

HOLMESVILLE WATER SYSTEM, INC.
DOWNSVILLE, LOUISIANA

Financial Statements
As of and For the Year Ended
December 31, 2019



HOLMESVILLE WATER SYSTEM, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Holmesville Water System, Inc.
Downsville, Louisiana

Management is responsible for the accompanying financial statements of Holmesville Water System Inc., as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Supplementary Information

The accompanying schedule of compensation, benefits, and other payments to the agency head, political subdivision head, or chief executive officer is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. The information was subject to my compilation engagement, but I have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information.

Maxwell CPA, LLC
Monroe, Louisiana
August 31, 2020



HOLMESVILLE WATER SYSTEM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

Current Assets

Cash	\$ 227,425
Accounts Receivable (net of allowance for uncollectible accounts)	28,278
Total Current Assets	255,703

Designated Cash

Customer Meter Deposits	35,329
Debt Service	141,614
Capital Additions and Contingencies	80,849
Construction	1,068
Total Designated Cash	258,860

Investments - Certificates of Deposit - Designated for Debt Service	25,236
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Property and Equipment (net of accumulated depreciation)	2,690,985
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<u>TOTAL ASSETS</u>	\$ 3,230,784
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 2,074
Accrued Interest Payable	1,161
Customer Meter Deposits Payable	38,050
Current Portion of Loans Payable	73,430
Total Current Assets	114,715

Long-Term Liabilities

Loans Payable	1,794,864
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<u>Total Liabilities</u>	1,909,579
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Net Assets

Unrestricted	1,321,205
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 3,230,784
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See accompanying notes and accountant's compilation report.

HOLMESVILLE WATER SYSTEM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Operating Revenues</u>	
Water Sales	\$ 451,896
Meter Installations	18,700
Total Operating Revenues	<u>470,596</u>
<u>Operating Expenses</u>	
Bank Charges	108
Contract Labor	124,735
Depreciation	40,925
Dues and Subscriptions	11,567
Insurance	6,723
Postage and Delivery	3,477
Professional Fees	11,635
Repairs and Maintenance	10,843
Taxes and Licenses	2,215
Supplies	38,668
Utilities	37,118
Total Operating Expenses	<u>288,014</u>
<u>Operating Income</u>	182,582
<u>Non-Operating Revenues (Expenses)</u>	
Interest Income	501
Interest Expense	(51,651)
Loan Principal Forgiveness	11,107
Total Non-Operating Revenues (Expenses)	<u>(40,043)</u>
<u>Change in Net Assets</u>	142,539
<u>Net Assets at Beginning of Year</u>	<u>1,178,666</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 1,321,205</u>

See accompanying notes and accountant's compilation report.

HOLMESVILLE WATER SYSTEM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Cash Flows From Operating Activities</u>	
Change in Net Assets	\$ 142,539
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	40,925
Decrease in Accounts Receivable	8,098
Decrease in Receivable from Louisiana Department of Health	15,919
Decrease in Accounts Payable	(16,738)
Decrease in Accrued Interest Payable	(42)
Decrease in Customer Deposits	(350)
Loan Principal Forgiveness	(11,107)
Total Adjustments	<u>36,705</u>
Net Cash Provided by Operating Activities	<u>179,244</u>
 <u>Cash Flows From Investing Activities</u>	
Purchase and Construction of Capital Assets	(142,285)
 <u>Cash Flows From Financing Activities</u>	
Principal Paid on Long-Term Debt	(72,730)
Proceeds from Loan	<u>137,719</u>
Net Cash Provided by Financing Activities	<u>64,989</u>
 <u>Net Increase in Cash and Cash Equivalents</u>	 101,948
 <u>Cash and Cash Equivalents at Beginning of Year</u>	 <u>384,337</u>
 <u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	 <u><u>\$ 486,285</u></u>
 <u>Reconciliation of Cash per Statement of Cash Flows to Cash per Statement of Financial Position:</u>	
Cash	\$ 227,425
Designated Cash	<u>258,860</u>
Total Cash	<u><u>\$ 486,285</u></u>
 <u>Supplemental Disclosures of Cash Flow Information:</u>	
Cash paid during the Year for Interest	<u><u>\$ 51,693</u></u>

See accompanying notes and accountant's compilation report.

