

**SOUTHEAST WATERWORKS
DISTRICT NUMBER 2**

Abbeville, Louisiana

Financial Report

Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of the District's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC

Certified Public Accountants

Abbeville, Louisiana
April 30, 2021

BASIC FINANCIAL STATEMENTS

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Net Position
December 31, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 598,377
Interest-bearing deposits	283,644
Accounts receivables, net of allowance for uncollectibles	128,331
Accrued interest receivable	695
Prepaid expenses	<u>11,215</u>
Total current assets	<u>1,022,262</u>

Restricted assets:

Revenue bond sinking account	33,909
Revenue bond reserve account	164,916
Revenue bond contingency account	24,299
Revenue bond short lived asset account	211,945
Revenue bond short lived asset investments	250,605
Customer deposits	<u>30,150</u>
Total restricted assets	<u>715,824</u>

Capital assets, net	<u>6,999,131</u>
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Easements	<u>10,760</u>
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Total assets	<u>8,747,977</u>
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LIABILITIES

Current liabilities (payable from current assets):

Accounts payable	10,565
Accrued liabilities	6,275
Other liabilities	<u>6,417</u>
Total current liabilities (payable from current assets)	<u>23,257</u>

Current liabilities (payable from restricted assets):

Customer deposits	30,150
Accrued interest on bonds	12,646
Current portion of long term debt	<u>135,259</u>
Total current liabilities (payable from restricted assets)	<u>178,055</u>
Total current liabilities	201,312

Noncurrent liabilities:

Revenue bonds payable	<u>5,012,337</u>
Total liabilities	<u>5,213,649</u>

NET POSITION

Net investment in capital assets	1,986,794
Restricted for debt service	50,920
Restricted for equipment acquisition	486,849
Unrestricted	<u>1,009,765</u>
Total net position	<u>\$ 3,534,328</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2020

Operating revenues:	
Charges for services -	
Water sales	\$ 1,103,436
Penalties	16,408
Reconnection fees	17,562
Meter fees	27,740
Miscellaneous income	<u>2,924</u>
Total operating revenues	<u>1,168,070</u>
Operating expenses:	
Salaries	203,020
Payroll taxes	14,831
Group and life insurance	39,384
Retirement	14,921
Insurance	28,716
Supplies	11,810
Telephone and utilities	39,149
Chemicals	81,533
Meter installation and reading	24,483
Depreciation	304,109
Professional fees	33,416
Maintenance and repairs	125,274
Automobile expense	8,356
Printing, postage and publications	8,826
Bank charges	1,053
Other	<u>30,665</u>
Total operating expenses	<u>969,546</u>
Operating income	<u>198,524</u>
Nonoperating revenues (expenses):	
Interest income	11,845
Gain on investments	15,424
Intergovernmental income	7,873
Loss on disposal of assets	(4,892)
Interest expense	<u>(185,692)</u>
Total nonoperating revenues (expenses)	<u>(155,442)</u>
Change in net position	43,082
Net position, beginning	<u>3,491,246</u>
Net position, ending	<u>\$ 3,534,328</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows
Year Ended December 31, 2020

Cash flows from operating activities:	
Receipts from customers	\$ 1,152,543
Payments to suppliers	(400,594)
Payments to employees and related costs	(272,136)
Miscellaneous income	<u>2,922</u>
Net cash provided by operating activities	<u>482,735</u>
 Cash flows from noncapital financing activities:	
Increase in meter deposits	<u>400</u>
 Cash flows from capital and related financing activities:	
Proceeds from capital debt	29,639
Principal paid on long-term debt	(127,508)
Interest paid on long-term debt	(191,413)
Capital grants	7,873
Acquisition and construction of capital assets	<u>(37,291)</u>
Net cash used by capital and related financing activities	<u>(318,700)</u>
 Cash flows from investing activities:	
Proceeds of interest-bearing deposits with maturity in excess of ninety days	279,726
Purchase of interest-bearing deposits with maturity in excess of ninety days	(283,644)
Interest income	<u>11,845</u>
Net cash provided by investing activities	<u>7,927</u>
 Net change in cash and cash equivalents	172,362
 Cash and cash equivalents, beginning of period	<u>891,234</u>
 Cash and cash equivalents, end of period	<u><u>\$ 1,063,596</u></u>

