

**WATERWORKS DISTRICT NO. 2 OF
WARD 4 OF CALCASIEU PARISH, LOUISIANA
Westlake, Louisiana**

**Financial Statements
August 31, 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 JUN 11 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of Waterworks
District No. 2 of Ward 4 of Calcasieu Parish, Louisiana
Westlake, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of Waterworks District 2 of Ward 4 of Calcasieu Parish, Louisiana, component unit of Calcasieu Parish Police Jury, as of August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's 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:

Auditor's Responsibility

My responsibility is to express opinions 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.

Board of Commissioners
Waterworks District No. 2 of Ward 4
Westlake, Louisiana

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District 2 of Ward 4 of Calcasieu Parish, Louisiana as of August 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 9 to the financial statements, the District's operating losses, inability to remain current on loan, and the potential customer base loss raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated February 24, 2014 on my consideration of Waterworks District 2 of Ward 4 of Calcasieu Parish, Louisiana's internal control over financial reporting and 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 Waterworks District 2 of Ward 4 of Calcasieu Parish, Louisiana's internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
February 24, 2014

**WATERWORKS DISTRICT NO. 2 OF WARD 4
OF CALCASIEU PARISH, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AUGUST 31, 2013**

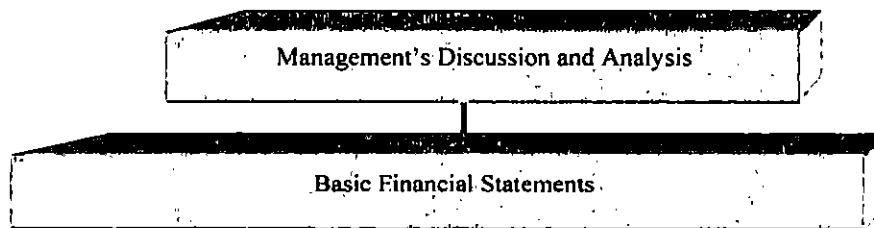
The Management's Discussion and Analysis of the Waterworks District No. 2 of Ward 4 of Calcasieu Parish, Louisiana's (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended August 31, 2013. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

FINANCIAL HIGHLIGHTS

- ★ The District's assets exceeded its liabilities at the close of fiscal year 2013 by \$365,113 which represents a 4% decrease from last fiscal year.
- ★ The District's operating revenue decreased \$675 and the net results from activities increased by \$9,846.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.



These financial statements consist of two sections - Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

WATERWORKS DISTRICT NO. 2 OF WARD 4
 OF CALCASIEU PARISH, LOUISIANA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 AS OF AUGUST 31, 2013

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Balance Sheets (pages 6 - 7) presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position (page 8) presents information showing how the District's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Cash Flow Statement (pages 9 - 10) presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

	2013	2012	2011
Current and other assets	\$ 106,589	\$ 115,404	\$ 109,549
Capital assets	662,477	647,333	640,067
Total assets	\$ 769,066	\$ 762,737	\$ 749,616
Other liabilities	\$ 145,609	\$ 123,223	\$ 86,908
Long-term debt outstanding	258,344	258,344	258,344
Total liabilities	\$ 403,953	381,567	345,252
Net position:			
Invested capital assets, net of debt	\$ 404,134	388,989	381,723
Unrestricted	(39,021)	(7,819)	22,641
Total net assets	365,113	381,170	404,364
Total liabilities and net assets	\$ 769,066	\$ 762,737	\$ 749,616

**WATERWORKS DISTRICT NO. 2 OF WARD 4
OF CALCASIEU PARISH, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AUGUST 31, 2013**

Unrestricted net assets are those that do not have any limitations on how these amounts may be used.

Net assets of the District decreased by \$16,057 from August 31, 2012 to August 31, 2013.

