

MILTON WATER SYSTEM, INC.

Milton, Louisiana

Financial Report

Years Ended June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Milton Water System, Inc.
Milton, Louisiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Milton Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Milton Water System, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Milton Water System, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Milton Water System, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Milton Water System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2022, on our consideration of the Milton Water System, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Milton Water System, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milton Water System Inc.'s internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
September 29, 2022

FINANCIAL STATEMENTS

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 764,588	\$ 379,998
Investments	41,777	45,989
Accounts receivable	128,914	112,321
Prepaid expense	14,076	11,783
Other assets	13,858	5,947
Total current assets	963,213	556,038
Restricted assets:		
Cash and cash equivalents	382,170	474,314
Property, plant and equipment, net	5,999,107	5,827,230
Total assets	\$ 7,344,490	\$ 6,857,582
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 142,004	\$ 110,586
Accrued interest payable	-	7,687
Notes payable-current	60,759	78,303
Other payables	34,508	22,873
Total current liabilities	237,271	219,449
Long - term liabilities:		
Notes payable-long term	1,587,346	1,619,673
Customer deposits	322,170	310,910
Total long-term liabilities	1,909,516	1,930,583
Total liabilities	2,146,787	2,150,032
Net assets:		
Without donor restrictions	5,197,703	4,707,550
Total liabilities and net assets	\$ 7,344,490	\$ 6,857,582

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

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Changes in Net Assets Without Donor Restrictions -		
Revenues:		
Water sales	\$ 1,615,517	\$ 1,599,517
Member fees	455	-
Finance charges	25,677	24,277
Meter installation fees	131,764	163,800
Reconnect fees	34,098	22,393
Connection fees	23,537	26,300
NSF charges	2,627	2,758
Grant income	30,135	54,325
Investment income	6,138	10,075
Miscellaneous income	8,737	4,390
Total revenues	1,878,685	1,907,835
Expenses:		
Program services	1,376,562	1,337,359
Supporting services:		
Management and general	422,510	470,351
Total expenses	1,799,072	1,807,710
Excess of revenues over expenses	79,613	100,125
Other increases in net assets:		
Contributed assets	410,540	-
Change in net assets without donor restrictions	490,153	100,125
Net assets, beginning of year	4,707,550	4,607,425
Net assets, end of year	\$ 5,197,703	\$ 4,707,550

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

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Functional Expenses
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Program services:		
Auto and truck	\$ 3,579	\$ 2,600
Bad debt	-	2,210
Chemicals	3,187	2,003
Depreciation	369,217	326,347
Dottie expense	2,204	2,170
Insurance	22,266	22,145
Maintenance and supplies	9,368	2,030
Meter reading	59,788	51,050
Rent - equipment	8,400	8,400
Repairs and maintenance (equipment)	1,093	45,895
Repairs and maintenance (treatment)	6,651	14,040
Repairs and maintenance (line)	66,364	51,413
Repairs and maintenance (distribution)	6,996	-
Salaries	85,671	77,593
Taxes - payroll	6,801	6,109
Telephone	1,192	1,586
Supplies and tools	9,028	8,274
Training and education	682	910
Utilities	10,396	7,337
Water purchases	<u>703,679</u>	<u>705,247</u>
Total program services	<u>\$ 1,376,562</u>	<u>\$ 1,337,359</u>
Supporting services:		
Management and general		
Accounting	\$ 18,985	\$ 17,345
Bank charges	2,012	1,656
Depreciation	1,038	1,038
Dues and subscriptions	2,536	3,941
Insurance	81,120	56,050
Interest	56,417	92,292
Legal	4,162	34,452
Maintenance contract	2,321	2,228
Management fees	1,712	16,178
Miscellaneous	-	21,151
Office expense	14,875	7,572
Postage	38,744	33,717
Repairs and maintenance	13,431	13,046
Salaries	161,817	148,702
Taxes - payroll	12,698	11,282
Telephone	7,068	6,986
Utilities	<u>3,574</u>	<u>2,715</u>
Total supporting services	<u>\$ 422,510</u>	<u>\$ 470,351</u>

