

TOWN OF WATERPROOF, LOUISIANA

ANNUAL FINANCIAL STATEMENTS

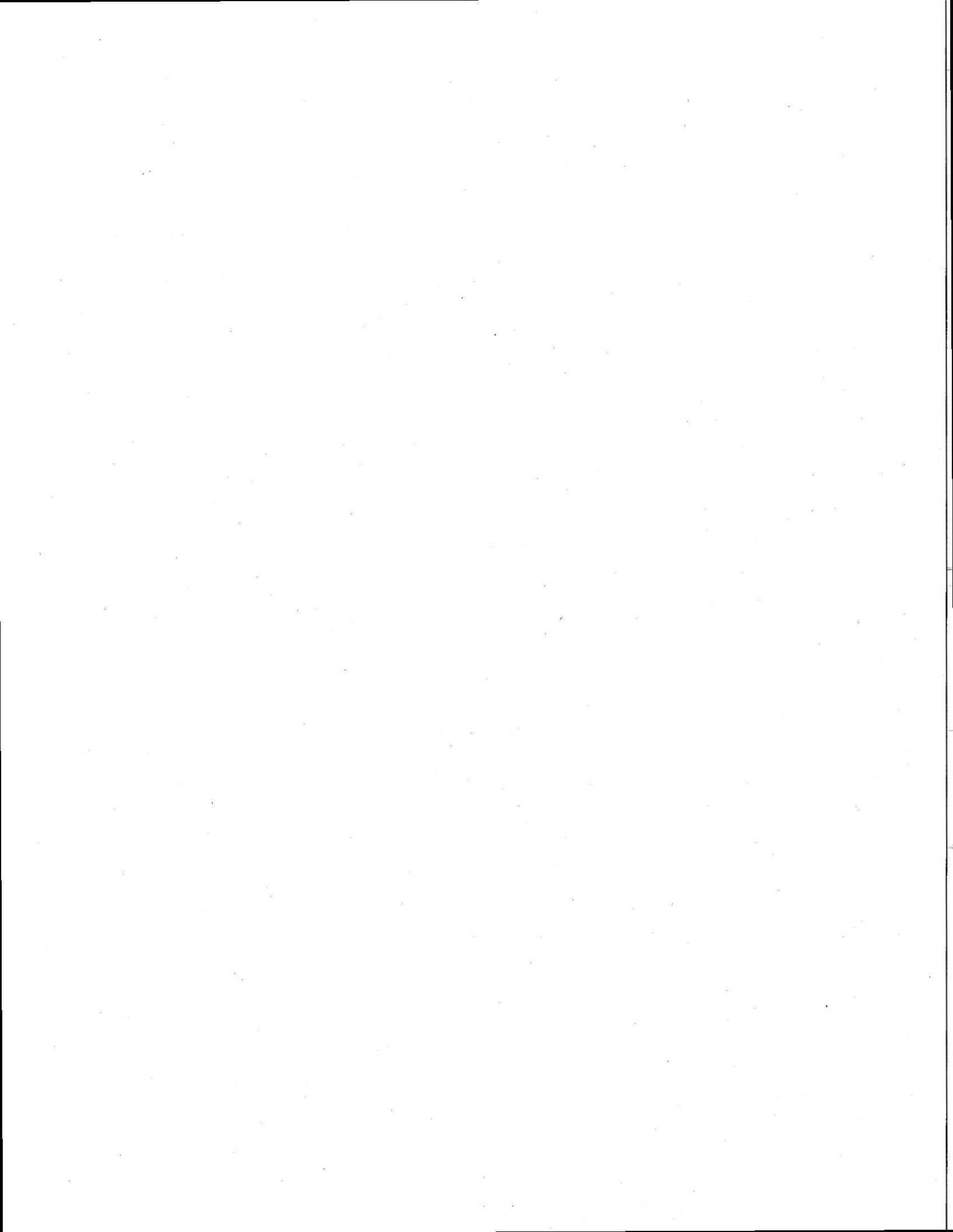
AS OF JUNE 30, 2012
AND FOR THE YEAR ENDED

WITH
INDEPENDENT AUDITOR'S REPORT



SILAS SIMMONS LLP

CERTIFIED PUBLIC ACCOUNTANTS *and* ADVISORS



TOWN OF WATERPROOF, LOUISIANA

Annual Financial Statements
As of and for the Year Ended June 30, 2012
With Supplemental Information Schedules

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TOWN OF WATERPROOF, LOUISIANA

Annual Financial Statements
As of and for the Year Ended June 30, 2012
With Supplemental Information Schedules

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waterproof, Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waterproof, Louisiana as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013, on our consideration of the Town of Waterproof, Louisiana's internal control over financial reporting and our test 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 26 and 27 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This report is intended for the information of the Mayor, Members of the Board of Aldermen, Management of Town of Waterproof, Louisiana, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Silas Simmons, LLP

Natchez, Mississippi
March 26, 2013

**SECTION I
REQUIRED SUPPLEMENTAL INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

As management of the Town of Waterproof, Louisiana, we offer readers of the Town of Waterproof, Louisiana's financial statements this narrative overview of the financial activities of the Town for the fiscal years ended June 30, 2012 and June 30, 2011. The intent of this discussion and analysis is to look at the Town's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the Town's financial performance.

The Town of Waterproof, Louisiana is located on Highway 65 in South Tensas Parish, Louisiana.