	2013	2012	2011
Operating revenues	\$ 178,810	\$ 179,485	\$ 163,011
Operating expenses	<u>(225,230)</u>	<u>(216,060)</u>	<u>(225,929)</u>
Operating income (loss)	<u>(46,420)</u>	<u>(36,575)</u>	<u>(62,918)</u>
Non-operating revenues (expenses)	<u>30,363</u>	<u>13,380</u>	<u>(3,391)</u>
Net increase (decrease) in net position	<u>\$ (16,057)</u>	<u>\$ (23,195)</u>	<u>\$ (66,309)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2013, the District had \$662,477, net of accumulated depreciation, invested in a broad range of capital assets, including truck and equipment, distribution system, and building and improvements. (See Table below). This amount represents a net increase (including additions and deductions) of \$15,144, or 2%, from last year.

	2013	2012	2011
Truck and Equipment	\$ 83,609	\$ 83,609	\$ 83,018
Distribution System	1,336,473	1,288,098	1,246,446
Building and Improvements	48,822	48,822	48,822
Less Accumulated Depreciation	<u>(806,427)</u>	<u>(773,196)</u>	<u>(738,219)</u>
Totals	<u>\$ 662,477</u>	<u>\$ 647,333</u>	<u>\$ 640,067</u>

**WATERWORKS DISTRICT NO. 2 OF WARD 4
OF CALCASIEU PARISH, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AUGUST 31, 2013**

Debt

The District had \$258,344 in bonds outstanding at year-end, compared to \$258,344 last year. A summary of this debt is shown in the table below.

	Outstanding Debt at Year-end		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue Bonds	<u>\$ 258,344</u>	<u>\$ 258,344</u>	<u>\$ 258,344</u>

The District's Revenue bonds are un-rated.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Duhon, Executive Secretary, Waterworks District No. 2 of Wards 4 of Calcasieu Parish.

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Statements of Net Position
As of August 31,

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 62,784	\$ 80,833
Accounts receivable (net of allowance for doubtful accounts of \$-0- for 2013 and 2012)	25,808	17,875
Prepaid insurance	3,518	2,992
Total Current Assets	92,110	101,700
RESTRICTED ASSETS		
Cash - meter deposits	14,479	13,704
PROPERTY, PLANT, AND EQUIPMENT		
Truck and equipment	83,609	83,609
Distributions system	1,336,473	1,288,098
Building and improvements	48,822	48,822
	1,468,904	1,420,529
Less: accumulated depreciation	(806,427)	(773,196)
Net Property, Plant, and Equipment	662,477	647,333
TOTAL ASSETS	\$ 769,066	\$ 762,737

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

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Statements of Net Position (Continued)
As of August 31,

LIABILITIES AND NET POSITION	2013	2012
CURRENT LIABILITIES		
Accounts payable	\$ 3,359	\$ 4,398
Accrued interest payable	76,394	62,108
Due to Calcasieu Parish Police Jury	35,276	30,580
Payroll tax payable	3,261	2,323
Accrued wages and vacation payable	12,840	9,435
Current portion of revenue bonds	119,709	99,051
Total Current Liabilities	250,839	207,895
CURRENT LIABILITIES (Payable from Restricted Assets)		
Meter deposits payable	14,479	14,379
LONG-TERM LIABILITIES		
Revenue bonds - net of current portion	138,635	159,293
Total Liabilities	403,953	381,567
NET POSITION		
Investment in capital assets, net of related debt	404,133	388,989
Unrestricted	(39,020)	(7,818)
Total Net Position	365,113	381,170
TOTAL LIABILITIES AND NET POSITION	\$ 769,066	\$ 762,737

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

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Statements of Revenues, Expenses, and Changes in Net Position
For The Years Ended August 31,

	2013	2012
OPERATING REVENUES		
Water sales and related fees	\$ 178,810	\$ 179,485
OPERATING EXPENSES		
Salaries and wages	77,728	78,001
Maintenance	7,112	4,275
Plant supplies	6,612	2,223
Utilities	11,676	7,586
Chemicals	8,637	7,956
Truck expense	3,937	3,848
Telephone	4,810	4,804
Accounting	8,900	8,750
Insurance	31,702	31,016
Payroll taxes	5,842	5,979
Office expense	6,688	6,876
Depreciation	33,231	37,157
Per diem - board members	2,880	3,000
Interest expense	14,286	13,485
Other	1,189	1,103
Total Operating Expenses	225,230	216,059
INCOME (LOSS) FROM OPERATIONS	(46,420)	(36,574)
NON OPERATING REVENUES (EXPENSES)		
Miscellaneous income (expense)	30,066	13,378
Interest income	297	2
Total Non Operating Revenues (Expenses)	30,363	13,380
CHANGE IN NET POSITION	(16,057)	(23,194)
NET POSITION - BEGINNING OF YEAR	381,170	404,364
NET POSITION - END OF YEAR	\$ 365,113	\$ 381,170