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

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 79,613	\$ 100,125
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	370,255	327,385
(Increase) decrease in operating assets		
Accounts receivable	(16,593)	(7,742)
Prepaid expenses	(2,293)	860
Other assets	(7,911)	(4,484)
Unrealized (gains)/losses on investments	5,920	(2,620)
Increase (decrease) in operating liabilities		
Accounts payable	31,418	63,150
Accrued expenses and other payables	3,948	11,079
Customer deposits	11,260	15,263
Total adjustments	396,004	402,891
Net cash provided by operating activities	475,617	503,016
Cash flows from investing activities:		
Purchase of property, plant and equipment	(131,592)	(520,881)
Purchase of investments	(1,708)	(43,369)
Net cash used in investing activities	(133,300)	(564,250)
Cash flows from financing activities:		
Proceeds from notes payable	1,687,501	-
Principal paid on notes payable	(58,553)	(99,905)
Reduction of debt agreement	(1,678,819)	-
Net cash used by financing activities	(49,871)	(99,905)
Net (decrease) increase in cash and cash equivalents	292,446	(161,139)
Cash and cash equivalents, beginning of year	854,312	1,015,451
Cash and cash equivalents, end of year	\$ 1,146,758	\$ 854,312
Supplementary cash flow information:		
Interest paid	\$ 64,104	\$ 90,499
Contributed asset - Water lines	\$ 410,540	\$ -

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

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Cash Flows (Continued)
Years Ended June 30, 2022 and 2021

	2022	2021
Reconciliation of cash and cash equivalents per statement of cash flows to the statement of financial position:		
Cash and cash equivalents, beginning of period -		
Cash and interest bearing deposits - unrestricted	\$ 379,998	\$ 526,054
Cash and interest bearing deposits - restricted	<u>474,314</u>	<u>489,397</u>
Total cash and cash equivalents	<u>854,312</u>	<u>1,015,451</u>
Cash and cash equivalents, end of period -		
Cash and interest bearing deposits - unrestricted	764,588	379,998
Cash and interest bearing deposits - restricted	<u>382,170</u>	<u>474,314</u>
Total cash and cash equivalents	<u>1,146,758</u>	<u>854,312</u>
Net (decrease) increase	<u>\$ 292,446</u>	<u>\$ (161,139)</u>

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

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of Operations

Milton Water System, Inc. (The Water System) was incorporated January 10, 1974, under the provisions of non-profit corporation laws under the State of Louisiana. The water system was organized to construct, maintain, and operate a private water system that provides water to its members. Members elect directors who appoint or elect officers to manage the organization. The organization was granted non-profit status, by the Internal Revenue Service under IRS Code 501 (c)(12).

B. Financial Statement Presentation

The financial statements of The Water System have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified on the existence of donor-imposed restrictions. Accordingly, net assets of the Water System and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Water System’s management and board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that will be met, either (1) incurring expenses to satisfying the restricted purpose (purpose restricted, and/or passage of time or other events (time restricted), or (2) will never expire (perpetual in nature). When restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Water System’s board of directors has designated, from net assets without donor restrictions for the following purpose:

	2022	2021
Designated for reserve accounts	<u>\$ 60,000</u>	<u>\$ 163,404</u>

C. Cash and Cash Equivalents

Cash and cash equivalents is comprised of interest-bearing deposits which are stated at cost, which approximates market. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date no longer than three months.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

D. Investments

Investments are carried at fair value. The Water System reports investment income and gains restricted by donors as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

E. Allocation of Functional Expenses

Direct expenses are charged to program or support based on specific identification.

F. Revenue Recognition

The Water System recognizes revenues on the accrual basis of accounting. Revenues from water sales are recognized at the time services are rendered. The performance obligations for substantially all services relate to contracts with terms of one year or less. As a result, the Water System does not separately disclose aggregate amounts of fully or partially unsatisfied performance obligations as of the end of the year.

G. Income Taxes

The Water System is a nonprofit organization exempt from Federal and State income taxes. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Water System and recognize a tax liability (or asset) if the Water System has undertaken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Water System, and has concluded that as of June 30, 2021 and 2020, respectively, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Water System is subject to routine audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

H. Property and Equipment

The cost of property and equipment, which have an acquisition cost of \$500 or more are capitalized. Property and equipment are valued at historical cost and are being depreciated on a straight-line basis. Depreciation expense totaled \$370,255 and \$327,385 for the years ended June 30, 2022 and 2021, respectively.

I. Bad Debts

Generally accepted accounting principles require the accrual of uncollectible receivables through an allowance account. Uncollectible amounts due from water system customers are written-off using the direct charge-off method. An allowance amount would be immaterial at June 30, 2022 and 2021.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

J. Vacation, Sick Leave, and Compensated Absences

The Water System allows one regular workweek of paid vacation after one year as a full-time employee and increased vacation each additional year of service. Vacation is normally taken in the year accrued, but one week of unused vacation days may be carried over to the next year. Accrued vacation is payable at termination of employment. Accrued vacation will not be accrued because it is immaterial. Sick leave may not be carried over and is not payable at termination of employment; it is recorded as an expense of the period in which paid.