(continued)

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2020

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 198,524
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	304,109
Provision for bad debts	2,234
(Increase) decrease in operating assets -	
Receivables, gross	(14,839)
Increase (decrease) in operating liabilities -	
Accounts payable	(7,313)
Accrued liabilities	<u>20</u>
Net cash provided by operating activities	<u>\$ 482,735</u>

Cash and cash equivalents, end of period -

Current	\$ 598,377
Restricted	
Revenue bond sinking account	33,909
Revenue bond reserve account	164,916
Revenue bond contingency account	24,299
Revenue bond short lived asset account	211,945
Customer deposits	<u>30,150</u>
	<u>\$ 1,063,596</u>

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

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

The financial statements of Southeast Waterworks District Number 2 (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the District's accounting policies are described below.

A. Financial Reporting Entity

The District was created under the provisions of Louisiana Revised Statutes 33:3811, for the purpose of providing water to the rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of six members appointed by the Vermilion Parish Police Jury.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which 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.

Because the Vermilion Parish Police Jury appoints the District's governing body, the District was determined to be a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the governmental entity with oversight responsibility. The accompanying financial statements present information only on the proprietary fund maintained by the District and do not present information on the Vermilion Parish Police Jury, the general government services provided by that governmental entity, or the other governmental entities that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities and as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board.

C. Fund Accounting

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The District maintains only one fund and it is described below:

Proprietary Fund –

Enterprise Fund

The Enterprise fund is 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.

D. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The enterprise fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating 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 are charges to customers for sales and services. 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 nonoperating 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.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. They are stated at cost, which approximates market.

Investments

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized costs, which approximate fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Enterprise fund activities report customer's utility service receivables as their major receivables. This receivable is reported net of an allowance for doubtful accounts. The allowance amount at December 31, 2020 is \$ \$50,882.

Unbilled receivables resulting from services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. They are reported at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated acquisition cost at the date of donation. The District maintains a threshold level of \$1,000 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the year was \$180,588, none of which was capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Buildings	40 years
Utility System and Improvements	25-50 years
Equipment	5-10 years

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Equity Classifications

Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

- a. Net investment in capital assets – Consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- b. Restricted net position – Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- c. Unrestricted net position – Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in either of the other two categories of net position.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

F. Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. 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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

(2) Cash and Cash Equivalents

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of the state banks organized under Louisiana law and national banks having principal offices in Louisiana.

These deposits are stated at cost, which approximates market. Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or the District will not be able to recover the collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk; however, 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 pledging financial institution. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the financial institution. These securities are held in the name of the pledging financial institution in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) are as follows:

Bank balances	<u>\$ 1,346,739</u>
Deposits are secured as follows:	
Insured deposits	500,000
Uninsured and collateral held by the pledging bank not in the District's name	<u>846,739</u>
Total	<u>\$ 1,346,739</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(3) Investments

Under state law, the District may invest in direct United States Treasury obligations, bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by federal agencies, provided such obligations are backed by the full faith and credit of the United States of America, bonds, debentures, notes, or other indebtedness issued by the state of Louisiana or any of its political subdivisions or by a state of the United States of America other than Louisiana or any such state's political subdivisions.

The District has investments as follows:

<u>Description</u>	<u>Reported Amount/ Market Value</u>
Restricted	
Government Related	<u>\$ 250,605</u>

The District has adopted a conservative investment policy for other investments. This policy's objective is to generate risk-adjusted returns with investments in government agency bonds with an emphasis on a 1-5 year term area.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the District's debt type investments to this risk, using the segmented time distribution model is as follows:

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Cash and cash equivalents-				
Restricted				
Money market (Rated AAAm)	<u>\$ 844</u>	<u>\$ 844</u>	<u>\$ -</u>	<u>\$ -</u>
Investments-				
Restricted				
Government Related	<u>\$ 250,605</u>	<u>\$ -</u>	<u>\$ 250,605</u>	<u>\$ -</u>

Credit risk is managed by restricting investments to those authorized by R.S. 33:2955.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Concentrations: The District's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity. Securities from issuers totaling five percent or more of a portfolio are as follows:

	<u>Rating</u>	<u>Percentage</u>
Government related:		
New Jersey Economic Development Authority	AA	100.00%

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District does not have custodial credit risk policies for investments.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are observable inputs such as quoted prices in active markets for identical assets; level 2 inputs are inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; level 3 inputs are unobservable inputs where there is little or no market data, which require the District to develop its own assumptions.

