

Hico Water System
Annual Financial Statements
As of December 31, 2012 and for the Year Then Ended

Under provisions of state law this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 25 2013

Hico Water System
Annual Financial Statements
As of and for the Year Ended December 31, 2012
With Supplemental Information Schedules

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EDWARDS, WADE & PERRY

Certified Public Accountants

A Professional Accounting Corporation

Members: AICPA / Society of LCPA's

Independent Auditor's Report

Board of Commissioners
Hico Water System
Dubach, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hico Water System ("System"), which comprise the statement of financial position as of and for the year ended December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements. The consolidated financial statements of Hico Water System as of December 31, 2011, were not audited by other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

The consolidated financial statements for the year ended December 31, 2011 were not audited. The amount by which this departure would affect the assets, fund balances, liabilities, net position, revenues and expenses has not been determined

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hico Water System, as of December 31, 2012, and the changes in its Net Position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2013, on our consideration of the System’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 the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System’s internal control over financial reporting and compliance.


Ruston, Louisiana
May 2, 2013

Hico Water System
Statement of Net Position, Proprietary Fund
December 31, 2012

ASSETS		
Cash and equivalents		\$400,364
Receivables		20,569
Prepaid items		0
Restricted assets		24,525
Capital assets (net)		<u>1,349,603</u>
TOTAL ASSETS		<u>\$1,795,061</u>
LIABILITIES		
Accounts, salaries, and other payables		\$13,736
Payable from restricted assets		24,525
Loans payable - current		5,916
Loans payable - noncurrent		<u>812,084</u>
TOTAL LIABILITIES		<u>856,261</u>
NET POSITION		
Net invested in capital assets		531,603
Restricted for customer deposits		24,525
Unrestricted		<u>382,672</u>
TOTAL NET POSITION		<u>\$938,800</u>

The accompanying notes are an integral part of this statement.

Hico Water System
Statement of Activities
Year Ended December 31, 2012

	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes of Primary Government</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities				
Water charges	<u>\$164,079</u>	<u>\$235,961</u>		<u>\$454,092</u>
Total business-type activities	<u>164,079</u>	<u>235,961</u>	<u>0</u>	<u>454,092</u>
Total primary government	<u>\$164,079</u>	<u>\$235,961</u>	<u>\$0</u>	<u>\$454,092</u>
General revenues.				
Investment earnings				286
Gain on sale of asset				0
Other general revenues				0
Total general revenues and transfers				<u>286</u>
Change in Net Position				454,378
Net Position - beginning				459,705
Prior period adjustment				<u>24,717</u>
Net Position - ending				<u>\$938,800</u>

The accompanying notes are an integral part of this statement

Hico Water System
Statement of Cash Flows, Proprietary Funds
For the Year Ended December 31, 2012

Cash Flows from Operating Activities	
Receipts from customers and users	\$215,392
Payments to suppliers	(95,888)
Payments to employees	(39,082)
Net Cash Provided by Operating Activities	<u>80,422</u>
Cash Flows from Noncapital Financing Activities	
Loan proceeds from USDA	<u>818,000</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>818,000</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(1,214,829)
Prior period adjustments	12,682
Capital contributions	382,210
Principal paid on capital debt	0
Interest paid on capital debt	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(819,937)</u>
Cash Flows from Investing Activities	
Interest and dividends received	<u>286</u>
Net Cash Provided by Investing Activities	<u>286</u>
Net Increase in Cash and equivalents	78,771
Cash and equivalents, Beginning of Year	<u>346,118</u>
Cash and equivalents, End of Year	<u>\$424,889</u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities	
Operating income	\$83,917
Depreciation expense	13,514
(Increase) decrease in accounts receivable	(20,569)
Increase (decrease) in customer deposits	0
Increase (decrease) in accounts, salaries, and other payables	3,560
Increase (decrease) in accrued interest payable	0
Net Cash Provided by Operating Activities	<u>80,422</u>
Reconciliation of total cash and cash investments:	
Current assets - cash and cash investments	\$119,990
Restricted assets - cash and cash investments	304,899
Total cash and cash investments	<u>\$424,889</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

INTRODUCTION

The Hico Water System was organized in 1973 as a not for profit water system to provide water usage and service to the customers of Hico Water System in Lincoln parish. The System has five commissioners comprising the board who are appointed by the Board of Commissioners. The System serves approximately 510 active customers and employs three people. The System operates two facilities that operate two wells at each site with approximately 100 miles of water lines.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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) charge 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 and the fiduciary 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.

