

FAIRVIEW-UNION WATER SYSTEM, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 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 NOV 06 2013

FAIRVIEW-UNION WATER SYSTEM, INC

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WILLIAM E. WEATHERFORD, CPA, LLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairview-Union Water System, Inc
Campti, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of the Fairview-Union Water System, Inc (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, I 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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fairview-Union Water System, Inc as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole The Schedule of Insurance in Force, the Schedule of Rates and Users, the Schedule of Changes in Reserved Funds, and the Schedule of Fixed Assets are presented for purposes of additional analysis and are not a required part of the financial statements Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements The information has been subjected to the auditing procedures applied in the audit of

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the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 19, 2013, on my consideration of the Fairview-Union Water System, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Fairview-Union Water System Inc.'s internal control over financial reporting and compliance.

William E. Weatherford, CPA, LLC

September 19, 2013
Shreveport, Louisiana

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Statement of Financial Position

December 31, 2012

ASSETS:

Current Assets

Cash and cash equivalents	\$ 131,716
Accounts receivable	31,232
Prepaid expenses	2,029
Total current assets	<u>164,977</u>

Property, Plant and Equipment

Property, plant and equipment	5,302,972
Less accumulated depreciation	<u>(1,684,881)</u>
Net property, plant and equipment	<u>3,618,091</u>

Total Assets

\$3,783,068

LIABILITIES AND NET ASSETS:

Current Liabilities

Accounts payable	\$ 9,626
Taxes payable	23,682
Accrued salaries payable	843
Current portion of long-term debt	<u>27,312</u>
Total current liabilities	61,463

Long-term debt- net of current portion

1,662,444

Total liabilities

1,723,907

Net Assets

Unrestricted

Operating net assets	46,573
Net investment in property, plant and equipment	1,928,335
Temporarily restricted	84,253
Total net assets	<u>2,059,161</u>

Total Liabilities and Net Assets

\$3,783,068

The notes to the financial statements are an integral part of this statement
See the accompanying independent auditor's report

FINANCIAL STATEMENTS

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Statement of Activities
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES:			
Water sales	\$ 385,832	\$ -	\$ 385,832
Installations	9,071	-	9,071
Other	6,147	-	6,147
Total operating revenues	<u>401,050</u>	<u>-</u>	<u>401,050</u>
OPERATING EXPENSES:			
Cost of Sales and Services			
Salaries	100,331	-	100,331
Supplies	59,606	-	59,606
Utilities	39,302	-	39,302
Repairs and maintenance	25,196	-	25,196
Mileage	20,716	-	20,716
Employee health insurance	15,220	-	15,220
Water purchased	6,737	-	6,737
Payroll taxes	6,816	-	6,816
Other	6,724	-	6,724
Depreciation	213,397	-	213,397
Total cost of sales and services	<u>494,045</u>	<u>-</u>	<u>494,045</u>
General and Administrative			
Insurance	12,228	-	12,228
Legal and professional	9,940	-	9,940
Office expenses	4,881	-	4,881
Postage	3,883	-	3,883
Dues and subscriptions	1,037	-	1,037
Penalties	1,593	-	1,593
Other	2,831	-	2,831
Total general and administrative expenses	<u>36,393</u>	<u>-</u>	<u>36,393</u>
Total Operating Expenses	<u>530,438</u>	<u>-</u>	<u>530,438</u>
Operating Loss	<u>(129,388)</u>	<u>-</u>	<u>(129,388)</u>
NONOPERATING INCOME (EXPENSES):			
State grants	12,480	-	12,480
Insurance settlement	23,849	-	23,849
Interest income	-	203	203
Interest expense	(72,425)	-	(72,425)
Total Nonoperating Income (Expenses)	<u>(36,096)</u>	<u>203</u>	<u>(35,893)</u>
CHANGE IN NET ASSETS	(165,484)	203	(165,281)
Net Assets - beginning of year	2,172,112	52,330	2,224,442
Net Asset Reclassifications	<u>(31,720)</u>	<u>31,720</u>	<u>-</u>
NET ASSETS - End of Year	<u>\$ 1,974,908</u>	<u>\$ 84,253</u>	<u>\$ 2,059,161</u>