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

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Statements of Cash Flows
For The Years Ended August 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 166,181	\$ 180,140
Payments to suppliers	(95,708)	(82,156)
Payments to employees and payroll taxes	(75,430)	(83,174)
Other	900	-
	<u>(4,057)</u>	<u>14,810</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Sewer fees collected (paid)	<u>4,696</u>	<u>21,659</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital acquisitions	(48,375)	(44,423)
Other	99	701
	<u>(48,276)</u>	<u>(43,722)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Miscellaneous income (expense)	30,066	13,378
Interest income	297	2
	<u>30,363</u>	<u>13,380</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(17,274)	6,127
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>94,537</u>	<u>88,410</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 77,263</u>	<u>\$ 94,537</u>
CASH AND EQUIVALENTS:		
Unrestricted	\$ 62,784	\$ 80,833
Restricted	14,479	13,704
	<u>\$ 77,263</u>	<u>\$ 94,537</u>

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

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Statements of Cash Flows (Continued)
For The Years Ended August 31,

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES:		
Operating income (loss)	\$ (46,420)	\$ (36,575)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	33,231	37,157
(Increase) decrease in receivables	(7,933)	655
(Increase) decrease in prepaid insurance	(526)	(383)
Increase (decrease) in accounts payable	(1,039)	(335)
Increase (decrease) in other accrued expenses	18,630	14,291
Total Adjustments	42,363	51,385
Net Cash Provided (Used) for Operating Activities	\$ (4,057)	\$ 14,810
 SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ -	\$ -

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

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements
August 31, 2013 and 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Waterworks District 2 of Ward 4 of Calcasieu Parish was created by ordinance of the Calcasieu Parish Police Jury in 1965. The District is governed by a board of five members who are appointed by the Calcasieu Parish Police Jury.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

FINANCIAL REPORTING ENTITY

As more fully described in paragraph one above, Waterworks District 2 of Ward 4 of Calcasieu Parish, Louisiana, is governed by a board appointed by the Calcasieu Parish Police Jury.

As the governing authority of the parish, for reporting purposes, the Calcasieu Parish Police Jury is the financial reporting entity for Calcasieu Parish. The financial reporting entity consists of: (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 61 established criteria for determining which component units should be considered part of the Calcasieu Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include:

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

1. Appointing a voting majority of an organization's governing body, and:
 - a. The ability of the police jury to impose its will on that organization and/or;
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the police jury.
2. Organizations for which the police jury does not appoint a voting majority, but are fiscally dependent on the police jury.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the police jury appoints a voting majority of the district's board members, the district was determined to be a component unit of the Calcasieu Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the district and do not present information on the police jury, the general government services provided by the police jury, or the other governmental units that comprise the financial reporting entity.

FUND ACCOUNTING

The accounts of the district are organized on the basis of a proprietary fund, which is considered a separate accounting entity or enterprise fund. Enterprise funds are used to account for operations (a) that 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 goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

BASIS OF ACCOUNTING

The District has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*.

The district uses the accrual basis of accounting. The revenues are recognized when they are earned, and expenses are recognized when incurred.

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

BASIS OF ACCOUNTING (CONTINUED)

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. 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's enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

ACCOUNTS RECEIVABLE

Accounts receivable are stated at cost less an allowance for doubtful accounts. Accounts are considered delinquent when 30 days past due (based on days since last payment). The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing review of all accounts and includes a consideration of past user history, any adverse situations that might affect the user's ability to repay, and current economic conditions. The need for an adjustment to the allowance is considered at year end. Amounts charged-off that are subsequently recovered are recorded as income.

PROPERTY, PLANT, AND EQUIPMENT

All fixed assets of the proprietary fund are recorded at historical costs.