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

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.

The System reports the following major proprietary fund:

The Water fund is to account for the provision of water services to the customers of the System. All activities necessary to provide such services are accounted for in this fund, but not limited to, administration, operations, maintenance, financing, and related debt service and billing.

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.

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 governments enterprise operations. Elimination of those 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 ongoing operations. Operating expenses for enterprise funds and internal service funds include the costs 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 System's policy to use restricted resources first, then unrestricted resources as they are needed.

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

C Deposits and Investments

The System’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 System’s investment policy allow the System to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities. Investments for the System are reported at fair value.

D. Restricted Assets

Certain proceeds of the System’s revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of Net Position because their use is limited by applicable bond covenants.

E. 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 (the extent to which fixed asset costs have been estimated and the methods of estimation should be disclosed) if historical cost is not available (or describe other method of valuation). Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The System does not maintain a threshold level 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.

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

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Water lines and wells Improvements	50 years 15 years
Building	20 years
Equipment	5-10 years

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

F. Compensated Absences

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

Employees of the System cannot accrue vacation or sick time. Therefore, no liability has been recorded.

G. Fund Equity

In the government wide statements, equity is classified as Net Position and displayed in three components:

- a. Net invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints may be placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- 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.

Proprietary fund equity is classified in the same manner as in the government-wide statements.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 the estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 2012, the System has cash and cash equivalents (book balances) totaling \$424,889 as follows:

Demand deposits	\$259,089
Interest-bearing demand deposits	165,800
Investments	<u>0</u>
Total	<u>\$424,889</u>

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

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 December 31, 2012, the System has \$455,213 in deposits (collected bank balances). These deposits are secured from risk by \$455,213 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).

3. RECEIVABLES

The receivables of \$20,569 at December 31, 2012, consist solely of amounts due from customers.

4. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended December 31, 2012, for the primary government is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$0			\$0
Construction in progress	0	\$1,210,310		1,210,310
Total capital assets not being depreciated	<u>0</u>	<u>1,210,310</u>	<u>0</u>	<u>1,210,310</u>
Capital assets being depreciated				
Buildings	0			0
Improvements other than buildings	0			0
Machinery and equipment	238,862	4,519		243,381
Vehicles	0			0
Total capital assets being depreciated	<u>238,862</u>	<u>4,519</u>	<u>0</u>	<u>243,381</u>
Accumulated depreciation	<u>90,574</u>	<u>13,514</u>		<u>104,088</u>
Total capital assets being depreciated, net	<u>\$148,288</u>	<u>\$1,201,315</u>	<u>\$0</u>	<u>\$1,349,603</u>

Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012

5. ACCOUNTS, SALARIES, AND OTHER PAYABLES

The payables of \$13,736 at December 31, 2012, are as follows.

Withholdings	\$1,701
Accounts	0
Accrued interest	<u>12,035</u>
Total	<u>\$13,736</u>

6. LONG-TERM OBLIGATIONS

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

Long-term obligations at beginning of	\$0
Additions	818,000
Deductions	<u>0</u>
Long-term obligations at end of year	<u>\$818,000</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 December 31, 2012:

Current portion	\$5,916
Long-term portion	<u>812,084</u>
Total	<u>\$818,000</u>

The loans payable at December 31, 2012, are comprised of the following individual issues:

	<u>Outstanding</u>
	<u>12/31/12</u>
\$818,000 USDA loans dated 6-4-12, due in monthly installments of \$2,855 through July 4, 2052, interest at 2.75%	<u>818,000</u>
Total	<u>\$818,000</u>

The annual requirements to amortize all loans outstanding as of December 31, 2012, including interest of \$515,019 are as follows:

Year Ending December 31,	
2013	\$17,130
2014	34,260
2015	34,260

**Hico Water System
Notes to the Financial Statements
As of and For the Year Ended December 31, 2012**

Year Ending December 31,	
2016	34,260
2017	34,260
2018 - 2022	171,300
2023 - 2027	171,300
2028 - 2032	171,300
2033 - 2037	171,300
2038 - 2042	171,300
2043 - 2047	171,300
2048 - 2052	151,049
Total	<u>\$1,333,019</u>

7. FLOW OF FUNDS: RESTRICTIONS ON USE - UTILITIES REVENUES

There shall also be set aside into a "Reserve Fund" an amount equal to 10% of the monthly payment each month over the life of the loan until you accumulate one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise.