The District has the following recurring fair value measurements:

<u>Asset Class</u>	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents -				
Restricted				
Money market	<u>\$ 844</u>	<u>\$ 844</u>	<u>\$ -</u>	<u>\$ -</u>
Investments-				
Restricted				
Government Related	<u>\$ 250,605</u>	<u>\$ -</u>	<u>\$ 250,605</u>	<u>\$ -</u>

(4) Accounts Receivables

Accounts receivables consist of the following:

Accounts receivable	\$ 138,623
Unbilled water	<u>40,590</u>
	179,213
Less allowance for doubtful accounts	<u>(50,882)</u>
Total	<u>\$ 128,331</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

The aging of the accounts receivable is as follows:

Current	\$ 75,243
31 - 60 days	10,490
61 - 90 days	2,008
Over 90 days	<u>50,882</u>
Total	<u>\$ 138,623</u>

(5) Restricted Assets

Restricted assets consisted of the following:

Revenue bond sinking account	\$ 33,909
Revenue bond reserve account	164,916
Revenue bond contingency account	24,299
Revenue bond short lived asset account	211,945
Revenue bond short lived asset investments	250,605
Customer deposits	<u>30,150</u>
Total restricted assets	<u>\$ 715,824</u>

(6) Capital Assets

Capital asset activity was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 17,477	\$ -	\$ -	\$ 17,477
Capital assets being depreciated:				
Buildings	182,215	-	-	182,215
Equipment	103,966	33,879	-	137,845
Utility system improvements	<u>10,133,868</u>	<u>3,412</u>	<u>50,228</u>	<u>10,087,052</u>
Total capital assets	<u>10,437,526</u>	<u>37,291</u>	<u>50,228</u>	<u>10,424,589</u>
Less accumulated depreciation	<u>3,166,685</u>	<u>304,109</u>	<u>45,336</u>	<u>3,425,458</u>
Capital assets, net	<u>\$ 7,270,841</u>	<u>\$ (266,818)</u>	<u>\$ 4,892</u>	<u>\$ 6,999,131</u>

Total depreciation expense for the year was \$304,109.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(7) Long-Term Debt

The following changes occurred in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Direct Placement Revenue bonds	<u>\$ 5,275,104</u>	<u>\$ -</u>	<u>\$ (127,508)</u>	<u>\$ 5,147,596</u>

Long-term debt payable is composed of the following issues:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Balance Outstanding</u>	<u>Due Within One Year</u>
Direct Placement Revenue Bonds					
Water Revenue Bonds					
Series 1995	5/12/1995	3/1/2035	4.50%	\$ 416,878	21,391
Water Revenue Bonds					
Series 1995	5/12/1995	3/1/2035	4.50%	42,166	2,166
Water Revenue Bonds					
Series 1998	3/16/1998	3/1/2038	4.88%	219,942	8,116
Water Revenue Bonds					
Series 2007	7/20/2007	7/1/2047	4.25%	2,271,419	47,182
Water Revenue Bonds					
Series 2007	7/20/2007	7/1/2047	4.25%	193,208	4,011
Water Revenue Bonds					
Series 2013	8/14/2013	7/1/2053	2.75%	<u>1,473,052</u>	<u>28,393</u>
Total				<u>\$ 4,616,665</u>	<u>\$ 111,259</u>
	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Balance Outstanding</u>	<u>Due Within One Year</u>
Direct Placement					
Taxable Water Revenue Bond	2/1/2018	3/1/2038	2.45%	<u>\$ 530,931</u>	<u>\$ 24,000</u>

In the event that the Water Revenue Bonds are in default, the bonding agency has the right to compel the performance of all duties, including the fixing, charging, and collecting of rentals, fees or other charges for the use of the System. The Bond owner may also appoint an agent to take possession of the System to hold, operate, maintain, manage and control the System in the name of the bond owner. This agent shall

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

collect and receive all fees, rentals, and other revenues, maintain and operate the System in a manner to compensate the bond issuer for the amount owed, until the bond is repaid in full. There are no default provisions for the Taxable Water Revenue Bond in the bond agreement.