The notes to the financial statements are an integral part of this statement
See the accompanying independent auditor's report

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Statement of Cash Flows
For the Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (165,281)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	213,397
Increase in accounts receivable	(11,269)
Increase in prepaid expenses	(2,029)
Decrease in accounts payable	(12,066)
Decrease in taxes payable	(7,181)
Decrease in accrued expenses	(2,355)
Net Cash Provided by Operating Activities	<u>13,216</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash payments for the purchase of property	<u>(40,930)</u>
Net Cash Used by Investing Activities	<u>(40,930)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash paid for principle reduction of long-term debt	<u>(26,455)</u>
Net Cash used by Financing Activities	<u>(26,455)</u>
Net decrease in cash and cash equivalents	(54,169)
Cash and cash equivalents- beginning of year	<u>185,885</u>
Cash and cash equivalents- end of year	<u><u>\$ 131,716</u></u>
SUPPLEMENTAL DISCLOSURES;	
Cash paid during the year for interest	<u><u>\$ 72,425</u></u>

The notes to the financial statements are an integral part of this statement
See the accompanying independent auditor's report

NOTES TO THE FINANCIAL STATEMENTS

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Fairview-Union Water System, Inc (hereafter referred to as the "System") was incorporated on May 28, 1999 as a Louisiana non-profit corporation. The System is organized on a non-stock basis with only one class of membership. Members of the System pay a non-refundable membership fee of \$50.

The management of the System is vested in a Board of Directors of five members elected annually at a general meeting of the members held on the second Tuesday of March each year for a term of three (3) years. Directors of the System receive no compensation for their services.

The purpose of the System is to create, advance, construct and maintain a sanitary water supply system for the benefit of the members of the System located within designated areas of the parishes of Red River and Natchitoches in Northwest Louisiana.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and accordingly reflect all significant receivables, payables and other liabilities. Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No 117, the System is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The following are descriptions of the System's net asset classifications:

Unrestricted

Operating Net Assets Operating net assets include unrestricted resources that are available for the general operations of the System at the discretion of the board of directors.

Net Investment in Property, Plant and Equipment Net investment in property, plant and equipment consists of the cost of the System's property, plant and equipment less accumulated depreciation and outstanding debt used to finance acquisition of the assets.

Temporarily Restricted Net Assets Temporarily restricted net assets result from creditor requirements for the System to maintain reserves sufficient to assure loan installments will be paid on time, for emergency maintenance, for extensions to facilities, and for replacement of short-lived assets which have a useful life significantly less than the repayment period of the loan.

As of December 31, 2012, the System had no permanently restricted net assets.

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit that can be redeemed on demand, money market accounts, and savings accounts that are readily convertible to cash that have original maturities of less than three months when purchased. Under the terms of the Loan Resolution Security Agreement, the System may deposit these funds in institutions insured by the State or Federal government or it may invest them in readily marketable securities backed by the full faith and credit of the United States.

Concentrations of Credit Risk

The System places its cash and temporary investments with creditworthy, high quality financial institutions. As of December 31, 2012, all cash deposits were fully insured by the FDIC.

Accounts Receivable

Charges to customers for water service are the System's major receivable. All receivables are reported at their gross value, and, where appropriate are reduced by the estimated portion that is expected to be uncollectible. The System uses the allowance method to account for bad debts for water service charges. Uncollectible amounts receivable are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. The provision for bad debts is recorded as a current expenditure with a corresponding increase to the allowance for doubtful accounts.

Estimated unbilled customer water service charges are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid expenses.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost if purchased or at fair market value when donated. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. The System maintains a threshold level of \$1,000 or more for capitalization of assets. Depreciation is provided over the estimated useful lives of the related assets using straight-line or accelerated methods.