FINANCIAL HIGHLIGHTS

The financial statements included in this report provide insight into the financial status for the year. Based upon the operations of the years ended June 30, 2012, the Town of Waterproof, Louisiana's net assets increased and resulted in ending net assets of \$2,393,410 at June 30, 2012. Net assets decreased during the year ended June 30, 2011 and resulted in net assets of \$1,819,582.

1. The cash balance for the Town of Waterproof was \$36,713 at June 30, 2010. The balance was \$108,458 at June 30, 2011, and \$222,242 at June 30, 2012.
2. The governmental activities had \$882,420 in revenues in 2012 and \$364,102 in 2011. These revenues primarily consisted of fines, sales taxes, ad valorem taxes, capital grants, and occupational licenses. Governmental activities had \$336,696 in expenditures in 2012 and \$327,588 in 2011.

The Town's business activities had \$652,332 in revenues in 2012 and \$566,191 in 2011. Revenues consisted primarily of gas and water sales. Business activities had \$624,228 in expenditures in 2012 and \$623,115 in 2011.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Waterproof, Louisiana's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year.

The government-wide financial statements outline functions of the Town that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt are also supported by taxes and intergovernmental revenue.

The government-wide financial statements can be found on pages 6-7 of this report.

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Financial Statements. A fund is an accountability unit to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole.

The basic governmental fund financial statements are presented on pages 8 - 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 - 25 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$2,393,410 as of June 30, 2012.

The following is a condensed statement of the Town of Waterproof, Louisiana's net assets as of June 30, 2012 and 2011:

	Governmental Activities	Business Type Activities	Totals	
			2012	2011
Current assets	\$ 162,123	\$ 152,758	\$ 314,881	\$ 221,172
Restricted assets	-	5,548	5,548	575
Noncurrent assets - capital assets	<u>794,511</u>	<u>1,794,267</u>	<u>2,588,778</u>	<u>2,234,910</u>
Total assets	<u>\$ 956,634</u>	<u>\$ 1,952,573</u>	<u>\$ 2,909,207</u>	<u>\$ 2,456,657</u>
Current liabilities	\$ 13,287	\$ 68,727	\$ 82,014	\$ 191,916
Noncurrent liabilities	-	<u>433,783</u>	<u>433,783</u>	<u>445,159</u>
Total liabilities	<u>\$ 13,287</u>	<u>\$ 502,510</u>	<u>\$ 515,797</u>	<u>\$ 637,075</u>
Net assets				
Investment in capital assets, net of related debt	\$ 794,511	\$ 1,349,108	\$ 2,143,619	\$ 1,774,235
Restricted for debt service and deposits	-	4,922	4,922	575
Unrestricted	<u>148,836</u>	<u>96,033</u>	<u>244,869</u>	<u>44,772</u>
Total net assets	<u>\$ 943,347</u>	<u>\$ 1,450,063</u>	<u>\$ 2,393,410</u>	<u>\$ 1,819,582</u>

**TOWN OF WATERPROOF, LOUISIANA
MANAGEMENT'S DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following is a summary of the statement of activities:

	Governmental Activities	Business Type Activities	Totals	
			2012	2011
Revenues and Transfers				
Program revenues	\$ 290,016	\$ 652,332	\$ 942,348	\$ 808,991
Capital grants	527,811	-	527,811	55,690
General revenues	64,593	-	64,593	65,612
Transfers	<u>73,522</u>	<u>(73,522)</u>	<u>-</u>	<u>-</u>
Total revenues and transfers	<u>\$ 955,942</u>	<u>\$ 578,810</u>	<u>\$ 1,534,752</u>	<u>\$ 930,293</u>
Expenses				
General government and public safety	\$ 336,446	\$ -	\$ 336,446	\$ 326,426
Interest on debt	250	-	250	1,162
Combined utility	<u>-</u>	<u>624,228</u>	<u>624,228</u>	<u>623,115</u>
Total expenses	<u>\$ 336,696</u>	<u>\$ 624,228</u>	<u>\$ 960,924</u>	<u>\$ 950,703</u>
Increase (decrease) in net assets	\$ 619,246	\$ (45,418)	\$ 573,828	\$ (20,410)
Net assets, beginning	<u>324,101</u>	<u>1,495,481</u>	<u>1,819,582</u>	<u>1,839,992</u>
Net assets, ending	<u>\$ 943,347</u>	<u>\$ 1,450,063</u>	<u>\$ 2,393,410</u>	<u>\$ 1,819,582</u>

COMMENTS ON GENERAL FUND COMPARISONS

The Town's budget was amended once during the last year. The budgeted expenditures were \$871,354 and the revenues net of transfers in were \$892,730.

CAPITAL ASSETS

As of June 30, 2012, the Town had \$794,511 invested in capital assets in the general fund and \$1,794,267 in the proprietary fund net of accumulated depreciation.

The following capital assets were purchased during the fiscal year ended June 30, 2012:

Copy/fax machine	\$ 3,495
Gas and diesel generators	4,500
Computers and software	10,275
Streets	<u>494,028</u>
Total	<u>\$ 512,298</u>

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Any questions about this report or request for additional information may be directed to Mayor Caldwell Flood at (318) 749-5233.

