

**SAMUEL W. STEVENS, III**  
*Certified Public Accountant*

**TOWN OF WATERPROOF**

**WATERPROOF, LOUISIANA**

**June 30, 2007**

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 7/28/10

TOWN OF WATERPROOF, LOUISIANA  
 Annual Financial Statements  
 As of and for the Year Ended June 30, 2007

Table of Contents

	Statement/ Schedule	Page
<b>Independent Auditor's Report</b>		3
<u>Basic Financial Statements:</u>		
<u>Government-Wide Financial Statements:</u>		
Statement of Net Assets	A	4
Statement of Activities	B	5
<u>Fund Financial Statements:</u>		
Balance Sheet-Governmental Fund	C	6
Reconciliation of the Governmental Funds Balance Sheet to The Government-Wide Financial Statement of Net Assets	D	7
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Fund	E	8
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances of Governmental Funds to the Statement of Activities	F	9
Statement of Net Assets- Utility Fund	G	10
Statement of Revenues, Expenses, and Changes in Net Assets Utility Fund	H	11
Statement of Operating Expenses – Utility Fund	I	12
<u>Notes to the Financial Statements</u>		13

	Statement/ Schedule	Page
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance with Government Auditing Standards		19
Schedule of Findings & Responses		21
Schedule of Prior Year Audit Findings		22

## **SAMUEL W. STEVENS, III CPA**

*P.O. Box 52631 · Shreveport, LA 71135 · (318) 458-0930 · Fax (318) 219-7841*

---

### **INDEPENDENT AUDITOR'S REPORT**

The Mayor and the Members of the Board of Aldermen  
Town of Waterproof, Louisiana

I was engaged to audit the accompanying financial statements of the governmental activities and business type activities of the Town of Waterproof, Louisiana, as of and for the year ended June 30, 2007, 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 of Waterproof, Louisiana's management. My responsibility is to express opinions on these financial statements based on my audit

During the time of my engagement, the Town's Mayor and Police Chief were the focus of an investigation of malfeasance and theft. The Town's financial records were seized and subsequently returned. The Town did not properly reconcile all bank accounts and certain bank transactions were not recorded in its accounting records. The Town did not record prior year audit adjustments nor transactions and balances for capital assets, depreciation, other liabilities and debt. The Town did not provide adequate records to support certain disbursements. The Town did not provide adequate records to support fixed assets in its governmental activities, I was unable to sufficiently verify the period, exact nature and functional classification of the expenditures. The Town's records do not permit the application of adequate auditing procedures. The Town did not provide information necessary for adequate disclosure in the notes to the financial statements. I was unable to include adequate footnote disclosure for, restricted assets, capital asset, leases, long-term obligations, retirement, Reserved and designated retained earnings/fund balances.

Because of the limitations described above I am unable to express, and do not express, an opinion on the Town's financial statements as listed in the table of contents.

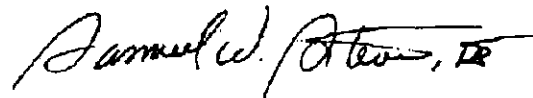
The Town's Management declined to present the required Statement of Cash Flows for the Propriety/Utility Fund for the year ended June 30, 2007. Presentation of this statement summarizes the Fund's operating, investing and financing activities and is required by accounting principles generally accepted in the United States of America.

The Town's management has also elected not to present the Management's Discussion and Analysis and the Budget Comparison reports. Accounting principles generally accepted in the United States have states that the reports are necessary supplements, although not required to be part of, basic financial statements.

In accordance with Government Auditing Standards, I have also issued my report dated March 17, 2010, except for Other Matter disclosed in Finding 2007-6, as to which the date is June 28, 2010 on my consideration of the Town of Waterproof's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 my audit.

I was engaged to audit the financial statements referred to above for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Waterproof's basic financial statements. The supplemental information schedules if included in the table of contents would be presented for the purpose of additional analysis and are not required components of the basic financial statements. As discussed in the second paragraph above, the scope of my work was not sufficient to enable me to express opinion on the financial statements referred to in the first paragraph. Similarly, I am unable to express and do not express an opinion on the supplemental schedules if listed in the table of contents. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Samuel W. Stevens, III  
Certified Public Accountant

March 17, 2010, except for Other Matter disclosed  
in Finding 2007-6, as to which the date is June 28, 2010.