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Property, Plant and Equipment-(continued)

The estimated useful lives for significant property and equipment categories are as follows

Office equipment	5 years
System equipment	7-20 years
Water system	25 years
Buildings	40 years

Advertising Costs

Advertising costs are expensed as incurred

Income Taxes

The System is a 501 (c) 12 non-profit corporation and is generally exempt from federal and state income taxes. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

Concentrations of Credit Risk and Suppliers

The System purchases all of the water it distributes from the John K Kelly Grand Bayou Reservoir Commission. On August 13, 2002, the System entered a contract for the term of forty (40) years with the John K Kelly Grand Bayou Reservoir Commission providing for the Commission to sell the System raw water necessary for operation. The System is dependent on the ability of the John K Kelly Grand Bayou Reservoir Commission to provide the raw water required to service its members. The loss of this water supply or a significant reduction in the volume of water available would have a material adverse effect on the System. The System believes that its relationship with the John K Kelly Grand Bayou Reservoir Commission is satisfactory and that the volume of raw water available is sufficient to meet the needs of its members.

Use of Estimates

Preparing the System's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Notes to the Financial Statements
December 31, 2012

NOTE 2 – ACCOUNTS RECEIVABLE

The balance in accounts receivable at December 31, 2012 consists of the following

Billed customer service	\$ 19,020
Unbilled customer service	14,312
Allowance for doubtful accounts	<u>(2,100)</u>
Total	<u><u>\$ 31,232</u></u>

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, at cost less accumulated depreciation, as of December 31, 2012

Buildings	\$ 2,000
Office equipment	22,516
System equipment	50,000
Water system	<u>5,228,456</u>
	5,302,972
Accumulated depreciation	<u>(1,684,881)</u>
Net property and equipment	<u><u>\$ 3,618,091</u></u>

Depreciation expense charged to operations for the year ended December 31, 2012 was \$213,397

NOTE 4 – DEBT

The System partially financed the cost of water system assets through two loans with the Rural Utilities Service (RUS) an agency within the United States Department of Agriculture. The System incurred indebtedness with the RUS in the original principal amount of \$1,860,000 for the purpose of providing a portion of the cost of acquiring and constructing a rural water system. The terms of the obligations are for forty (40) years at an interest rate not to exceed four and one-half percent (4.5%). The loans are secured by a pledge of revenues from the sale of water and a mortgage on real estate and personal property owned by the System.

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements

December 31, 2012

NOTE 4 – DEBT- (continued)

The following is a summary of the long-term obligation transactions for the year ended December 31, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
USDA Loan #1	\$ 922,703	\$ -	\$ (14,221)	\$ 908,482
USDA Loan #3	793,508	-	(12,234)	781,274
Total	<u>\$ 1,716,211</u>	<u>\$ -</u>	<u>\$ (26,455)</u>	<u>\$ 1,689,756</u>

Notes payable at December 31, 2012 are comprised of the following individual issues

Note payable in the original amount of \$1,000,000, dated August 29, 2003, secured by a pledge of revenues from the sale of water and a mortgage on real estate and personal property, interest at four and one fourth percent (4 25%) due in monthly installments of \$4,430, including interest and principal, maturing August 29, 2043

\$ 908,482

Note payable in the original amount of \$860,000, dated August 29, 2003, secured by a pledge of revenues from the sale of water and a mortgage on real estate and personal property, interest at four and one fourth percent (4 25%) due in monthly installments of \$3,810, including interest and principal, maturing August 29, 2043

781,274

Total notes payable
Less current maturities
Total Long -term Debt

1,689,756

(27,312)

\$ 1,662,444

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements
December 31, 2012

NOTE 4 – DEBT- (continued)

The total annual requirements to amortize all debt outstanding as of December 31, 2012, including interest payments of \$ 1,342,572 are as follows

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
USDA Loan #1			
2013	\$ 14,685	\$ 38,475	\$ 53,160
2014	15,324	37,836	53,160
2015	15,991	37,169	53,160
2016	16,687	36,473	53,160
2017	17,413	35,747	53,160
2018-2043	<u>828,382</u>	<u>536,058</u>	<u>1,364,440</u>
	<u>908,482</u>	<u>721,758</u>	<u>1,630,240</u>
USDA Loan #3			
2013	12,627	33,093	45,720
2014	13,177	32,543	45,720
2015	13,751	31,970	45,721
2016	14,349	31,371	45,720
2017	14,973	30,747	45,720
2018-2043	<u>712,397</u>	<u>461,090</u>	<u>1,173,487</u>
	<u>781,274</u>	<u>620,814</u>	<u>1,402,088</u>
Total	<u>\$ 1,689,756</u>	<u>\$ 1,342,572</u>	<u>\$ 3,032,328</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