Funds will also be set aside into a "Short-lived Asset Fund" at the rate of \$1,254 per month in addition to that required for the debt service reserve until such time as a minimum balance of \$116,500 is achieved for the replacement of the short lived assets identified.

8. PRIOR PERIOD ADJUSTMENT

The financial statements include prior period adjustments increasing Net Position by \$24,717. These are numerous adjustments to balance sheet accounts to adjust the balances for the current year.

9. DATE OF MANAGEMENT REVIEW

Subsequent events have been evaluated through May 2, 2013, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

EDWARDS, WADE & PERRY

Certified Public Accountants
A Professional Accounting Corporation
Members: AICPA / Society of LCPA's

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

Independent Auditor's Report

Board of Commissioners
Hico Water System
Dubach, LA 71235

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 consolidated financial statements of Hico Water System as of and for the year ended December 31, 2012, and the related notes to the consolidated financial statements, which collectively comprise the System's consolidated financial statements, and have issued our report thereon dated May 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered System's internal control over financial reporting (internal control) to determine the 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 findings, recommendations, and corrective action plan that we consider to be significant deficiencies. 2012-1, 2012-2 and 2012-3

Compliance and Other Matters

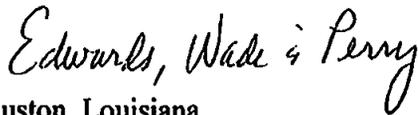
As part of obtaining reasonable assurance about whether System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. 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*.

Entity's Response to Findings

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The System'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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



Ruston, Louisiana
May 2, 2013

EDWARDS, WADE & PERRY

Certified Public Accountants

A Professional Accounting Corporation

Members: AICPA / Society of LCPA's

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF FEDERAL AWARDS REQUIRED BY *OMB CIRCULAR A-133*

Independent Auditor's Report

Board of Commissioners
Hico Water System
Dubach, LA 71235

Report on Compliance for Each Major Federal Program

We have audited Hico Water System's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2012. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The System's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the System as of and for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013, which contained a modified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures on federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Edwards, Wade & Perry

Ruston, Louisiana

May 2, 2013

Hico Water System
 Schedule of Current Year Findings,
 Recommendations, and Corrective Action Plan
 For the Year Ended December 31, 2012

We have audited the consolidated financial statements of Hico Water System as of and for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2012 resulted in a qualified opinion.

A. Summary of Audit Results

1. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Significant Deficiency Yes No

Compliance

Compliance Material to Financial Statements Yes No

2. Federal Awards

Internal Control

Material Weaknesses Yes No Reportable Yes No

Type of Opinion On Compliance	Unmodified <input checked="" type="checkbox"/>	Qualified <input type="checkbox"/>
For Major Programs	Disclaimer <input type="checkbox"/>	Adverse <input type="checkbox"/>

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)?
 Yes No

Was a management letter issued? Yes No

3. Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program (or Cluster)</u>
<u>10.760</u>	<u>Water & waste disposal system for rural communities</u>

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 300,000

Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133? Yes No

B. Financial Statements Findings

2012-1. Lack of segregation of duties

The System does not have an adequate segregation of duties regarding its accounting and reporting system to maintain a complete system of internal control.

Recommendation: We recommend the System implement a system of checks and balances. One employee should not have access to writing checks, posting to general ledger, prepare deposits and reconcile the bank account.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

2012-2. No list of customer deposits

The System does not reconcile the subsidiary ledger for customer deposits to the general ledger.

Recommendation: We recommend the System review past records of customer deposits and reconcile to the subsidiary ledger.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

2012-3. Internal control over disbursements is inadequate

Sixteen disbursements for the loan/grant were posted to an expense account in lieu of capital asset account. Six disbursements for operating purposes were not supported by an original invoice from the vendor.

Recommendation: The System should maintain adequate supporting documentation for all disbursements and post to the appropriate account.

Corrective Action Plan: Management concurs with this recommendation and will implement procedures immediately to improve internal controls.

C. Federal Award Findings and Questioned Costs

None

Hico Water System
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture: Water and Waste Disposal System for Rural Communities	10.760	\$1,200,210

Hico Water System
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

The accompanying schedule of expenditures of federal awards includes the federal rewards activity of the Hico Water System and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the consolidated financial statements.

Hico Water System
Summary of Prior Year Findings
For the Year Ended December 31, 2012

A. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

None

B. INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

None

C. MANAGEMENT LETTER

None