## Basic Financial Statements (Part I)

## Government-Wide Financial Statements

**TOWN OF WATERPROOF, LOUISIANA**  
**STATEMENT OF NET ASSETS**  
June 30, 2007

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 29,210	\$ 60,495	\$ 89,705
Receivables		726,156	726,156
Inventory		3,255	3,255
Prepaid Assets		626	626
Restricted assets			
Capital assets (net)		<u>2,529,985</u>	<u>2,529,985</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>29,210</u></b>	<b>\$ <u>3,320,517</u></b>	<b>\$ <u>3,349,727</u></b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 3,738	\$ 91,964	\$ 95,702
Accrued salaries and payroll taxes	(3,500)	(69,112)	(72,612)
Customer Deposits		<u>32,139</u>	<u>32,139</u>
Total Current Liabilities	<u>238</u>	<u>54,991</u>	<u>55,229</u>
Noncurrent Liabilities			
Non-current portion of long term obligations		<u>472,623</u>	<u>472,623</u>
<b>TOTAL LIABILITIES</b>	<b>238</b>	<b><u>527,615</u></b>	<b><u>527,853</u></b>
<b>NET ASSETS</b>			
Invested In capital assets, net of related debt		2,057,362	2,057,362
Unrestricted	<u>28,972</u>	<u>735,541</u>	<u>764,513</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>28,972</u></b>	<b>\$ <u>2,792,903</u></b>	<b>\$ <u>2,821,875</u></b>



TOWN OF WATERPROOF, LOUISIANA  
STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

	Program Revenues			Net (Expenses) Revenue	Net (Expenses) Revenues, and Changes		Total
	Expenses	Change for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities	
<b>Governmental Activities</b>							
General governmental	\$ 844,691	\$ 22,489	\$ 637,676	\$ (184,526)	\$ (184,526)	\$	\$ (184,526)
Public safety	67,029	61,838		(5,191)	(5,191)		(5,191)
Interest on long-term debt				0			
Total Governmental Activities	\$ 911,720	\$ 84,327	\$ 637,676	\$ (189,717)	\$ (189,717)		\$ (189,717)
<b>Business-Type Activities</b>							
Utilities	456,310	1,149,982		693,672	693,672		693,672
Total Business-type Activities	456,310	1,149,982	0	693,672	693,672		693,672
Total Primary Government	\$ 1,368,030	\$ 1,234,309	\$ 637,676	\$ 503,955	\$ (189,717)	\$ 693,672	\$ 503,955
<b>General Revenues:</b>							
Property taxes					30,086		30,086
Sales tax					24,542		24,542
Franchise taxes					12,752		12,752
Occupational licenses					13,986		13,986
Transfers in (out)					51,567	(37,249)	14,318
Total general revenues and transfers					132,933	(37,249)	95,684
Change in Net Assets					(56,784)	656,423	599,639
Net Assets-beginning					83,756	2,136,480	2,220,236
Net Assets-ending					\$ 28,972	\$ 2,792,903	\$ 2,821,875

## Fund Financial Statements

## STATEMENT C

**TOWN OF WATERPROOF, LOUISIANA  
BALANCE SHEET, GOVERNMENTAL FUND**

June 30, 2007

		<u>General Fund</u>
<b>ASSETS</b>		
Cash	\$	<u>29,210</u>
<b>TOTAL ASSETS</b>		
	\$	<u><u>29,210</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable	\$	3,738
Accrued payroll taxes and withholding		<u>(3,500)</u>
Total Liabilities		<u>238</u>
Fund Balance:		
Unreserved		<u>28,972</u>
Total Fund Balance		<u>28,972</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$</b>	<b><u><u>29,210</u></u></b>

STATEMENT D

**TOWN OF WATERPROOF, LOUISIANA**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENTAL-WIDE STATEMENT OF NET ASSETS**