The System is required by loan covenants to establish and maintain reserves sufficient to assure loan installments will be paid on time, for emergency maintenance, for extensions to facilities, and for replacement of short-lived assets which have a useful life significantly less than the repayment period of the loan. After the payment of the monthly debt service to the Rural Utilities Service (RUS) and operating and maintenance expenses, the System is to transfer \$855 each month into a reserve account until the sum of \$102,500 is held in the account. With prior written approval from RUS, these funds may be withdrawn and used for the purposes mentioned above. The reserve account may be established and maintained as bookkeeping accounts or as separate bank accounts at the election of the System, unless otherwise directed by RUS. In the Statement of Activities, the System's transfers to this reserve account are reported as Net Asset Reclassifications.

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements
December 31, 2012

NOTE 6 – LEASE COMMITMENTS

On August 15, 2002, the System entered an operating lease with the John K Kelly Grand Bayou Reservoir Commission. The purpose of the lease is to enable the System to use 1,899 acres of land for construction of pipelines, storage tanks, pumping units, fences, treatment facilities and other appurtenances, buildings and improvements necessary to obtain a merchantable supply of water. The term of the lease is declared to be for the period of time that the System requires the property for use in connection with its water system, but not to exceed ninety-nine (99) years. The consideration for the lease shall be one hundred dollars (\$100) per year for the initial five (5) years. Thereafter, the consideration may be reviewed every three years by the John K Kelly Grand Bayou Reservoir Commission, however, any increase in the annual lease amount shall not exceed the total of the yearly average of the consumer price index over the previous five year period. Currently, the annual lease is one hundred dollars (\$100) annually.

The System entered in to an operating lease with Weyerhaeuser Company on March 10, 2003 to enable the System to obtain a merchantable supply of water by the drilling and operation of water wells and/or the construction of pipelines which the System may deem appropriate with its business on a certain described tract of land located in Natchitoches Parish containing 23 acres. The term of the lease is declared to be the period of time that the System produces water on the leased land in merchantable qualities, or requires the property for use in connection with its water system, but not to exceed ninety-nine (99) years. The consideration for the lease shall be ten dollars (\$10) per year beginning with January 10, 2003.

The following is a schedule of future minimum lease payments:

2013	\$ 110
2014	110
2015	110
2016	110
2017	110
Thereafter	<u>9,250</u>
	<u>\$ 9,800</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

Procedures, observations, and inquiries did not disclose any material related party transactions for the fiscal year ended December 31, 2012.

NOTE 8 - LITIGATION

At December 31, 2012, the System had no litigation or claims pending.

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Notes to the Financial Statements

December 31, 2012

NOTE 9 – RISK MANAGEMENT

The System 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 System carries commercial insurance for the risk of loss including general liability, property damage, workers compensation, and theft. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 19, 2013, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Insurance in Force
December 31, 2012

Insurer	Risks Covered	Policy Amount	Expiration Date
American Alternative Insurance Corporation	Real Property Personal Property Loss of Income Extra Expense General Liability Public Officials and Management Liability Cyber Liability Crime	Replacement Cost- \$1,759,468 Limit Replacement Cost- \$1,759,468 Limit Loss Sustained up to \$250,000 Per Occurrence Loss Sustained up to \$250,000 Per Occurrence \$1,000,000 Each Occurrence \$1,000,000 Damage to Premises Rented \$1,000,000 Personal and Advertising Injury \$3,000,000 Products-Completed Operations Aggregate \$3,000,000 General Aggregate \$10,000 Medical Expense \$5,000 Each Action for Injunctive Relief \$1,000,000 Each Wrongful Act of Offense \$3,000,000 Combined Coverage \$1,000,000 Each Event Limit \$50,000 Each Privacy Crisis Management Event \$50,000 Aggregate Privacy Crisis Management Limit Employee Theft - \$100,000 per Loss- \$500 Deductible Forgery or Alteration - \$100,000 per Occurrence- \$500 Deductible Robbery/Safe Burglary- \$5,000 per Occurrence- \$500 Deductible Computer Fraud- \$50,000 per Occurrence- \$500 Deductible Funds Transfer - \$50,000 per Occurrence- \$500 Deductible Money Orders - \$50,000 per Occurrence- \$500 Deductible	September 23, 2013
LTCA	Workers Compensation	Bodily Injury by Accident- \$100,000 Each Accident Bodily Injury by Disease- \$500,000 Policy Limit Bodily Injury by Disease- \$100,000 Each Employee	December 27, 2013