SECTION II
GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 130,675	\$ 91,567	\$ 222,242
Receivables (net of allowance for uncollectible amounts)	31,448	57,936	89,384
Inventory	-	3,255	3,255
Other assets	-	626	626
Restricted assets	-	4,922	4,922
Capital assets (net)	<u>794,511</u>	<u>1,794,267</u>	<u>2,588,778</u>
Total assets	<u>\$ 956,634</u>	<u>\$ 1,952,573</u>	<u>\$ 2,909,207</u>
<u>LIABILITIES</u>			
Accounts, salaries, and other payables	\$ 13,287	\$ 23,192	\$ 36,479
Customer deposits	-	34,159	34,159
Long-term liabilities:			
Due within one year	-	11,376	11,376
Due in more than one year	<u>-</u>	<u>433,783</u>	<u>433,783</u>
Total liabilities	<u>\$ 13,287</u>	<u>\$ 502,510</u>	<u>\$ 515,797</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 794,511	\$ 1,349,108	\$ 2,143,619
Restricted for:			
Debt service	-	4,150	4,150
Customer deposits	-	772	772
Unrestricted	<u>148,836</u>	<u>96,033</u>	<u>244,869</u>
Total net assets	<u>\$ 943,347</u>	<u>\$ 1,450,063</u>	<u>\$ 2,393,410</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Activities	Program Revenues			Net (Expenses), Revenues, and Changes in Net Assets		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities						
General government and public safety	\$ 336,446	\$ 290,016	\$ 527,811	\$ 481,381	\$ -	\$ 481,381
Interest on long-term debt	250	-	-	(250)	-	(250)
Total governmental activities	\$ 336,696	\$ 290,016	\$ 527,811	\$ 481,131	\$ -	\$ 481,131
Business-type activities						
Utilities	\$ 624,228	\$ 652,332	\$ -	\$ -	\$ 28,104	\$ 28,104
Total	\$ 960,924	\$ 942,348	\$ 527,811	\$ 481,131	\$ 28,104	\$ 509,235
General Revenues:						
Taxes				\$ 64,593	\$ -	\$ 64,593
Transfers				73,522	(73,522)	-
Total general revenues and transfers				\$ 138,115	\$ (73,522)	\$ 64,593
Change in net assets				\$ 619,246	\$ (45,418)	\$ 573,828
Net assets, beginning of year				324,101	1,495,481	1,819,582
Net assets, end of year				\$ 943,347	\$ 1,450,063	\$ 2,393,410

The accompanying notes are an integral part of this financial statement.

SECTION III
FUND FINANCIAL STATEMENTS

TOWN OF WATERPROOF, LOUISIANA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General Fund</u>
 <u>ASSETS</u>	
Cash	\$ 130,675
Receivables (net of allowance for uncollectible accounts)	<u>31,448</u>
Total assets	<u>\$ 162,123</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts, salaries, and other payables	<u>\$ 13,287</u>
Fund balance:	
Unassigned	<u>\$ 148,836</u>
Total liabilities and fund balance	<u>\$ 162,123</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Fund balances, total governmental funds (Statement C)	\$ <u>148,836</u>
Amounts reported for governmental activities in the statement of net assets (Statement A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:	
Land	\$ 23,308
Building improvements, net of \$126,828 accumulated depreciation	213,362
Automobiles and equipment, net of \$341,099 accumulated depreciation	19,252
Streets, net of \$9,129 accumulated depreciation	<u>538,589</u>
Total capital assets	\$ <u>794,511</u>
Net assets of governmental activities (Statement A)	\$ <u><u>943,347</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>
<u>REVENUES</u>	
Taxes	\$ 64,593
Licenses and permits	13,339
Intergovernmental:	
Federal grant	452,736
State grant	75,075
Fines	248,356
Charges for services	23,080
Miscellaneous	5,241
Total revenues	<u>\$ 882,420</u>
<u>EXPENDITURES</u>	
Current	
General government and public safety	\$ 297,913
Debt service:	
Principal	12,620
Interest	250
Capital outlays	504,303
Total expenditures	<u>\$ 815,086</u>
Excess of revenues under expenditures	<u>\$ 67,334</u>
Other financing sources:	
Transfers in	\$ 151,318
Transfers (out)	<u>(77,796)</u>
Total other financing sources	<u>\$ 73,522</u>
Net changes in fund balances	\$ 140,856
Fund balances, beginning of year	<u>7,980</u>
Fund balances, end of year	<u><u>\$ 148,836</u></u>

The accompanying notes are an integral part of this financial statement.