June 30, 2007

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund Balances, Total Governmental Funds, Statement C	\$ 28,972
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the government funds	0
Loans for capital asset acquisition	<u>0</u>
Net Assets of Governmental Activities, Statement A	<u>\$ 28,972</u>

## STATEMENT E

**TOWN OF WATERPROOF, LOUISIANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUND**  
For the Year Ended June 30, 2007

		<u>Total</u>
<b>Revenue:</b>		
Taxes	\$	67,380
Licenses and permits		13,986
Intergovernmental revenues:		
State grant		637,676
Fines		61,838
Miscellaneous		<u>22,489</u>
Total Revenues		<u>803,369</u>
<b>Expenditures:</b>		
Current:		
General government		844,691
Public safety		<u>67,029</u>
Total Expenditures		<u>911,720</u>
Excess (Deficiency) of Revenues over Expenditures		<u>(108,351)</u>
Other Financing Sources and (uses)		
Transfers in		81,676
Transfers out		<u>(30,109)</u>
Total Other Financing Sources and (uses)		<u>51,567</u>
Net change in Fund Balances		(56,784)
Fund balances, beginning of year		<u>85,756</u>
Fund balances, end of year	\$	<u><u>28,972</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

June 30, 2007

Amounts reported for governmental activities in the Statement of Activities agree as no amounts were recorded for:

Net change in Fund Balances, Total Governmental Funds, Statement E	\$	(56,784)
--	----	----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$	0	
Less current year depreciation		<u>0</u>	
			<u>0</u>

Change in Net Assets of Governmental Activities, Statement B	\$	<u>(56,784)</u>
--	----	-----------------

## STATEMENT G

**TOWN OF WATERPROOF, LOUISIANA**  
**STATEMENT OF NET ASSETS, PROPRIETARY FUND**

June 30, 2007

		Business-Type Activity Utility Fund
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$	60,495
Accounts receivables, utility sales		726,156
Prepaid expenses		626
Inventory		3,255
Total current assets		790,532
<b>Non-Current Assets - Capital Assets:</b>		
Property, plant and equipment		5,422,702
Less accumulated depreciation		(2,892,717)
Total non-current assets - capital assets		2,529,985
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>3,320,517</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$	91,964
Payroll taxes and withholdings payable		(69,112)
Total current liabilities:		22,852
<b>Current liabilities (payable from restricted assets)</b>		
Consumer deposits		32,139
Total current liabilities (payable from restricted assets)		32,139
<b>Noncurrent liabilities</b>		
Notes payable		472,623
Total noncurrent liabilities		472,623
<b>TOTAL LIABILITIES</b>		527,615
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		2,057,362
Unrestricted		735,541
<b>TOTAL NET ASSETS</b>	<b>\$</b>	<b>2,792,903</b>

## STATEMENT H

**TOWN OF WATERPROOF, LOUISIANA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2007

	Utility Fund
<b>Operating Revenues</b>	
Charges for services:	
Gas sales	\$ 830,661
Water sales	250,268
Sewer service fees	45,110
Garbage sales	18,660
Miscellaneous revenues	4,829
Total Operating Revenues	1,149,529
<b>Operating Expenses</b>	
Current:	
Gas department expenses	288,972
Water department expenses	133,697
Sewer department expenses	4,611
Garbage department expenses	1,468
Total Operating Expenses	428,748
<b>Operating Income</b>	720,781
<b>Nonoperating Revenues (Expenses)</b>	
Interest earnings	453
Interest expense	(27,562)
Total Nonoperating Revenues (Expenses)	(27,109)
<b>Income Before Transfers</b>	693,672
<b>Operating Transfers</b>	
Transfers in	
Transfers out	(37,249)
<b>Change in Net Assets</b>	656,423
Total net assets, beginning of year	2,136,480
Total net assets, end of year	\$ 2,792,903



## STATEMENT I

**TOWN OF WATERPROOF, LOUISIANA**  
**STATEMENT OF OPERATING EXPENSES**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2007