Supplementary information
Presented for purposes of additional analytical analysis only
See the accompanying independent auditor's report

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Rates and Users
For the Year Ended December 31, 2012

WATER RATES:

Residential	\$20 85 minimum for usage to 2,000 gallons of water \$3 70 per each additional 1,000 gallons of water above 2,000 gallons
Commercial	\$40 00 minimum for usage to 10,000 gallons of water \$3 52 per each additional 1,000 gallons of water above 10,000 gallons
Resorts and Campgrounds	\$190 00 minimum for usage to 50,000 gallons of water \$3 30 per each additional 1,000 gallons of water above 50,000 gallons
Industry/Bulk Rate	\$40 00 minimum for usage to 10,000 gallons of water \$3 52 per each additional 1,000 gallons of water above 10,000 gallons

SYSTEM USERS: As of December 31, 2012 the System had 732 active customers

SYSTEM BILLINGS: During the year ended December 31, 2012, the System billed \$367,886 for water service. The system had an average customer base of 734 with an average monthly billing of \$41 78 per customer

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Changes in Reserved Funds
For the Year Ended December 31, 2012

	<u>Reserve Fund</u>
Balance- beginning of year	\$ 52,330
Deposits	
January	-
February	30,860
March	-
April	-
May	-
June	-
July	-
August	-
September	-
October	-
November	860
December	-
Interest earned	<u>203</u>
Balance- end of year	<u><u>\$ 84,253</u></u>

Supplementary information
Presented for purposes of additional analytical analysis only
See the accompanying independent auditor's report

Asset	d t	Property Description	Date In Service	Book Cost	Book Sec 179 Exp c	Book Sal Value	Book Prior Depreciation	Book Current Depreciation	Book End Depr	Book Net Book Value	Book Method	Book Period
Group: Furniture and Equipment												
1		Computer	12/31/00	1,245.24	0.00	0.00	1,245.24	0.00	1,245.24	0.00	S/L	5.0
4		Dell Computer	7/06/04	2,019.39	0.00	0.00	2,019.39	0.00	2,019.39	0.00	S/L	5.0
8		10 HP Motor 7M 113 Pump w/SS b	3/23/10	3,585.28	0.00	0.00	627.43	358.53	985.96	2,599.32	S/L	10.0
9		Turban Pump	8/12/10	2,779.55	0.00	0.00	562.53	397.08	959.61	1,819.94	S/L	7.0
10		Turban Pump	8/12/10	2,779.55	0.00	0.00	562.53	397.08	959.61	1,819.94	S/L	7.0
11		WZT303224 Honeywell Controller	8/18/11	2,319.20	0.00	0.00	77.31	231.92	309.23	2,009.97	S/L	10.0
12		Rheem 5 ton 13 Seer Heat Pump Sy	9/30/11	9,625.49	0.00	0.00	120.32	481.27	601.59	9,023.90	S/L	20.0
13		Rheem 5 ton 13 Seer Heat Pump Sy	9/30/11	9,625.48	0.00	0.00	120.32	481.27	601.59	9,023.89	S/L	20.0
14		Generator	12/31/11	50,000.00	0.00	0.00	0.00	2,500.00	2,500.00	47,500.00	S/L	20.0
15		Generator Shed	12/31/11	2,000.00	0.00	0.00	0.00	50.00	50.00	1,950.00	S/L	40.0
16		Radio/RTU Equipment-Plant	6/18/12	5,650.00	0.00c	0.00	0.00	282.50	282.50	5,367.50	S/L	10.0
17		Radio/RTU Equipment-Tank 1	6/18/12	5,650.00	0.00c	0.00	0.00	282.50	282.50	5,367.50	S/L	10.0
18		Radio/RTU Equipment-Storage	6/18/12	5,650.00	0.00c	0.00	0.00	282.50	282.50	5,367.50	S/L	10.0
19		Radio/RTU Equipment-Tank 2	6/18/12	5,650.00	0.00c	0.00	0.00	282.50	282.50	5,367.50	S/L	10.0
		Furniture and Equipment		108,579.18	0.00c	0.00	5,335.07	6,027.15	11,362.22	97,216.96		
Group: Water System												
6		Water System	12/15/04	5,163,975.78	0.00	0.00	1,463,126.46	206,559.03	1,669,685.49	3,494,290.29	S/L	25.0
7		Water System Additions 2005	9/27/05	12,087.35	0.00	0.00	3,021.81	483.49	3,505.30	8,582.05	S/L	25.0
20		Coulee Bridge Lane Re-location	7/13/12	12,480.00	0.00c	0.00	0.00	249.60	249.60	12,230.40	S/L	25.0
21		KCS Line Re-location	9/14/12	5,850.00	0.00c	0.00	0.00	78.00	78.00	5,772.00	S/L	25.0
		Water System		5,194,393.13	0.00c	0.00	1,466,148.27	207,370.12	1,673,518.39	3,520,874.74		
		Grand Total		5,302,972.31	0.00c	0.00	1,471,483.34	213,397.27	1,684,880.61	3,618,091.70		