The annual requirements to amortize all debt outstanding is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 135,259	\$ 184,751	320,010
2022	139,755	179,787	319,542
2023	145,440	174,624	320,064
2024	151,320	169,245	320,565
2025	156,406	163,654	320,060
2026-2030	878,098	726,151	1,604,249
2031-2035	1,024,470	548,672	1,573,142
2036-2040	903,667	369,467	1,273,134
2041-2045	912,094	205,481	1,117,575
2046-2050	532,359	52,858	585,217
2051-2055	<u>168,728</u>	<u>6,212</u>	<u>174,940</u>
Total	<u>\$ 5,147,596</u>	<u>\$ 2,780,902</u>	<u>\$ 7,928,498</u>

(8) Flow of Funds: Restrictions on Use - Utility Revenues

Under the terms of the various bond indentures on outstanding Water Revenue Bonds, all income and revenue of every nature, earned or derived from operations of the District are pledged and dedicated to the retirement of said bonds and are to be deposited in funds in the following order of priority and for the following express purposes:

All revenue must be deposited into a "Water Revenue Fund" to be first used for the payment of all reasonable and necessary expenses of operating and maintaining the System.

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose.

Waterworks Reserve Fund - The District is required to set aside \$1,191 monthly until \$285,890 has been accumulated.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$1,191 monthly until \$285,890 has been accumulated in the Waterworks Reserve Fund, then deposits increase to \$2,383 monthly.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

Waterworks Short-lived Assets Fund- The District is required to deposit \$6,303 per month into this fund. Monies in this fund shall be used to pay for the maintenance and replacement of short-lived assets of the system.

Taxable Water Revenue Bonds Sinking Fund - Under the agreement with LDH, the District is required to make monthly deposits of an amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose.

Taxable Water Revenue Bonds Reserve Fund – The District is required to set aside \$20,650 annually.

All the revenues received in any fiscal year and that are not required to be paid into any of the above noted funds in such fiscal year shall be regarded as surplus and may be used for any lawful purpose.

All required transfers were made for the year ended December 31, 2020.

(9) Retirement Commitments

All full-time employees participate in a SEP-IRA defined contribution plan after six months of service. The District contributes 7.5 percent of each participant's gross pay. All amounts are vested immediately, and the plan does not allow employee contributions. Total contributions were \$14,921.

(10) Risk Management

The District is exposed to risks of loss in the areas of general liability, property hazards and worker's compensation. All these risks are handled by purchasing commercial insurance coverage. There have been no significant reductions in the insurance during the year. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

(11) Pending Litigation

The District is subject to various lawsuits and claims, many of which arise in the normal course of business. Although their outcome is not presently determinable, it is the opinion of legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Notes to Basic Financial Statements

(12) Compensation of Board Members

The following is a list of the commissioners and compensation paid.

<u>Commissioner</u>	<u>Term expiration date</u>	<u>Compensation</u>
Clint Dugas 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	April 19, 2025	\$ 825
Sandra C Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	March 7, 2021	600
Kelly Richard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	February 5, 2025	750
Susan Wilhelm 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 8, 2023	525
Byron Perry 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	May 4, 2023	525
Shelby Bernard 417 Trahan Street, Abbeville, LA 70510 (337) 892-1072	December 31, 2020	<u>675</u>
		<u>\$ 3,900</u>

Clint Dugas serves as the Board Chairman. No compensation benefits, or other payments, have been made to him beyond those listed above.

(13) Change in Accounting Principle

In March 2018, the Governmental Accounting Standards Board (GASB) issues Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The statement increases the usefulness of the government's financial statements by requiring that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of GASB Statement No. 88 became effective during the year and was implemented accordingly.