HOLMESVILLE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

Note 1 - Summary of Significant Accounting Policies

A. Nature of Activities

Holmesville Water System, Inc. (the water system) is a nonprofit corporation domiciled in Downsville, Louisiana, and organized under the provisions of Louisiana Revised Statutes 12:201-269. The water system is governed by a five-member board of directors who are members of the water system and are elected by members of the water system. The water system provides water to members residing within the territorial boundaries of the water system. The water system has approximately 760 active members and no employees.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an initial maturity of three months or less.

D. Receivables

Accounts receivable consists of amounts due from members for water service provided prior to year end and loan proceeds due from the Louisiana Department of Health Drinking Water Revolving Loan Fund. Receivables are reported net of an allowance for uncollectible accounts that is an estimate based on historical collection percentages and management's evaluation of the amount of outstanding receivables that are considered uncollectible. Nonpayment of customer accounts within thirty days from the due date are cut-off. Past due accounts are written off when they are considered uncollectible by management.

E. Fixed Assets

Major improvements to the water system, buildings, and equipment purchases with a cost of \$1,000 or more are capitalized by the water system. Fixed assets are recorded at actual cost. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Water System Improvements	25 - 50 Years
Furniture and Equipment	5 - 15 Years

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation expense for the year ended December 31, 2019, was \$40,925.

F. Income Taxes

Holmesville Water System, Inc. is a nonprofit corporation exempted from federal income taxes under Section 501 (c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made; however, should the water system engage in activities unrelated to its exempt purpose, taxable income could result. The water system had no material unrelated business income for the year ended December 31, 2019. The earliest income tax year that is subject to examination is 2017.

HOLMESVILLE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Functional Allocation of Expenses

The water system's only activity is to provide water service to its members. All costs incurred by the water system are incurred for the purpose of providing water service; therefore, it is not feasible to allocate expenses between program services and support services.

Note 2 - Deposits with Financial Institutions

The water system has various checking, certificate and time deposit accounts at local financial institutions as follows:

	System <u>Balances</u>	Bank <u>Balances</u>
Checking accounts	\$ 368,600	\$ 373,806
Money Market	117,685	117,685
Certificates of Deposit	<u>25,236</u>	<u>25,236</u>
<u>TOTAL</u>	<u>\$ 511,521</u>	<u>\$ 516,727</u>

The water system's deposits are collateralized as follows:

FDIC Insured Deposits	\$ 250,000
Uninsured Deposits	<u>266,727</u>
Total Deposits	<u>\$ 516,727</u>

Note 3 - Accounts Receivable

As of December 31, 2019, accounts receivable from water sales was \$28,278 net of allowance for uncollectible accounts of \$3,142.

Note 4 - Property and Equipment

Property and equipment consisted of the following:

	Balance at January 1, 2019	Increases	Decreases	Balance at December 31, 2019
Land	\$ 17,639	\$ -	\$ -	\$ 17,639
Water System	1,598,139	-	-	1,598,139
Equipment	3,071	-	-	3,071
Construction in Progress	1,882,224	137,719	-	2,019,943
Equipment Shed	-	4,567	-	4,567
Total Property and Equipment	<u>3,501,073</u>	<u>142,286</u>	-	<u>3,643,359</u>

HOLMESVILLE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

Note 4 - Property and Equipment (continued)

Less Accumulated				
Depreciation:				
Water System	908,611	39,779	-	948,390
Equipment	2,838	233	-	3,071
Equipment Shed	-	913	-	913
Total Accumulated				
Depreciation	<u>911,449</u>	<u>40,925</u>	-	<u>952,374</u>
Property and Equipment, Net	<u>\$ 2,589,624</u>	<u>\$ 101,361</u>	<u>\$ -</u>	<u>\$ 2,690,985</u>

The additions to property and equipment for the year were associated with the construction project of two new treatment plants, ground storage facilities, booster stations, chlorination systems, site piping and associated items. The project was completed during 2019.