Supplementary information. Presented for purposes
of additional analysis only.

See accompanying independent auditor's report.

**OTHER REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS
AND THE LOUISIANA GOVERNMENTAL AUDIT GUIDE**

**INDEPENDENT AUDITOR'S REPORT REQUIRED BY
*GOVERNMENT AUDITING STANDARDS***

The following independent auditor's 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* is presented in compliance with requirements of *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor

WILLIAM E. WEATHERFORD, CPA, LLC
CERTIFIED PUBLIC ACCOUNTANT

**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***

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairview-Union Water System, Inc
Campti, Louisiana

I 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 Fairview-Union Water System, Inc (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated September 19, 2013

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Fairview-Union Water System, Inc 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fairview-Union Water System, Inc 's internal control Accordingly, I do not express an opinion on the effectiveness of the System's internal control

My 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 audit findings, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis I consider the deficiencies described in the accompanying schedule of audit findings to be material weaknesses Item 12-3

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance I consider the deficiencies described in the accompany schedule of audit findings to be significant deficiencies Item 12-4

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fairview-Union Water System, Inc 's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion

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The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit findings as items 12-1 and 12-2

The Fairview-Union Water System, Inc.'s Response to Findings

The Fairview-Union Water System, Inc 's response to the findings identified in my audit is described in the accompanying "Management's Corrective Action Plan" The Fairview-Union Water System, Inc 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fairview-Union Water System, Inc '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 System's internal control and compliance Accordingly, this communication is not suitable for any other purpose However, under Louisiana Revised Statute 21 513, this report is a public document and its distribution is not limited

William E. Weatherford, CPA, LLC

William E Weatherford, CPA, LLC
Certified Public Accountant
Shreveport, Louisiana
September 19, 2013

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Audit Findings
For the Year Ended December 31, 2012

FINDINGS RELATED TO COMPLIANCE

Item: 12-1

Criteria or specific requirement:

RUS Instruction 1780 47 requires the System to provide the USDA an annual audit of its financial statements no later than 150 days following the period covered by the audit Louisiana Revised Statute (LSA-R S) 24 513(A) (5) (a) requires "audits shall be completed within six months of the close of the entity's fiscal year"

Condition:

The System's annual financial audit for the year ended December 31, 2012 was not completed and filed with RUS within 150 days of year end Additionally, the System has not provided an annual audit of its financial statements to RUS for several prior years

Questioned costs:

None

Context:

The System's annual financial audit was issued after the mandatory due date of May 31, 2013

Effect:

The System is not in compliance with RUS Instruction 1780 47 or Louisiana Revised Statute (LSA-R S) 24 513(A) (5) (a)

Cause:

Management of the System was not aware that annual financial audits were required to be filed with RUS Also, management was unaware that the receipt of state or local government grant funds would make them responsible for filing annual audited financial statements with the Louisiana Legislative Auditor in accordance with Louisiana Revised Statute (LSA-R S) 24 513(A) (5) (a)