**TOWN OF WATERPROOF, LOUISIANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balance, total governmental funds, (Statement E)	\$	140,856
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Thus, the change in net assets differs from the change in fund balance by the amount that capital outlays of \$504,303 exceeded depreciation of \$38,533 in the current period.</p>		
		465,770
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balance by the amount that debt repayments of \$12,620 exceeds proceeds from the issuance of debt of \$0.</p>		
		<u>12,620</u>
Change in net assets of governmental activities, (Statement B)	\$	<u>619,246</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Utility Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash	\$ 91,567
Accounts receivable, utility sales (net of allowance for doubtful accounts of (\$42,265))	57,936
Inventory	3,255
Other	626
Total current assets	<u>\$ 153,384</u>
Noncurrent assets - restricted assets:	
Bond reserve fund	\$ 1,920
Bond contingency fund	2,230
Customer deposits	772
Total noncurrent assets - restricted assets	<u>\$ 4,922</u>
Capital assets:	
Property, plant, and equipment	\$ 5,518,128
Less accumulated depreciation	(3,723,861)
Net capital assets	<u>\$ 1,794,267</u>
Total assets	<u>\$ 1,952,573</u>
 <u>LIABILITIES</u>	
Current liabilities (payable from current assets):	
Accounts payable	\$ 23,192
Total current liabilities payable from current assets	<u>\$ 23,192</u>
Current liabilities (payable from restricted assets):	
Customer deposits	\$ 34,159
Current portion of long-term debt	11,376
Total current liabilities payable from restricted assets	<u>\$ 45,535</u>
Long-term liabilities	<u>\$ 433,783</u>
Total liabilities	<u>\$ 502,510</u>
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 1,349,108
Restricted for debt service	4,150
Restricted for customer deposits	772
Unrestricted	96,033
Total net assets	<u>\$ 1,450,063</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Utility Fund</u>
Operating revenue:	
Charges for services	
Gas sales	\$ 375,940
Water sales	211,228
Sewer service sales	46,284
Garbage sales	18,845
Miscellaneous revenue	35
Total operating revenue	<u>\$ 652,332</u>
Operating expenses:	
Gas purchases	\$ 99,379
Water purchases	92,430
Salaries	63,281
Provision for bad debts	100,000
Depreciation	119,897
Utilities	28,340
Payroll taxes	5,822
Repairs	18,197
Testing and outside services	36,231
Office supplies	1,833
Telephone	954
Dues and subscriptions	3,937
Automobile expenses	13,278
Professional fees	3,121
Other expenses	17,223
Total operating expenses	<u>\$ 603,923</u>
Operating income	<u>\$ 48,409</u>
Nonoperating expenses	
Interest expense	\$ (20,305)
Total nonoperating expenses	<u>\$ (20,305)</u>
Operating transfers	
Transfers in	\$ 77,796
Transfers (out)	<u>(151,318)</u>
Total operating transfers	<u>\$ (73,522)</u>
Net changes in fund balances (deficit)	\$ (45,418)
Fund balances, beginning of year	<u>1,495,481</u>
Fund balances, end of year	<u>\$ 1,450,063</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF WATERPROOF, LOUISIANA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Cash received from customers	\$ 569,968
Cash paid to employees	(63,281)
Cash paid to suppliers	<u>(331,787)</u>
Net cash provided by operating activities	<u>\$ 174,900</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	\$ 77,796
Transfers to other funds	(151,318)
Increase in customer deposits	<u>248</u>
Net cash used for noncapital financing activities	<u>\$ (73,274)</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (7,995)
Principal paid on notes payable	(10,876)
Interest paid on notes payable	<u>(20,305)</u>
Net cash used for capital and related financing activities	<u>\$ (39,176)</u>
Net increase in cash	\$ 62,450
Cash at beginning of year	<u>34,039</u>
Cash at end of year	<u>\$ 96,489</u>
Reconciliation of operating income to net cash provided by:	
Operating income	\$ 48,409
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for bad debts	100,000
Depreciation	119,897
Changes in assets and liabilities:	
(Increase) in accounts receivable	(82,364)
(Decrease) in accounts payable	<u>(11,042)</u>
Net cash provided by operating activities	<u>\$ 174,900</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

INTRODUCTION

The Town of Waterproof is a municipal corporation governed by an elected mayor.

1. The Town of Waterproof, Louisiana was incorporated under the provisions of the Lawrason Act as a Town in 1862.
2. The purpose of the municipality is to provide utility services, public safety (police and fire), streets, sanitation, and general administrative services.
3. The Board of Aldermen consists of five elected members that were each paid \$500 per month.
4. The Town of Waterproof is located in the southern portion of Tensas Parish, Louisiana. Tensas Parish is located in northeast Louisiana.
5. The population of the municipality is approximately 1,000 people.
6. The Town of Waterproof has approximately 11 full time employees.
7. The Town of Waterproof has approximately 345 utility customers.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this statement, the municipality is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the municipality may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes, set rates or charges, and issue bonded debt.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The municipality reports the following major governmental fund:

The General Fund is the municipality's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The municipality reports the following major proprietary fund:

The Utility Enterprise Fund accounts for operations where the intent of the governing body is that 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. In the case of the Town of Waterproof, this includes the operation of the Town's gas, water, garbage, and sewer systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation* (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 on-going operations. The principal operating revenues of the proprietary funds are the sales of water, gas, garbage, and sewer services to both residential and commercial customers. Operating expenses for enterprise funds and internal service 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 municipality's policy to use restricted resources first, then unrestricted resources as they are needed.

C. *Cash and Cash Equivalents*

The municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the municipality's investment policy allow the municipality to invest in collateralized certificates of deposit, government-backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government-backed securities.

D. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. *Receivables and Payables* (continued)

All fines and utility charges receivables are shown net of an allowance for uncollectibles. The Town provides for uncollectibles based upon analysis of the receivables portfolio and historical collection statistics.

Property taxes are levied on a calendar year basis and become due on January 1 of each year. The following is a summary of authorized and levied ad valorem taxes:

	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
Taxes due for:			
General fund	8.76	8.76	Permanent
Corporate purposes	16.34	16.34	2014

The following are the principal taxpayers and related property tax revenue for the municipality:

	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Ad Valorem Tax</u>
Cross Keys Bank	\$ 384,885	27%	\$ 10,395

E. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. *Restricted Assets*

Certain assets of the business-type activities fund of the Town have been restricted for debt service grant expenditures and customers' deposits.

G. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of \$500 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 of business-type activities is included as part of the capitalized value of the assets constructed. There were no major projects capitalized during the current fiscal year.

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets (continued)

All capital assets, other than land, are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Gas lines, sewer lines, and water plant	50 years
Vehicles and equipment	3-10 years

H. Compensated Absences

The municipality has the following policy relating to vacation and sick leave:

The Town grants one week vacation after one year of service and two weeks vacation after two years of service. Each employee is entitled to ten sick days per year. Vacation or sick pay does not accumulate. The Town's policy concerning compensation for unpaid vacation pay or sick pay is that upon termination of an employee, vacation days and sick days not previously used by the employee are not reimbursed.