Depreciation of all exhaustible property, plant, and equipment is charged as an expense against the operations. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Building and improvements	5 – 15 years
Plant and distribution system	5 – 50 years
Furniture, fixtures, and equipment	5 – 15 years

Depreciation amounted to \$33,231 and \$37,157 for the years ended August 31, 2013 and 2012, respectively.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

CASH AND CASH EQUIVALENTS

The District considers all investments with an original maturity of three months or less to be cash equivalents.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications may have been made to the August 31, 2012 financial statements in order for them to be better compared to the August 31, 2013 financial statements.

Note 2 - Bonds Payable

Waterworks District 2 of Ward 4 of Calcasieu Parish issued \$355,000 of Revenue Bonds on September 1, 1970 that were purchased by the Department of Housing and Urban Development. The interest rate on the bonds is 5.375%.

An agreement between the District and the U. S. Department of Housing and Urban Development was reached effective April 13, 2001. This agreement restructured the outstanding debt creating a new repayment plan and forgiving all outstanding interest due as of the date of the agreement. This resulted in a one time extraordinary gain of \$24,708 and an extension of the repayment period to December 1, 2019. The annual requirements to amortize the bonds as of August 31, 2013, are as follows:

Year Ending August 31,	Principal	Interest	Total
2014	119,709	76,394	196,103
2015	22,971	7,029	30,000
2016	24,222	5,778	30,000
2017	25,541	4,459	30,000
2018	26,933	3,067	30,000
2019-2020	38,968	4,020	42,988
Total	<u>\$ 258,344</u>	<u>\$ 100,747</u>	<u>\$ 359,091</u>

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 2 - Bonds Payable (Continued)

The following is a summary of revenue bond payable transactions of the District for the year ended August 31, 2013:

Outstanding at September 1, 2012	\$ 258,344
Bonds Retired	-
Outstanding at August 31, 2013	\$ 258,344

The District has not made the required principal and interest payments for the last five fiscal years.

Note 3 - Meeting Expense

Members of the Board of Commissioners are paid a per diem allowance for attending board meetings. The total expense for meetings during the current year is as follows:

Alvin Noel	\$	540
Josh James		600
Della Smith		540
Raymond Malveaux		600
Raphael Sias		600
Total	\$	2,880

Note 4 - Subsequent Events

The District evaluated its August 31, 2012 financial statements for subsequent events through February 22, 2013, the date the financial statements were available to be issued. The District is not aware of any subsequent events which would required recognition or disclosure in the financial statements.

Note 5 - Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Being Depreciated:				
Truck and Equipment	\$ 83,609	\$ -0-	\$ -0-	\$ 83,609
Distribution System	1,288,098	48,375	-0-	1,336,473
Building and Improvements	48,822	-0-	-0-	48,822
Total Capital Assets Being				
Depreciated	1,1420,529	48,375	-0-	1,468,904
Less Accumulated Depreciation	773,196	33,231	-0-	806,427
Total Capital Assets being				
Depreciated, Net of Depreciation	\$ 647,333	\$ 15,144	\$ -0-	\$ 662,477

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 5 - Capital Assets (continued)

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Being Depreciated:				
Truck and Equipment	\$ 83,018	\$ 591	\$ -0-	\$ 83,609
Distribution System	1,288,098	43,832	2,180	1,288,098
Building and Improvements	48,822	-0-	- 0 -	48,822
Total Capital Assets Being Depreciated	1,378,286	44,423	2,180	1,420,529
Less Accumulated Depreciation	738,219	34,977	-0-	773,196
Total Capital Assets being Depreciated, Net of Depreciation	<u>\$ 640,067</u>	<u>\$ 9,446</u>	<u>\$ 2,180</u>	<u>\$ 647,333</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters for which the District carries commercial insurance.

Note 7 - Cash and Cash Equivalents

At August 31, 2013, the District had cash in one local bank (book balance) totaling \$77,263. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount of deposit with the fiscal agent. These securities are held in the name of the pledging agent bank in a holding or custodial bank that is mutually acceptable to both parties. The District does not have a deposit policy for custodial credit risk. At August 31, 2013, the District had \$112,066 in deposits (collected bank balances). These deposits are secured from risk by \$112,066 of federal deposit insurance.