K. Statement of Cash Flows

The Water System considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

L. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to use estimates and make assumptions regarding certain types of assets, liabilities, support, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(2) Investments

FASB provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in inactive markets, quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize that use of unobservable inputs.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

The following table sets forth by level, within the fair value hierarchy, The Milton Water System's assets at fair value as of:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2022				
Total Investments	<u>\$ 41,777</u>	<u>\$ 41,777</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2021				
Total Investments	<u>\$ 45,989</u>	<u>\$ 45,989</u>	<u>\$ -</u>	<u>\$ -</u>

Gains and losses are included in the State of Activities for the years ended June 30, 2022 and 2021 and are reported in Investments in the Statement of Net Position.

The Milton Water System's policy is to recognize transfers between Level 1 and 2 and into and out of Level 3 as of the date of the event of change in circumstances that caused the transfer. For the years ended June 30, 2022 and 2021, there are no significant transfers between Levels 1 and 2 and no transfers into or out of Level 3.

(3) Contract Balances

The timing of revenue recognition, billings and cash collections result in billed accounts receivables (contract assets). The Water System requires customers deposits resulting in contract liabilities. The beginning and ending contract balances are as follows:

	<u>2022</u>	<u>June 30, 2021</u>	<u>2020</u>
Accounts Receivable	<u>\$ 128,914</u>	<u>\$ 112,321</u>	<u>\$ 104,579</u>
Customer Deposits	<u>\$ 322,170</u>	<u>\$ 310,910</u>	<u>\$ 295,647</u>

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(4) Accounts Receivable

The aging of the accounts receivable is as follows:

	<u>2022</u>	<u>2021</u>
Current	\$ 97,802	\$ 76,850
Over 30 Days	6,148	6,480
Over 60 Days	16,167	21,066
Over 90 days	<u>8,797</u>	<u>7,925</u>
Total	<u>\$128,914</u>	<u>\$112,321</u>

(5) Restricted Assets

Restricted assets relate to funds transferred to separate accounts to meet the requirements of the loan agreements and customer deposits. The balance of restricted assets for June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Debt reserves	\$ 60,000	\$ 163,404
Customer deposits	<u>322,170</u>	<u>310,910</u>
Total	<u>\$382,170</u>	<u>\$474,314</u>

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(6) Property, Plant and Equipment

All costs associated with the construction of the water system are included in this account. The Water System follows a policy of capitalizing interest as a part of property, plant and equipment constructed. A schedule of property, plant and equipment for the periods ended June 30, 2022 and 2021 is as follows:

	2022	2021
Land	\$ 351,898	\$ 351,898
Construction in Progress	394,870	411,672
Water Treatment Plant	447,529	447,529
Waterwell	101,297	101,297
Ground Storage Reserve	27,794	27,794
Water Distribution System	7,567,133	7,132,690
Meters	1,444,033	1,319,542
Treatment Equipment	3,155	3,155
Equipment and/or Building	3,500	3,500
Filtering System	328,912	328,912
Furniture and Fixtures	37,832	37,832
Vehicles	72,759	72,759
Total	10,780,712	10,238,580
Less: accumulated depreciation	4,781,605	4,411,350
Net Property, Plant and Equipment	\$ 5,999,107	\$ 5,827,230

Depreciation of property, plant and equipment is computed over the estimated useful lives of the respective assets on a straight-line basis. All property, plant and equipment is pledged as collateral for notes payable listed in Note 5.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(7) Notes Payable

The Water System's note payable balances consisted of the following:

	2022	2021
Note payable to the United States Department of Agriculture Farmers Home Association, dated February 3, 2000, in the original amount of \$1,500,000, payable in monthly installments of \$8,055, including interest at 5.75 percent annum, secured by a pledge of revenues and accounts receivable from the Water System, a mortgage on the real estate, and personal property owned or purchased by the Water System, and maturing 2/3/2040.	\$ -	\$ 845,690
Note payable to the United States Department of Agriculture Farmers Home Association, dated December 29, 2008, in the original amount of \$1,225,000, payable in monthly installments of \$5,562, including interest at 4.5 percent annum, secured by a pledge of revenues and accounts receivable from the Water System, a mortgage on the real estate, and personal property owned or purchased by the Water System, and maturing 12/28/2049.	-	852,286
Note payable to CoBank, dated September 13, 2021, in the original amount not to exceed \$1,800,000, payable in two hundred forty monthly installments, including interest at 3.45 percent annum, secured by a pledge of revenues from the Water System, a mortgage on the real estate, and personal property owned or purchased by the Water System, and maturing 10/20/2041.	<u>1,648,105</u>	<u>-</u>
Total notes payable	1,648,105	845,690
Less: Current portion	<u>60,759</u>	<u>78,303</u>
Long-term debt	<u>\$ 1,587,346</u>	<u>\$ 767,387</u>