Recommendation:

Management of the System should make every effort to file annual audits of its financial statements with RUS no later than May 31 of each year and with the Louisiana Legislative Auditor, if required, no later than June 30

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Audit Findings
For the Year Ended December 31, 2012

Item: 12-2

Criteria or specific requirement:

Whenever any action concerning the receipt or use of public funds is to be discussed during a board meeting, the System is required to comply with the requirements of the "Open Meetings Law", Louisiana Revised Statutes 42 11 through 42 28. These requirements include

R S 14C All votes made by the board members shall be viva voce and shall be recorded in the minutes, journal, or other official, written proceedings of the System

R S 14D The System shall allow a public comment period at any point in the meeting prior to action on an agenda item upon which a vote is to be taken. The System may adopt reasonable rules and restrictions regarding such comment period

R S 42 19A (1) (b)(i) The System shall give written public notice of any regular, special, or rescheduled meeting concerning public funds no later than twenty-four hours before the meeting

(ii)(aa) Such notice shall include the agenda, date, time, and place of the meeting. The agenda shall not be changed less than twenty-four hours prior to the meeting

(bb) Each item on the agenda shall be listed separately and described with reasonable specificity. Before any action is taken on an item, the presiding officer or his designee shall read aloud the description of the item

(cc) Upon unanimous approval of the members present at a meeting, the board may take up a matter not on the agenda. Any such matter shall be identified in the motion to take up the matter not on the agenda with reasonable specificity, including the purpose for the addition to the agenda, and entered into the minutes of the meeting. Prior to any vote on the motion to take up a matter not on the agenda by the public body, there shall be an opportunity for public comment on any such motion in accordance with R S 42 14 or 15

R S 42 19A (2) Written public notice shall include, but need not be limited to

(a) Posting a copy of the notice at the principal office of the System no less than twenty-four hours before the meeting

(b) Mailing a copy of the notice to any member of the news media who requests notice of such meetings

FAIRVIEW-UNION WATER SYSTEM, INC.

Campti, Louisiana

Schedule of Audit Findings
For the Year Ended December 31, 2012

Condition:

The Fairview-Union Water System, Inc did not post a notice of each meeting relating to public funds and the accompanying agenda on the door of the System's office building 24 hours prior to the meeting. The public was therefore not notified of the meetings and was unable to participate in the discussion of the receipt and use of the public funds.

Questioned costs:

None

Context:

The System received a grant of \$12,480 from the Louisiana Department of Transportation and Development which was used to relocate water service lines. There is no indication that the requirements of the "Louisiana Open Meetings Law" were complied with in relation to meetings during which action concerning the receipt or use of these funds was taken by the board.

Effect:

The System is not in compliance with the "Louisiana Open Meetings Law", Louisiana Revised Statutes 42:11 through 42:28.

Cause:

Management of the System was not aware that the requirements of the "Louisiana Open Meetings Law" were at any time applicable to its board meetings.

Recommendation:

Management of the System should comply with the requirements of the "Louisiana Open Meeting Law" for any meeting during which any action concerning the receipt or use of public funds is to be discussed.

FINDINGS RELATED TO INTERNAL CONTROL

Item: 12-3

Criteria or specific requirement:

The detailed accounts receivable for the water service customers maintained by the utility billing software should be reconciled, on a monthly basis, to the control account maintained by System's fee accountant in the general ledger.

Condition:

The detailed accounts receivable for the water service customers maintained by the utility billing software is not reconciled on a monthly basis to the general ledger control account.

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Audit Findings
For the Year Ended December 31, 2012

Questioned costs:

None

Context:

The utility billing software posts charges and payments to individual customer accounts and maintains account receivable balances for each customer, which is used to generate monthly billings. The System's fee accountant posts monthly customer charges from the billing registers and payments from deposits made to the depository institution to the general ledger control account "Accounts Receivable". The fee accountant also posts monthly delinquent penalties from the penalty reports generated by the utility billing software and approved credit and debit memos to the general ledger control account. The month end balance of the general ledger control account is not reconciled to the detailed customer accounts receivable report generated by the utility billing software.

Effect:

Failure to reconcile the detailed customer accounts receivable maintained by the utility billing software with the control account maintained on the general ledger provides an opportunity for errors, irregularities, or defalcations of utility revenues to occur and not be detected in a timely manner.