I. Long-Term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Measurement Focus/Basis of Accounting

Fund Equity

Beginning with fiscal year 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Measurement Focus/Basis of Accounting (continued)

Fund Equity (continued)

- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Town establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board of Aldermen through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies.

Government-Wide Financial Statements

The page labeled Statement of Net Assets (Statement A) and the page labeled Statement of Activities (Statement B) display information about the Town as a whole. These statements include all the financial activities of the Town. Information contained in these statements reflect the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program Revenues - Program revenues included in the column labeled Statement of Activities (Statement B) are derived directly from users as a fee for services; program revenues reduce the cost of the function to be financed from the Town's general revenues.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGET INFORMATION The municipality uses the following budget practices:

1. The Town prepares a proposed budget and submits it to the Mayor and Board of Aldermen no later than fifteen days prior to the beginning of each fiscal year. The Town approves a budget for the general fund only.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

2. A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through the passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
5. Budgetary amendments involving the transfer to funds from one department, program, or function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Board of Aldermen.
6. All budgetary appropriations lapse at the end of each fiscal year.
7. Budgets are adopted on a cash basis.

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2012, the municipality has cash and cash equivalents (book balances) totaling \$227,164. These deposits are stated at cost, which approximates market. 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 on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 2012, the municipality has \$242,669 in deposits (collected bank balances). These deposits are secured from risk by \$242,669 of federal deposit insurance and \$0 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 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 municipality that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 4 - RECEIVABLES

The receivables for June 30, 2012, are as follows:

<u>Class of Receivables</u>	<u>General Fund</u>	<u>Utility Fund</u>
Fines	\$ 31,448	\$ -
Utility fees	-	100,201
Less allowance for uncollectibles	-	(42,265)
Total	<u>\$ 31,448</u>	<u>\$ 57,936</u>

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2012, for the primary government, are as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated				
Land	\$ 23,308	\$ -	\$ -	\$ 23,308
Total capital assets not being depreciated	<u>\$ 23,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,308</u>
Capital assets being depreciated				
Buildings	\$ 340,190	\$ -	\$ -	\$ 340,190
Machinery and equipment	350,076	10,275	-	360,351
Streets	<u>53,690</u>	<u>494,028</u>	<u>-</u>	<u>547,718</u>
Total capital assets being depreciated	<u>\$ 743,956</u>	<u>\$ 504,303</u>	<u>\$ -</u>	<u>\$ 1,248,259</u>
Less accumulated depreciation for:				
Buildings	\$ (118,119)	\$ (8,709)	\$ -	\$ (126,828)
Machinery and equipment	(320,404)	(20,695)	-	(341,099)
Streets	<u>-</u>	<u>(9,129)</u>	<u>-</u>	<u>(9,129)</u>
Total accumulated depreciation	<u>\$ (438,523)</u>	<u>\$ (38,533)</u>	<u>\$ -</u>	<u>\$ (477,056)</u>
Governmental activities capital assets, net	<u>\$ 328,741</u>	<u>\$ 465,770</u>	<u>\$ -</u>	<u>\$ 794,511</u>

Depreciation expense of \$38,533 for the year ended June 30, 2012, was charged to the following governmental functions:

Police and fire	<u>\$ 38,533</u>
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TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

NOTE 5 - CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 38,860	\$ -	\$ -	\$ 38,860
Capital assets being depreciated				
Water system lines and equipment	\$ 3,005,787	\$ 7,995	\$ -	\$ 3,013,782
Gas system lines and equipment	812,157	-	-	812,157
Sewer system lines and equipment	1,417,244	-	-	1,417,244
Garbage vehicles and equipment	232,523	-	-	232,523
Mowing equipment	<u>3,562</u>	<u>-</u>	<u>-</u>	<u>3,562</u>
Total capital assets being depreciated	<u>\$ 5,471,273</u>	<u>\$ 7,995</u>	<u>\$ -</u>	<u>\$ 5,479,268</u>
Less accumulated depreciation for:				
Water system lines and equipment	\$ (1,891,803)	\$ (50,206)	\$ -	\$ (1,942,009)
Gas system lines and equipment	(771,069)	(29,065)	-	(800,134)
Sewer system lines and equipment	(741,062)	(27,969)	-	(769,031)
Garbage vehicles and equipment	(196,468)	(12,657)	-	(209,125)
Mowing equipment	<u>(3,562)</u>	<u>-</u>	<u>-</u>	<u>(3,562)</u>
Total accumulated depreciation	<u>\$ (3,603,964)</u>	<u>\$ (119,897)</u>	<u>\$ -</u>	<u>\$ (3,723,861)</u>
Business-type activities, capital assets, net	<u>\$ 1,906,169</u>	<u>\$ (111,902)</u>	<u>\$ -</u>	<u>\$ 1,794,267</u>

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers consist of operating transfers between the general fund and the utility fund as follows:

<u>Transfers in</u>	<u>Transfers out</u>	
Governmental fund	Proprietary fund	\$ 151,318
Proprietary fund	Governmental fund	\$ 77,796

TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended June 30, 2012:

	Bonded Debt	Grants and Notes Payable	Total
Long-term obligations at beginning of year	\$ 456,035	\$ 12,620	\$ 468,655
Additions	-	-	-
Deductions	(10,876)	(12,620)	(23,496)
Long-term obligations at end of year	<u>\$ 445,159</u>	<u>\$ -</u>	<u>\$ 445,159</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2012:

	Bonded Debt
Current portion	\$ 11,376
Long-term portion	433,783
Long-term obligations at end of year	<u>\$ 445,159</u>

Long-term debt at June 30, 2012, consists of the following:

Water Revenue Bonds - \$534,881 in revenue bonds due in annual installments of \$31,181 through July 2035, bearing interest at a rate of 4.5%.