Notes payable at June 30, 2022, is scheduled to mature as follows:

Year	Principal Only
2023	\$ 60,759
2024	62,769
2025	65,150
2026	67,466
2027	69,864
2028 to 2032	388,147
2033 to 2037	462,388
2038 to 2042	<u>471,562</u>
	<u>\$ 1,648,105</u>

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(8) Commitments and Contingencies

The Water System is involved in two lawsuits, and management, board members and counsel reasonably estimate there will be no monetary loss regarding any legal matters as of June 30, 2022.

(9) Concentration of Credit Risk

The Water System maintains bank accounts at three separate institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at June 30, 2022 exceed federally insured limits by \$195,923 and Cash at June 30, 2021 did not exceed federally insured limits.

(10) Operating Lease

The Water System leases a building in Milton, Louisiana, under an operating lease. The term of the operating lease is for one year and rental payments are \$700 per month.

(11) Board of Directors and compensation

The Board of Directors of the Water System for the year ended June 30, 2022 are as follows:

<u>Board Member</u>	<u>Term</u>	<u>Address</u>
President - Sinda Soileau	October 2019 - October 2022	129 Julie Drive, Lafayette, LA
Glen Gudiry	October 2020- October 2023	PO Box 398, Milton, LA
Larry Soileau	October 2021 - October 2024	122 Julie Drive, Lafayette, LA
Bob Bixenman	July 2019 - July 2022	PO Box 359, Milton, LA
Lisa Noel	October 2020 - October 2023	221 Julie Drive, Lafayette, LA

The Water System is governed by the Board of Directors, which are not compensated.

(12) Concentrations

The Water System purchases the majority of its water from a local government. Without these purchases, The Water System would not be able to provide water to its customers.

(13) Subsequent Events

The Water System has evaluated subsequent events through September 29, 2022, the date which the financial statements were available to be issued.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(14) Liquidity and Availability of Resources

The Water System's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 764,588	\$ 379,998
Investments	41,777	45,989
Accounts receivable	128,914	112,321
Prepaid expense	14,076	11,783
Other assets	<u>13,858</u>	<u>5,947</u>
Total current assets	<u>\$ 963,213</u>	<u>\$ 556,038</u>

Certain assets are restricted by lenders for specific purposes and, therefore, are not available for general expenditure. As part of the Water System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Although the Water System does not intend to spend from its restricted assets other than amounts appropriated for general expenditures as part of its annual appropriation process, amounts from its restricted assets could be made available if necessary.

(15) Deferred Compensation Contracts

The Water System has established a deferred compensation contract with a certain key employee. The agreement provides for a lump sum cash benefit upon his normal retirement date or his beneficiary upon death. Provisions for these benefits are charged to operations ratably over the employee's expected term of employment. The net amount of deferred compensation paid to cover key employees for years ended June 30, 2022 and 2021 was \$15,585 and \$8,539, respectively. The Water System has also recognized as liability (included in other payable) for the years ended June 30, 2022 and 2021 in the amounts of \$13,158 and \$8,539, respectively.

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

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

To the Board of Directors
Milton Water System, Inc.
Milton, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Milton Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milton Water System, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Milton Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Milton Water System, Inc.'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 Milton Water System, Inc.'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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milton Water System Inc.'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Milton Water System Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Milton Water System, Inc.'s response to the finding identified in our audit and described in the accompany schedule of findings and questioned costs. Milton Water System, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
September 29, 2022

Milton Water System, Inc.
Milton, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended June 30, 2022

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

A. Internal Control Over Financial Reporting

2022-001 Inadequate Segregation of Accounting Functions

CONDITION: The Milton Water Systems, Inc. did not have adequate segregation of functions within the accounting system.

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

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

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

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

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

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board members have determined that it is not cost effective to achieve complete segregation of duties within the accounting department. Management will attempt to use current staff and board members to segregate accounting functions as much as possible.

B. Compliance

There are no compliance findings to be reported.

Milton Water System, Inc.
Milton, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended June 30, 2022

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2021-001 Inadequate Segregation of Accounting Functions

CONDITION: The Milton Water System, Inc. did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Based upon the cost-benefit of additional personnel, it would not be feasible to achieve complete segregation of duties.

CURRENT STATUS: Unresolved. See item 2022-001.

B. Compliance

There were no compliance findings reported.