SUPPLEMENTARY INFORMATION

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Number of Utility Customers and Water Rates
December 31, 2020

Records maintained by the Southeast Waterworks District Number 2 indicated the following number of customers were being serviced during the month of December 31, 2020:

Residential	2,193
Commercial	<u>75</u>
	<u>2,268</u>

The water rates of the District are as follows:

Residential rates:

\$16.00 per month for the first 2,000 gallons, then
\$ 6.25 per 1,000 gallons over 2,000 gallons

Commercial rates:

\$50.00 per month for the first 5,000 gallons, then
\$ 7.70 per 1,000 gallons over 5,000 gallons

Penalty for paying water bill after due date:

Additional ten percent (10%) of total water charge

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Insurance in Force
December 31, 2020

Coverage Provided For	Limits of Coverage (in dollars)	Expiration Date
Workers Compensation	Statutory	07/01/21
Employee Fidelity Bond		10/03/23
Board President	\$ 310,000	
Vice-President	\$ 310,000	
Secretary	\$ 310,000	
Office Manager	\$ 310,000	
Plant Manager	\$ 310,000	
Office Secretary	\$ 310,000	
Automobile Liability (Each Accident)	\$ 1,000,000	07/01/21
General Premises Liability		07/01/21
Each Occurrence	\$ 1,000,000	
General Aggregate	\$ 3,000,000	
Blanket Building and Contents	\$ 1,379,683	07/01/21
Commercial Flood Coverage		05/26/21
Buildings	\$ 404,100	
Contents	\$ 500,000	

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
Current assets:		
Cash and cash equivalents	\$ 598,377	\$ 412,775
Interest-bearing deposits	283,644	279,726
Accounts receivables, net of allowance for uncollectibles	128,331	115,726
Due from other governments	-	29,639
Accrued interest receivable	695	695
Prepaid expenses	11,215	11,215
Total current assets	<u>1,022,262</u>	<u>849,776</u>
Restricted assets:		
Revenue bond sinking account	33,909	30,450
Revenue bond reserve account	164,916	163,245
Revenue bond contingency account	24,299	67,646
Revenue bond short lived asset account	211,945	187,368
Revenue bond short lived asset investment	250,605	235,181
Customer deposits	30,150	29,750
Total restricted assets	<u>715,824</u>	<u>713,640</u>
Capital assets, net	<u>6,999,131</u>	<u>7,270,841</u>
Easements	<u>10,760</u>	<u>10,760</u>
Total assets	<u>8,747,977</u>	<u>8,845,017</u>
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	10,565	17,878
Accrued liabilities	6,275	6,255
Total current liabilities (payable from current assets)	<u>16,840</u>	<u>24,133</u>
Current liabilities (payable from restricted assets):		
Customer deposits	30,150	29,750
Accrued interest on bonds	12,646	18,367
Current portion of long term debt	135,259	128,944
Other Liabilities	6,417	6,417
Total current liabilities (payable from restricted assets)	<u>184,472</u>	<u>183,478</u>
Total current liabilities	201,312	207,611
Noncurrent liabilities:		
Revenue bonds payable	5,012,337	5,146,160
Total liabilities	<u>5,213,649</u>	<u>5,353,771</u>
NET POSITION		
Net investment in capital assets	1,986,794	2,124,681
Restricted for debt service	50,920	46,384
Restricted for equipment acquisition	486,849	490,195
Unrestricted	1,009,765	829,986
Total net position	<u>\$ 3,534,328</u>	<u>\$ 3,491,246</u>