\$ 445,159

The annual requirements to amortize long-term debt outstanding at June 30, 2012, are as follows:

<u>Year ending June 30,</u>	Bonded Debt	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 11,376	\$ 19,805
2014	11,898	19,283
2015	12,445	18,736
2016	13,016	18,165
2017	13,614	17,567
2018-2022	78,043	77,862
2023-2027	97,701	58,204
2028-2032	122,502	33,403
2033-2036	84,564	5,829
Total	<u>\$ 445,159</u>	<u>\$ 268,854</u>

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7 - LONG-TERM OBLIGATIONS (continued)

The Water Revenue Bonds contain the following bond indenture restrictions:

1. The Town shall maintain a reserve fund into which monthly deposits of \$130 will be made. The reserve fund balance was \$1,920 at June 30, 2012. Deposits shall be made into the fund until a balance of \$31,180 has been accumulated into the fund. At June 30, 2012, the Town was not in compliance with this covenant.
2. The Town shall maintain a contingency fund into which monthly deposits of \$129 will be made. The depreciation fund balance was \$2,230 at June 30, 2012. At June 30, 2012, the Town was not in compliance with this covenant.

NOTE 8 - RETIREMENT SYSTEMS

Employees of the Town of Waterproof are members of the Federal social security system. The employer portion of the social security payroll tax is reflected in payroll taxes in the various statements of income. A 401(k) was established, but we were unable to determine any information about the plan, the participants, or the contributions.

NOTE 9 - CONTINGENT LIABILITIES

Litigation - At June 30, 2012, the Town of Waterproof was involved in one or more lawsuits for various claims totaling unknown amounts. Management does not expect an adverse result from any of these lawsuits that is material to these financial statements.

SECTION IV
ADDITIONAL REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF WATERPROOF, LOUISIANA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> Budget Basis	<u>Differences</u> Over/(Under)
	<u>Original</u>	<u>Final</u>		
Revenue:				
Taxes	\$ 80,000	\$ 60,400	\$ 64,593	\$ 4,193
Licenses and permits	13,000	9,500	13,339	3,839
Intergovernmental:				
Federal grant	882,302	439,000	452,736	13,736
State grant	75,000	75,000	75,075	75
Fines	200,000	253,000	250,169	(2,831)
Charges for services	25,080	25,080	23,080	(2,000)
Miscellaneous	950	5,750	5,241	(509)
Total revenues	<u>\$ 1,276,332</u>	<u>\$ 867,730</u>	<u>\$ 884,233</u>	<u>\$ 16,503</u>
Expenditures:				
General government and public safety	\$ 306,830	\$ 306,680	\$ 384,901	\$ (78,221)
Debt service:				
Principal	12,620	12,620	12,620	-
Interest	250	250	250	-
Capital outlays	<u>957,302</u>	<u>551,804</u>	<u>504,303</u>	<u>47,501</u>
Total expenditures	<u>\$ 1,277,002</u>	<u>\$ 871,354</u>	<u>\$ 902,074</u>	<u>\$ (30,720)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (670)</u>	<u>\$ (3,624)</u>	<u>\$ (17,841)</u>	<u>\$ (14,217)</u>
Other financing sources:				
Transfers in	\$ -	\$ 102,796	\$ 151,318	\$ 48,522
Transfers (out)	-	(77,796)	(77,796)	-
Total other financing sources	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 73,522</u>	<u>\$ 48,522</u>
Net change in fund balances	\$ (670)	\$ 21,376	\$ 55,681	\$ 34,305
Fund balance, beginning of year	<u>74,994</u>	<u>74,994</u>	<u>74,994</u>	<u>-</u>
Fund balance, end of year	<u>\$ 74,324</u>	<u>\$ 96,370</u>	<u>\$ 130,675</u>	<u>\$ 34,305</u>

See Independent Auditor's Report.

**TOWN OF WATERPROOF, LOUISIANA
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

Budgetary Comparison Schedule

1. Basis of Presentation

The budgetary comparison schedule presents the original legally adopted budget, the actual data on the cash basis, and variances between the final budget and the actual data.

2. Budget/GAAP Reconciliation

The major differences between the budgetary basis and the GAAP basis are:

- a. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- b. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles net change in fund balances on the budgetary basis schedules to the GAAP basis financial statements for the general fund.

	<u>General Fund</u>
Net change in fund balance – budget basis	\$ 55,681
Increase (decrease)	
Net adjustments for revenue accruals	(1,813)
Net adjustments for expenditure accruals	86,988
Net change in fund balance – GAAP basis	\$ 140,856

SECTION V
REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE



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

The Honorable Caldwell Flood, Mayor
and the Board of Aldermen
Town of Waterproof, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waterproof, Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the Town of Waterproof, Louisiana's basic financial statements, and have issued our report thereon dated March 26, 2013. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Town of Waterproof, Louisiana's internal control over financial reporting as a basis for designing our auditing procedures 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 Town of Waterproof, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Waterproof, Louisiana's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2012-1 and 2012-4 to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Waterproof, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we 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 as items 2012-2, 2012-3, and 2012-4.