Gas department expenses		
Payroll expenses	\$	84,864
Advertising		236
Gas purchases		165,098
Utilities and telephone		2,861
Repairs		7,821
Truck		1,237
Office supplies		4,773
Legal and accounting		12,203
Dues		0
Miscellaneous		4,242
Insurance		4,732
Postage		905
		288,972
Total gas department expenses		288,972
Water department expenses		
Consultant fees		4,240
Utilities and telephone		32,277
Repairs		19,778
Supplies		10,973
Chemicals		29,631
Insurance		447
Office supplies		93
Legal and accounting		222
Dues		570
Licenses and Permits		1,241
Miscellaneous		34,131
Postage		94
		133,697
Total water department expenses		133,697
Sewer department expenses		
Consultant fees		2,662
Utilities and telephone		1,949
		4,611
Total sewer department expenses		4,611
Garbage department expenses		
Truck		1,147
Miscellaneous		321
		1,468
Total garbage department expenses		1,468
Total Operating Expenses	\$	428,748

**Notes to the Financial Statements**

**TOWN OF WATERPROOF, LOUISIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Year Ended June, 2007

**INTRODUCTION**

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

1. The Town of Waterproof, Louisiana was incorporated under provisions of the Lawrason Act as a Town in 1862.
2. The purpose of a municipality is to provide utility services, public safety (police and fire), streets, sanitation and general administrative services.
3. The Board of Alderman consists of five elected members that are paid \$250 per month.
4. The Town of Waterproof is located in the southern portion of Tensas Parish, Louisiana. Tensas Parish is located in northeastern Louisiana.
5. The population of Waterproof is 1,082.
6. The Town of Waterproof has 12 full time employees.
7. The Town of Waterproof has approximately 400 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 or set rates or charges, and issue bonded debt.

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 meetings 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.

**TOWN OF WATERPROOF, LOUISIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Year Ended June, 2007

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.

**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 of 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 funds:

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 Debt Service Fund accounts for long term debt and its repayment.

The Public Facilities Fund accounts for grants and loans used for construction of major physical public infrastructure assets.

The municipality reports the following major proprietary funds:

The Utility Enterprise Fund - accounts for operations (a) 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

TOWN OF WATERPROOF, LOUISIANA  
NOTES TO THE FINANCIAL STATEMENTS  
As of and for the Year Ended June, 2007

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 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 ongoing 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. AJI 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. Deposits

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 deposits, government back securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

D. Receivables and Payables

All fine and utility charges receivables are show net of an allowance for uncollectible. The amounts allocated are based on average amounts receivable and in arrears.

Property taxes attach as an enforceable lien as of January 1 of each year. Taxes are levied in September or October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed. The Town bills and collects its own property taxes using the assessed values determined by the tax assessor of Tensas Parish.

The following is a summary of authorized and levied ad valorem taxes:

General fund	21.52 mills
--------------	-------------

The Town has levied a .75% sales tax on sales within the legal limits of the Town. The proceeds of the sales tax are dedicated to:

**TOWN OF WATERPROOF, LOUISIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Year Ended June, 2007

1. Payment of general operating expenses of the town;
2. Payment of all or part of capital improvements;
3. Maintenance or operation of capital improvements; and
4. Any one or all of the aforementioned purposes.

**E. Inventories and Prepaid Items**

All inventories are valued at the lower of cost or market. 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. 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.

As a Phase III government under the provisions of GASB 34, the Town of Waterproof has chosen not to retroactively capitalize infrastructure 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.

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

- Gas lines, sewer lines and water plant 50 years
- Vehicles and equipment 3 to 10 years

**G. 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.

**TOWN OF WATERPROOF, LOUISIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Year Ended June, 2007

**H. 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.

**I. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**J. 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 those estimates.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***BUDGETS*** 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.
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 basis consistent with generally accepted accounting principles (GAAP).

**3. CASH AND CASH EQUIVALENTS**

**TOWN OF WATERPROOF, LOUISIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**As of and for the Year Ended June, 2007**

At June 30, 2007, the municipality has cash and cash equivalents (book balances) totaling \$89,705. 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, 2007, the municipality has \$89,705 in deposits (collected bank balances). These deposits are secured from risk by \$250,000 of federal deposit insurance and \$115,000 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.