Cause:

Management was not aware that this control procedure should be performed on a monthly basis.

Recommendation:

The System's fee accountant should reconcile the detailed customer accounts receivable maintained by the utility billing software to the control account in the general ledger. Any discrepancies should be reported to the board of directors and immediately investigated.

Item: 12-4

Criteria or specific requirement:

Effective internal control requires that all disbursements made by the System be supported by appropriate documentation that has been properly reviewed, checked for accuracy, and approved prior to an expenditure being made.

Condition:

Expenditures made by the System are not supported by documentation which indicates that the source document supporting a disbursement has been properly reviewed, checked for accuracy, and properly approved.

Questioned costs:

\$300

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Schedule of Audit Findings
For the Year Ended December 31, 2012

Context:

As part of my audit, I tested a random sample of 46 disbursements to determine if normal internal controls were in place and properly operating. Of the disbursements tested, none of the documentation supporting the tested expenditures indicated that the invoice or other supporting document had been properly reviewed, tested for accuracy, or approved prior to payment by the System. Management was unable to provide supporting documentation (invoices) for three of the disbursements tested. I also noted that a payment to the John K. Kelly Grand Bayou Reservoir Commission in the amount of \$771.60 was supported by documentation indicating that the correct amount of the disbursement should have been \$471.60. One disbursement to "Keys" in the amount of \$101.96 was supported only by a monthly statement noting "Miscellaneous Charges for June." The individual tickets supporting the charge were not attached to the statement.

Effect:

Failure to obtain proper documentation for every expenditure made by the System and failure to properly review and approve the supporting documentation provides an opportunity for errors or irregularities to occur and not be detected in a timely manner.

Cause:

Management was not aware that this control procedure should be performed.

Recommendation:

The System should require that all expenditures made be supported by appropriate documentation. Monthly statements from vendors should never be used to support a disbursement. The invoice, tickets, or other source document supporting an expenditure should be reviewed by operator/manager to ensure that the items billed to the System were actually received. The operator/manager should verify that the amounts billed to the System are correct and he should initial and date the supporting document to indicate that he has reviewed and approved the document for payment.

The board of directors should authorize one or more members of the board to review the documentation approved by the operator/manager for payment. The reviewing board member should initial and date the supporting documentation to indicate his approval of the expenditure. After approval of the supporting documentation by both the operator/manager and the authorized board member, the disbursement check should be prepared.

A monthly disbursement journal presenting all expenditures made by the System should be presented to the full board of directors at the monthly meeting. The board members should have the opportunity to inquire about any expenditure made during the month. Each board member should sign and date the monthly disbursement journal to indicate their approval of the expenditures made by the System.

FAIRVIEW-UNION WATER SYSTEM, INC.
Campti, Louisiana

Management's Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2012

Not Applicable

**Fairview Union Water System
P.O. BOX 95
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PH. (318) 932-3822**

MANAGEMENT'S CORRECTIVE ACTION PLAN

The Fairview-Union Water System, Inc. submits the following corrective action plan for the items included in the Schedule of Audit Findings. The responses are numbered consistently with the numbers assigned in the schedule

Item: 12-1 – The System will engage a certified public accountant to conduct an audit of the System's financial records prior to December 31, 2013. The auditor will be made aware, and the contract will stipulate, that the audit must be completed and filed with the appropriate agencies no later than May 31, 2014.

Item: 12-2- The System will comply with the requirements of the "Louisiana Open Meetings Law" for all meetings relating to public funds.

Item: 12-3 - The System's fee accountant will reconcile the detailed customer accounts receivable aged trial balance maintained by the utility billing software to the control account maintained in the general ledger on a monthly basis.

Item: 12-4- The board of directors will require that all expenditures made be supported by appropriate documentation. The operator/manager will review and approve all invoices, tickets, or other source documents supporting expenditures and he will initial and date the supporting documents to indicate that he has reviewed and approved them for payment. A board member will be authorized to review and approve the documentation approved by the operator/manager for payment. A monthly disbursement journal presenting all expenditures made by the System will be presented to the full board of directors at the monthly meeting for their review and approval.