The Town of Waterproof, Louisiana's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Town of Waterproof, Louisiana's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Aldermen, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Silas Simmons, LLP

Natchez, Mississippi
March 26, 2013

**SECTION VI
SCHEDULE OF FINDINGS**

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the basic financial statements:

Governmental Activities	Unqualified
Business-Type Activities	Unqualified
Major Funds:	
General Funds	Unqualified
Utility Fund	Unqualified

2. Internal control over financial reporting:

a. Material weakness(es) identified? Yes

b. Significant deficiency(ies) identified that are not considered to be material weaknesses? No

3. Noncompliance material to the basic financial statements? Yes

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements:				
2011-1	6-30-2007	<p><u>Controls Over Financial Reporting</u> The Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period ended June 30, 2010, was convicted of malfeasance and felony theft, and the Police Chief was indicted on similar charges – many of which were detailed in the LLAAS report. The following is a detail of findings and recommendations in the "Advisory Services Report" that have not been completely implemented:</p>		
	6-30-2007	<p>1. Management failed to comply with the Local Government Budget Act The Town's General Fund budget failed to include a budget message as required by law.</p>	Yes	This finding has been corrected.
		<p><u>Recommendation</u> Management should strictly comply with all provisions of the Local Government Budget Act by including a budget message with each adopted budget.</p>		
	6-30-2007	<p>2. Controls over Utility Accounts and Meter Deposits Management continues to provide utility services to past due customers.</p>	Yes	This finding has been corrected.
		<p>The accounts receivable balance in the utility system (subsidiary ledger) was not reconciled with the balance in the account system (general ledger).</p>	No	This finding is reported in the current year as finding 2012-1.

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I - Internal Control and Compliance Material to the Financial Statements: (continued)				
	6-30-2007	<p>2. Controls over Utility Accounts and Meter Deposits (continued) Management failed to ensure that meter deposit monies collected from utility customers were maintained in a restricted bank account, and reconciled to the general ledger on a monthly basis.</p> <p>Recommendation Management should adopt and enforce a cut-off policy to ensure utility services are promptly terminated on all customers who do not pay their bill by the due date.</p>	Yes	This finding has been corrected.
	6-30-2007	<p>3. No Personnel Policy The Town did not have a formal policy regulating the employment of its employees as required by law [R.S. 33.362.A(3)].</p> <p>Recommendation Management should comply with state law and adopt, by ordinance, policies and procedures regulating the employment of Town personnel. We suggest that management use the Louisiana Municipal Association Handbook for guidance.</p>	Yes	This finding has been corrected.
	6-30-2007	<p>4. Leave Records Written leave records were not maintained to account for vacation and sick leave earned and taken by all employees.</p> <p>Recommendation Management should ensure that detailed records are maintained of the annual and sick leave earned and taken by all employees.</p>	Yes	This finding has been corrected.

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements: (continued)				
	6-30-2007	<p>5. Town Decal Not on All Vehicles The vehicles driven by the Mayor and Police Chief are not marked with insignia/decals containing the name of the Town as required by Louisiana law.</p> <p><u>Recommendation</u> Management should comply with state law and ensure that all Town vehicles are properly identified with decals.</p>	Yes	This finding has been corrected.
	6-30-2007	<p>6. Capital Assets The Town did not have a listing of its capital assets.</p> <p><u>Recommendation</u> The Mayor and Clerk should ensure that a current listing of the Town's capital assets is prepared in accordance with state law. All assets should be tagged and appropriately cross-referenced to the listing, and periodic physical inventories should be taken and differences, if any, should be resolved immediately.</p>	Yes	This finding has been corrected.
	6-30-2007	<p>7. Written Policies and Procedures The Town's written policies and procedures are not complete. Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done, and ensure the procedures followed meet management's expectations. Also, written procedures aid in the continuity of operations and for staff cross-training.</p> <p><u>Recommendation</u> We recommend that management develop and implement written policies and/or procedures.</p>	Yes	This finding has been corrected.

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements: (continued)				
	6-30-2007	<p>8. Ordinance Book The ordinance book was not up to date with all Town ordinances as required by R.S. 33.406D(1).</p> <p>Recommendation Management should comply with Louisiana law and ensure that the ordinance book is updated to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g., public works, public safety, etc.).</p>	Yes	This finding has been corrected.
	6-30-2007	<p>9. Disaster Recovery and Business Continuity The Town does not have a written disaster recovery/business continuity plan as required by R.S. 33.406D(1).</p> <p>Recommendation Management should comply with Louisiana law and ensure that the ordinance book is updated to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g., public works, public safety, etc.).</p>	Yes	This finding has been corrected.
2011-2	6-30-2011	<p>Adoption of Budget According to the July 12, 2010, minutes of the Board of Aldermen, the budget for fiscal year ended June 30, 2011, had not been prepared. This is a violation of state law, R.S. 39:1309 (The Local Government Budget Act), which requires the adoption of budgets before the end of the prior fiscal year.</p>	Yes	This finding has been corrected.