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Comparative Statements of Revenues, Expenses and Changes in Net Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Charges for services -		
Water sales	\$ 1,103,436	\$ 897,347
Penalties	16,408	18,936
Reconnection fees	17,562	9,900
Meter fees	27,740	18,250
Miscellaneous income	<u>2,924</u>	<u>6,472</u>
Total operating revenues	<u>1,168,070</u>	<u>950,905</u>
Operating expenses:		
Salaries	203,020	201,771
Payroll taxes	14,831	14,764
Group and life insurance	39,384	37,597
Retirement	14,921	14,157
Insurance	28,716	28,313
Supplies	11,810	11,124
Telephone and utilities	39,149	43,473
Chemicals	81,533	79,836
Meter installation and reading	24,483	13,790
Depreciation	304,109	304,404
Professional fees	33,416	19,833
Maintenance and repairs	125,274	59,680
Automobile expense	8,356	9,147
Printing, postage and publications	8,826	11,879
Bank charges	1,053	1,351
Other	<u>30,665</u>	<u>26,139</u>
Total operating expenses	<u>969,546</u>	<u>877,258</u>
Operating income	<u>198,524</u>	<u>73,647</u>
Nonoperating revenues (expenses):		
Interest income	11,845	8,922
Gain on investments	15,424	18,211
Intergovernmental income	7,873	7,023
Loss on disposal of assets	(4,892)	-
Interest expense	<u>(185,692)</u>	<u>(204,423)</u>
Total nonoperating revenues (expenses)	<u>(155,442)</u>	<u>(170,267)</u>
Change in net position	43,082	(96,620)
Net position, beginning	<u>3,491,246</u>	<u>3,587,866</u>
Net position, ending	<u>\$ 3,534,328</u>	<u>\$ 3,491,246</u>

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Commissioners
Southeast Waterworks District
Number 2
Abbeville, Louisiana

We 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 the business-type activities of Southeast Waterworks District Number 2 (District), a component unit of the Vermilion Parish Police Jury, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 30, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as items 2020-001 and 2020-002, which we consider to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Finding

The District's responses to the findings identified in our audit is described in the accompanying schedule of current and prior year audit findings and management's corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
April 30, 2021

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended December 31, 2020

Part I: Current Year Findings and Management's Corrective Action Plan

A. Internal Control Over Financial Reporting

2020-001 Inadequate Segregation of Accounting Functions

CONDITION: The District did not have adequate segregation of functions within the accounting system.

CRITERIA: AU-C §315.04, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, defines internal control as follows:

“Internal control is a process, affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.”

CAUSE: The cause of the condition is the fact that the District does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Management should reassign incompatible duties among different employees to ensure that a single employee does not have control of more than one of the following responsibilities: (1) authorization; (2) custody; (3) recordkeeping; and (4) reconciliation.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board of Commissioners concurs with the audit finding. Due to size of staffing, the achievement of adequate segregation of duties is desirable, but cost prohibitive. All efforts are given to segregate duties where feasible. In an effort to establish more sound controls the Board of Commissioners monitors activity and balances in all fund accounts.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2020

2020-002 Application of Generally Accepted Accounting Principles (GAAP)

Fiscal year finding initially occurred: Unknown

CONDITION: Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to governmental entities in the financial statement preparation process.

CRITERIA: The District's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statement, including the ability of its management and staff to detect potential misstatements that may exist in the financial statements and related disclosures.

CAUSE: The cause of the condition results from a reliance on the external auditor as part of the internal control process.

EFFECT: Financial statements and related supporting transactions may reflect a departure from generally accepted accounting principles.

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

MANAGEMENT'S CORRECTIVE ACTION PLAN: We evaluated the cost vs. benefit of establishing enhanced controls over financial reporting and determined that it would not be cost effective to enhance these controls. Currently, our financial staff receive annual training related to their job duties. Additionally, we carefully review the financial statements, related notes and all proposed journal entries. All questions are adequately answered by our Auditors to allow us to appropriately supervise these functions. We feel that we have taken appropriate steps to reduce the financial statement risk caused by this finding.

B. Compliance

There are no compliance findings to the report.

SOUTHEAST WATERWORKS DISTRICT NO. 2
Abbeville, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended December 31, 2020

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2019-001 Inadequate Segregation of Accounting Functions

CONDITION: The District did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Management should reassign incompatible duties among different employees to ensure that a single employee does not have control of more than one of the following responsibilities: (1) authorization; (2) custody; (3) recordkeeping; and (4) reconciliation.

CURRENT STATUS: Unresolved. See item 2020-001.

2019-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The District does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

CURRENT STATUS: Unresolved. See item 2020-002

B. Compliance

There were no compliance findings to the report.