**6. INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS**

Interfund transfers consist of operating transfers between the general fund and the utility fund.



Other Reports

## **SAMUEL W. STEVENS, III CPA**

*P.O. Box 52631 · Shreveport, LA 71135 · (318) 458-0930 · Fax (318) 219-7841*

---

### **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The Mayor and the Members of the Board of Aldermen  
Town of Waterproof, Louisiana

I was engaged to audit the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Waterproof, as of and for the year ended June 30, 2007, which collectively comprise the Town of Waterproof's basic financial statements and have issued my report thereon dated March 17, 2010, except for Other Matter disclosed in Finding 2007-6, as to which the date is June 28, 2010. I did not express an opinion on the financial statements described above because the Town's accounting records were not maintained sufficient enough to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Town of Waterproof's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financials 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, I do not express an opinion on the effectiveness of the Town of Waterproof, Louisiana's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the Town of Waterproof, Louisiana's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. I consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. The control deficiencies noted are described in the accompanying schedule of findings and responses as item 2007-1 through 2007-3 and 2007-6.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Waterproof, Louisiana's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I consider items 2007-1 to 2007-3 and 2007-6, to be 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. I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed three 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 item 2007-04 thru 2007-06.

Town of Waterproof has not provided a response as of the date of this report.

This report is intended solely for the information and use of the Town of Waterproof, Louisiana, Board of Aldermen and management, cognitive agencies, and the Legislative Auditor 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.



Samuel W. Stevens, III  
Certified Public Accountant

March 17, 2010, except for Other Matter disclosed  
in Finding 2007-6, as to which the date is June 28, 2010.

**TOWN OF WATERPROOF, LOUISIANA**  
**Schedule of Findings and Responses**  
**For the Year ended June 30, 2007**

**SUMMARY OF AUDITOR'S REPORTS**

**Financial Statements Audit**

1. A disclaimer of opinion was issued on the basic financial statements of the Town of Waterproof, as of and for the year ended June 30, 2007.
2. Procedures performed disclosed four significant deficiencies in internal control and these significant deficiencies were determined to be material weaknesses.
3. Procedures performed disclosed two instances of noncompliance that are required to be reported under Government Auditing Standards.

**Internal Control**

**2007-01- Control over Recording**

**Condition -** The Town of Waterproof's (Town) financial transactions were not posted or not being posted in a timely manner to the general ledger.

**Effect -** Failure to post financial transactions on a timely basis or not at all could result in reporting errors or defalcations not being identified or corrected.

**Cause -** Transactions were not post transactions in a timely manner or at all during the year.

**Recommendation -** It is recommended that the Town take steps to ensure that the books of account are prepared and maintained on monthly basis.

**Management's Response –** Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

**2007-02 - Control over Account Reconciliations**

**Condition-** Several general ledger accounts, primarily cash, accounts receivable, and accounts payable not being reconciled on a timely basis.

**Effect -** Failure to prepare account reconciliations on a timely basis could result in reporting errors or defalcations not being identified or corrected on a timely basis.

**Cause -** The Town personnel did not perform account reconciliations in a timely manner during the year.

**Recommendations-** I recommend that accounting personnel reconcile cash, accounts receivable, and accounts payable to supporting documentation and the general ledger on a monthly basis.

**Management's Response –** Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

#### **2007-03- Control over Expenditures**

**Condition -** During the engagement, original invoices and other supporting documentation was not available,

**Effect -** The Town has the potential of incurring expenditures which are improper or unauthorized. The Town is also at risk of adverse relations with their vendors.

**Cause -** Applicable to the time of the audit, the Town has seated a new Mayor, engaged a new outside accountant, and new office personnel. Records were not provided when requested. There was little or no internal control over expenditures.

**Recommendation -** The Town should implement appropriate procedures to ensure expenditures are properly authorized, paid correctly and timely. The Town should also implement to properly store invoices and supporting documentation.

**Management's Response -** The Town has seated a new Mayor. Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

#### **Compliance:**

#### **2007-04- Late Report**

**Condition -** The Town is required to submit an audit of its annual financial statements to the Louisiana Legislative Auditor within six months of its year-end or June 30, 2007.