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2011

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements: (continued)				
		<p><u>Recommendation</u> We recommend that the Town comply with all provisions of the Local Government Budget Act.</p>		
2011-3	6-30-2011	<p><u>Violation of Debt Covenants</u> The Water Revenue Bonds in the Proprietary (Utility) Fund contain covenants requiring the deposit of \$130 a month into a reserve fund until a balance of \$31,180 has been accumulated and the deposit of \$129 a month into a contingency fund. Deposits were not made into these two funds until May 2011, and they were made in a General Fund account, rather than a Utility Fund account. As a result, the total balance in the reserve account is far short of the amount required based on approximately 71 months from the date of the bonds through June 30, 2011, times \$130 of required monthly deposits.</p>	<p>Partially - The Town began funding these funds in May of 2011, and will continue to fund them monthly as well as attempting to restore the required balance in the reserve fund.</p>	<p>This finding is reported in the current year as finding 2012-2.</p>
		<p><u>Recommendation</u> We recommend that management and the Board comply with the terms of all contractual/indenture agreements. Management should take steps to fully fund the reserve account and should ensure that monthly deposits of the required amounts are made to both of these accounts in the future as required by the indenture agreements.</p>		

**TOWN OF WATERPROOF, LOUISIANA
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Reference No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken (Yes, No, Partially)	Planned Corrective Action/Partial Corrective Action Taken
Section I – Internal Control and Compliance Material to the Financial Statements: (continued)				
2011-4	6-30-2011	<p><u>Budget Preparation</u> The final amended budget for the fiscal year ended June 30, 2011, includes proposed expenditures in excess of the estimated funds available in violation of R.S. 39:1305.</p>	Yes	This finding has been corrected.

Recommendation

As noted in 2011-2, we recommend that the Town comply with all provisions of the Local Government Budget Act.

**TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2012**

Ref. No.	Description of Finding	Town's Response and Corrective Action Planned	Name(s) of Contact Person(s)
Section I – Internal Control and Compliance Material to the Financial Statements:			
2012-1	<p><u>Controls over Financial Reporting</u> The Louisiana Legislative Auditor issued an "Advisory Services Report" (LLAAS) on August 27, 2008, detailing numerous compliance issues and recommendations for improvements in controls. The Mayor of Waterproof, during the period ended June 30, 2010, was convicted of malfeasance and felony theft, and the Police Chief was indicted on similar charges - many of which were detailed in the LLAAS report. The following is a detail of findings and recommendations in the "Advisory Services Report" that have not been completely implemented:</p> <p>The accounts receivable balance in the utility system (subsidiary ledger) was not reconciled with the balance in the account system (general ledger).</p>	<p>The Mayor and Board of Aldermen will ask the CPA firm that posts their general ledger to assist them in implementing a system prior to the end of the current fiscal year.</p>	<p>Mayor Caldwell Flood and members of the Board of Aldermen</p>
2012-2	<p><u>Recommendation</u> We recommend that they begin reconciling the subsidiary ledger to the general ledger accounts receivable on a monthly basis.</p> <p><u>Violation of Debt Covenants</u> The Water Revenue Bonds in the Proprietary (Utility) Fund contain covenants requiring the deposit of \$130 a month into a reserve fund until a balance of \$31,180 has been accumulated and the deposit of \$129 a month into a contingency fund. Deposits are being made to both of these funds each month, currently, however, the Town is still deficient for approximately five years in which the deposits were not made. A summary of the amounts the Town needs to make in order to be in compliance with the debt covenants is as follows:</p>		

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2012

Name(s) of
 Contact
 Person(s)

Ref. No. _____ Description of Finding _____ Corrective Action Planned _____
 Section I - Internal Control and Compliance Material to the Financial Statements: (continued)

	Reserve Fund	Contingency Fund
Cash required at 6-30-2012	\$ 9,360	\$ 9,288
Cash balances at 6-30-2012	1,920	2,230
Cash needed for Town to be in compliance	\$ 7,440	\$ 7,058

Recommendation

We recommend that management and the Board comply with the terms of all contractual/indenture agreements. Management should take steps to fully fund the reserve account and should ensure that monthly deposits of the required amounts are made to both of these accounts in the future as required by the indenture agreements.

2012-3

Late Filing of Audit Reports

The Town is required to submit an audit of its financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end. This June 30, 2012, audit was due to be filed by December 31, 2012, however, the general ledger was not available until January 15, 2013.

Caldwell Flood, Mayor

The Mayor and the Board of Aldermen plan to assure that fiscal year ended June 30, 2013, audit its timely filed with the Louisiana Legislative Auditor.

Recommendation

We recommend that the Town provide information needed to the auditor in a timely manner to assure that all subsequent audits are filed with the Louisiana Legislative Auditor in a timely manner.

TOWN OF WATERPROOF, LOUISIANA
 SCHEDULE OF CURRENT YEAR FINDINGS, RECOMMENDATIONS, AND
 CORRECTIVE ACTION PLAN
 FOR THE YEAR ENDED JUNE 30, 2012

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)
2012-4	<p><u>Meter Deposit Cash</u> The cash balance in the meter deposit account is \$772 and the liability for meter deposits made by the Town's utility customers is \$34,159. In prior year the Town spent the funds that belong to the utility customers.</p>	<p>The Mayor and the Board of Aldermen plan to deposit the needed cash into the meter deposit cash account before June 30, 2013.</p>	<p>Caldwell Flood, Mayor</p>

Recommendation

We recommend that the Town replace the funds used in prior years by making a deposit into the meter deposit cash account of the difference in the cash balance and the liability for customer deposits.

SUPPLEMENTAL INFORMATION

**TOWN OF WATERPROOF, LOUISIANA
COMPENSATION OF THE GOVERNING BOARD
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Caldwell Flood, Mayor	\$	10,125
Elizabeth Cooper		5,500
George Taylor		5,500
Lionel Travers, Jr.		5,500
Bobby Wilkerson		5,500
Johnnie Raymo		<u>5,500</u>
	\$	<u>37,625</u>

See Independent Auditor's Report.