778</u>	<u>721</u>
Net increase in cash and cash equivalents	20,479	23,203
Cash and restricted cash - beginning	<u>118,129</u>	<u>94,926</u>
Cash and restricted cash - ending	<u>\$ 138,608</u>	<u>\$ 118,129</u>
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Operating loss	\$ (69,464)	\$ (90,302)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	86,929	67,974
(Increase) decrease in accounts receivable	1,278	4,085
(Increase) decrease in prepaid insurance	-	(4,745)
Increase (decrease) in accounts payable	-	273
Increase (decrease) in accrued expenses	724	(500)
Increase (decrease) in payroll liabilities	(66)	691
Total adjustments	<u>88,865</u>	<u>67,778</u>
Net cash provided (used) by operating activities	<u>\$ 19,401</u>	<u>\$ (22,524)</u>
Reconciliation of total cash:		
Current assets - cash	\$ 123,068	\$ 102,979
Restricted assets - cash	<u>15,540</u>	<u>15,150</u>
	<u>\$ 138,608</u>	<u>\$ 118,129</u>

The accompanying notes are an integral part of this statement.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to an ordinance adopted by the Vermilion Parish Police Jury, the Pecan Island Waterworks District No. 3 of Vermilion Parish, Louisiana (the District) was created to provide water services to the customers of the former Pecan Island Water System of the Vermilion Parish Waterworks District No. 1 of the Parish of Vermilion, State of Louisiana. The District is an integral part of the Vermilion Parish Police Jury for financial reporting purposes. The financial statements of the District 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 accounting policies of the District are described below.

Financial Reporting Entity

For financial reporting purposes in conformity with Governmental Accounting Standards Board Statement No. 14, the District is a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the governmental body with oversight responsibility. The accompanying financial statements present information only as to the transactions of the District and are not intended to present fairly the financial position and results of operations of the Vermilion Parish Police Jury. As a component unit, the accompanying financial statements may be included within the reporting of the primary government, either blended into those financial statements or separately reported as a discrete component unit.

Fund Accounting

The accounts of the District 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 District 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 accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when 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 District is water usage fees. The operating cost of the proprietary fund is all costs associated with the operation of the water distribution system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 District'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. The District has not adopted any Financial Accounting Standards Board Statements or Interpretations, Accounting Principles Board Opinions or Accounting Research Bulletins of the Committee on Accounting Procedure issued after November 30, 1989.

Restricted Resources

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

Capital Assets

All capital assets of the proprietary fund purchased or acquired with an original cost of \$500 or more 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 – 40 years
Improvements other than buildings	25 years
Equipment	5 years

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Depreciation expense for the years ended December 31, 2012 and 2011 were \$86,929 and \$67,974, respectively.

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.

Bad Debts

The District charges any uncollectible accounts directly to current operations. All accounts at December 31, 2012 and 2011 are considered to be collectible.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recorded as expenditures of the period in which paid. Any liability the District might have in this regard as of December 31, 2012 and 2011 is considered immaterial; therefore, no liability has been recorded in the accounts.

Fair Values of Financial Instruments

The District applies the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. See Note 7 for details on fair values used for the District's assets and liabilities.

NOTE 2 CASH AND INVESTMENTS

The carrying value of the District's cash deposits, including certificates of deposit, with financial institutions at December 31, 2012 totaled \$138,608 and the bank balance was \$139,507. Cash and investments are stated at cost, which approximates market. 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. During the year ended December 31, 2012, the District's deposits were fully secured by the federal deposit insurance corporation.

NOTE 3 RESTRICTED ASSETS

The District's restricted assets consist of the following as of December 31, 2012 and 2011:

	<u>Compiled 2012</u>	<u>Audited 2011</u>
Customers' meter deposits:		
Cash	<u>\$15,540</u>	<u>\$15,150</u>

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Notes to the Financial Statements

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Audited	Compiled		Balance 12/31/12
	Balance 12/31/11	Additions	Deletions	
Capital assets:				
Building and improvements	\$ 178,891	\$ -	\$ -	\$ 178,891
Equipment and furniture	16,518	-	-	16,518
Improvements other than buildings	2,007,249	-	-	2,007,249
Total capital assets	<u>2,202,658</u>	<u>-</u>	<u>-</u>	<u>2,202,658</u>
Less accumulated depreciation for:				
Building and improvements	(70,900)	(6,638)	-	(77,538)
Equipment and furniture	(16,517)	-	-	(16,517)
Improvements other than buildings	(388,488)	(80,291)	-	(468,779)
Total accumulated depreciation	<u>(475,905)</u>	<u>(86,929)</u>	<u>-</u>	<u>(562,834)</u>
Capital assets, net	<u>\$1,726,753</u>	<u>\$ (86,929)</u>	<u>\$ -</u>	<u>\$1,639,824</u>

NOTE 5 CONCENTRATION OF CREDIT RISK

The credit risk for trade accounts receivable is concentrated because most of the balances are due from individuals located in the same geographical region.

NOTE 6 RISK MANAGEMENT

The District 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 District has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The District is insured up to policy limits for each of the above risks. No claims have been settled in excess of the commercial coverage.

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The District applies the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure of fair value. The hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Notes to the Financial Statements

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing methods, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following methods and assumptions were used by the District in estimating fair value disclosures for financial instruments:

Cash and cash equivalents – The carrying amount of cash and short-term instruments approximate fair value.

Contracts payable and accrued expenses – The carrying amount of contracts payable and accrued expenses approximate fair value.

NOTE 8 BOARD OF COMMISSIONERS

The board of commissioners consists of five members, with compensation paid as follows:

Adrian Conner	Chairman	\$	720
Bonnie Wainwright	Vice-Chairperson		720
Randall Broussard	Secretary-Treasurer		-
Sandra Vincent	Commissioner		720
Randie Choate	Commissioner		-
			<u> -</u>
		\$	<u>2,160</u>

OTHER SUPPLEMENTARY INFORMATION

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

Schedule of Number of Utility Customers
December 31, 2012 and 2011

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

2012	391
2011	382

See independent accountant's compilation report.

PECAN ISLAND WATERWORKS DISTRICT NO. 3 OF VERMILION PARISH, LOUISIANA

List of Insurance Policies in Force
December 31, 2012

<u>Type of Coverage</u>	<u>Expiration Date</u>	<u>Coverage</u>
Flood Insurance:		
Building A/Water Treatment	April 19, 2013	432,600
Building B/Office Warehouse	April 19, 2013	33,300
Building C/Cholorinator Building	April 19, 2013	18,600
General liability coverage:		
General aggregate	May 25, 2013	3,000,000
Products aggregate	May 25, 2013	3,000,000
Personal injury	May 25, 2013	1,000,000
Each occurrence	May 25, 2013	1,000,000
Damage to premises rented	May 25, 2013	1,000,000
Medical expense	May 25, 2013	10,000
Business auto		
Commercial auto	May 25, 2013	1,000,000
Uninsured motorists	May 25, 2013	1,000,000
Crime	May 25, 2013	10,000

See independent accountant's compilation report.