**Effect -** Noncompliance with state law regarding financial reporting.

**Cause -** The Town's financial records were not ready for audit in a timely manner. Additionally, the records were seized by the State Police of Louisiana and not returned until about May 2009.

**Recommendation -** I recommend ensuring financial records are ready for an audit and a CPA engaged to start the audit within forty-five days of year end.

**Management's Response -** Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

#### **2007-05- Omitted Reports**

**Condition -** The Town declined to present omit the required Statement of Cash Flows for the Propriety/Utility Fund for the year ended June 30, 2007. The Town's management also elected not to present the Management's Discussion and Analysis and the Budget.

**Effect -** Presentation of the Cash Flow Statement is required by accounting principles generally accepted in the United States of America. Management's Discussion and Analysis and the Budget Comparison are necessary to supplements, although not required to be part of, basic financial statements in accordance with accounting principles generally accepted in the United States

**Cause -** The Town's financial records were not ready for audit in a timely manner.

**Recommendation -** I recommend ensuring financial records are ready for an audit and a CPA engaged to start the audit within forty-five days of year end.

**Management's Response -** Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

**Other Matters:**

**2007-6 Conviction of the Mayor and Removal of the Police Chief**

Condition –

**Conviction of the Mayor**

On Wednesday June 21, 2010, Mayor Higginbotham was convicted of 1 count of malfeasance and one count of felony theft. According to The News Star, District Attorney James Paxton said the felony theft charge dealt with Higginbotham paying himself \$36,000 a year, for a total of around \$86,000 without the Town's Board of Aldermen's approval during 2007. He said the malfeasance charge stemmed from accusations Higginbotham had used a town credit card to amass \$70,000 in purchases, including travel expenses to San Diego, Las Vegas, Chicago, Washington D.C. and Cape town, South Africa Mr. Higginbotham's sentencing was postponed until August 19, 2010. The conviction prohibits Mr. Higginbotham from returning to office. The Louisiana Municipal Association notes Mr. Caldwell A. Flood is Waterproof's current Mayor. His term ends December 31, 2010.

**Indictment and removal of the Police Chief**

On February 17, 2010, Police Chief Miles Jenkins was indicted and charged with 3 counts of malfeasance in office. The Chief was fired during June 2010. As of the date of this letter, Mr. Jenkins has not been convicted and the Louisiana Municipal Association shows the position of Town Police Chief as vacant.

Effect – The investigation leading to the conviction, impacted financial records, financial management and staff. This matter contributed to the limitation of applying audit procedures to the Town's financial statements. I did not determine the impact of the conviction and indictment on the Town's financial statements as of and for the year ended June 30, 2007.

Recommendation -The actions taken to replace the Mayor and Police Chief based on the conviction and indictments are appropriate. I recommend the Town take steps to implement controls that better monitor and regulate financial operations and adequately review and approve transactions.

Management's Response – No direct response was received. However, the Town has a new Mayor. Management has outsourced accounting to a CPA other than the firm performing accounting for the year ended June 30, 2007.

**FEDERAL AWARDS**

Not applicable

**FINANCIAL STATEMENT FINDINGS**

None.

**TOWN OF WATERPROOF, LOUISIANA**  
**Schedule of Prior Years Audit Findings**  
**For the year ended June 30, 2006**

**Compliance Findings**

**2006-1 - Budget**

The Town of Waterproof was under budget by 9.7% in expenditures. State law requires that actual revenues and expenditures vary by less than 5% from budgeted amounts.

It was recommend that the Town of Waterproof more closely monitor budget performance and amend the budget when necessary.

Management Response - The Town of Waterproof will monitor budget spending and revenues on a monthly basis. The Town of Waterproof will also take strong action in increasing revenue by collecting accounts in a timely fashion. Cost cutting measures will be established in the maintenance department and police department by means of monitoring repairs and purchasing of material and supplies. Action will take place immediately.

Action taken - I was unable to observe management's corrective action as financial statements were not examined and a statement of budget comparison was omitted.