Even though the pledged securities are considered uncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

Note 8 - Simplified Employee Pension (SEP) Plan

The District sponsors a Simplified Employee Pension (SEP) Plan. Employer contributions under this Plan shall be at the Employer's discretion and based upon the total compensation of each participant. Eligibility requires the employee to have attained the age of twenty-one (21) and to have performed services for the employer in three of the five plan years immediately preceding the plan year for which the contribution is to be made. Contributions were \$- in 2013 and \$- in 2012.

WATERWORKS DISTRICT NO. 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Notes to Financial Statements (Continued)
August 31, 2013 and 2012

Note 9 - Going Concern

The District has incurred net losses totaling approximately \$164,000 during the last five fiscal years. The District has not made any of its required loan payments for the last five fiscal years. Also, there is a potential for a significant number of customers to no longer reside in the district. These factors create an uncertainty about the District's ability to continue as a going concern. Management of the District is presently discussing options with the oversight government (Police Jury) of the District. The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

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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

Board of Commissioners
Waterworks District No. 2 of Ward 4 of
Calcasieu Parish, Louisiana
Westlake, Louisiana

I have audited 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, the financial statements of Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana's basic financial statements, and have issued my report thereon dated February 24, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana'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 Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana's internal control. Accordingly, I do not express an opinion on the effectiveness of Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana'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 Findings and Questioned Costs, I identified a deficiency in internal control that I consider to be a material weakness and another deficiency that I consider to be a significant deficiency.

Board of Commissioners
Waterworks District 2 of Ward 4 of
Calcasieu Parish, Louisiana
Westlake, Louisiana

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs Item 2013-2 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs Item 2013-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterworks District No. 2 of Ward 4, Calcasieu Parish, Louisiana's financial statements are free of 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. The results of our 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 findings and questioned costs as item 2013-03.

District's Responses to Findings

The District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
February 24, 2014

WATERWORKS DISTRICT 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2013

A. Summary of Independent Auditor's Results:

1. Unqualified opinion on financial statements.
2. Significant deficiencies in internal control – refer to B. 2013-01 and 2013-02; material weakness in internal control – refer to B. 2013-02.
3. Material noncompliance – refer to 2013-03.

B. GAGAS Findings:

2013-01 Lack of Segregation of Duties

Finding: There appears to be a lack of segregation of duties with respect to the accounting functions of the District. This is a repeat finding.

Cause: Due to the size of the staff, it is not always feasible to segregate duties.

Effect: The possibility of unauthorized transactions being processed exists.

Recommendation: We recommend that the District's board continue to perform independent review of the items processed through the accounting system in order to strengthen its internal controls.

Management Response: The board of directors shall perform an independent review of items processed through the accounting system in order to strengthen its internal controls.

2013-02 Financial Statement Reporting

Finding: The District maintains its books and records on the modified cash basis of accounting. The District relies on the auditing firm to assist in adjusting the modified cash basis books to accrual basis and to assist in the preparation of external financial statements and related disclosures. Under U. S. generally accepted auditing standards, the auditing firm cannot be considered part of the District's internal control structure and because of the limitations of the accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements. This is a repeat finding.

Management Response: Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

2013-03 Failure to Pay Bond Payments

As disclosed in Note 9 to the financial statements, the District has not made any bond payments for the past five years. Although there are no "bond covenants" for this revenue bond issue, the failure to make payments is a violation of the "contract" between the bond holder and the District. Also, the District has not notified the State Bond Commission of the default as required by Louisiana Revised Statute 39:1410.62.

WATERWORKS DISTRICT 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended August 31, 2013

2013-03 Failure to Pay Bond Payments (continued)

Management Response: Management is will notify the State Bond Commission of the default on the revenue bonds for non- payment. Currently, management is in the process of negotiations with the bond holders regarding the delinquent debt in an effort to resolve the issue.

WATERWORKS DISTRICT 2 OF WARD 4 OF CALCASIEU PARISH
Westlake, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2013

C. Prior Year Findings

2012-1 Lack of Segregation of Duties

Finding: There appears to be a lack of segregation of duties with respect to the accounting functions of the District.

2012-2 Financial Statement Reporting

Finding: The auditing firm prepares the financial statements for the District.