Note 5 - Loans Payable

At December 31, 2019, there is a total of \$1,868,294, remaining on the principal balances of three loans. Two of the loans were obtained from the United States Department of Agriculture – Rural Development and one was obtained from the Louisiana Department of Health Drinking Water Revolving Loan Fund. The loans are secured by mortgages of certain properties owned by the system that are described within the related instruments of mortgage and pledge of revenues. Proceeds from the loans were used to fund the cost of construction and acquisition of the system's fixed assets.

Loans payable at December 31, 2019 are comprised of the following loans:

1997 \$471,000 Promissory Note due to USDA Rural Development in monthly installments of \$2,294 through 2037; interest at 5 percent.

Balance	Loan	Principal	Balance
1/1/2019	Proceeds	Payments	12/31/2019
\$ 330,341	\$ -	\$ 11,268	\$ 319,073

1997 \$100,000 Promissory Note due to USDA Rural Development in monthly installments of \$487 through 2037; interest at 5 percent.

Balance	Loan	Principal	Balance
1/1/2019	Proceeds	Payments	12/31/2019
\$ 68,768	\$ -	\$ 2,461	\$ 66,307

2017 \$2,040,000 Promissory Note due to Louisiana Department of Health and Hospitals in twenty annual installments of principal based on percentages specified in the note and semi-annual installments of interest at 3.45 percent through 2038. The agreement provides for 20% principal forgiveness on each principal drawdown so the maximum amount of principal repayment will be \$1,632,000.

HOLMESVILLE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

Note 5 - Loans Payable (continued)

<u>Balance</u> <u>1/1/2019</u>	<u>Loan</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Principal</u> <u>Forgiveness</u>	<u>Balance</u> <u>12/31/2019</u>
\$ 1,415,302	\$ 137,719	\$ 59,000	\$ 11,107	\$ 1,482,914

The aggregate principal amounts scheduled for repayment is as follows:

<u>Fiscal Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2020	73,430
2021	74,169
2022	74,945
2023	75,742
Thereafter	<u>1,570,008</u>
TOTAL	<u>\$ 1,868,294</u>

Interest paid on the notes payable was \$51,651 for the year ending December 31, 2019.

Note 6 - Designated Net Assets

The loan agreement with the United States Department of Agriculture – Rural Development for the loans discussed in Note 5 above, requires the system to set aside an amount equal to the annual installment of principal and interest due on all outstanding loans. At December 31, 2019, the water system was required to have \$33,372 set aside in reserve accounts. The water system had sufficient reserve funds to satisfy USDA requirements.

The loan agreement with the Louisiana Department of Health and Hospitals (DHH) discussed in Note 5 above, require the water system to establish and maintain the following accounts:

2017 Debt Service Fund – monthly payments equal to 1/12 of that year’s debt service payments. Funds are to be used to pay principal and interest on the loan.

2017 Debt Service Reserve Fund – monthly or annual payments until a maximum of \$49,000 has been accumulated within a period not to exceed five years from the date of the loan. Funds are to be used to pay equal to 1/12 of that year’s debt service payments. Funds are to be used to pay principal and interest on the loan to which there would otherwise be default.

2017 Capital Additions and Contingencies Fund – monthly payments equal to 5% of the gross revenues of the preceding month after making payments required by the accounts described above. Such payments are to continue until a maximum of \$50,000 has been accumulated. Funds are to be used for extensions, additions, improvements, renewals, and replacements necessary to properly operate the water system and may also be used to pay principal and interest on the loan when there is not sufficient funds in the debt service and debt service reserve funds.

Construction Fund – all proceeds derived from the loan shall be deposited into this fund and used solely for the purpose of paying the costs of the water system improvement project.

HOLMESVILLE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

Note 6 - Designated Net Assets (continued)

The following is a summary of the transactions in the accounts during the year ended December 31, 2019:

	Balance at January 1, 2019	Deposits	Withdrawals	Balance at December 31, 2019
2017 Debt Service Fund	\$ 13,898	\$ 9,832	\$ -	\$ 23,730
2017 Debt Service Reserve Fund	74,338	97,760	91,050	81,048
Contingencies Fund	32,963	22,351	-	55,314
Construction Fund	1,068	159,256	159,256	1,068
Money Market – Debt Service	36,758	78	-	36,836
Money Market – Depreciation	25,482	54	-	25,536
Customer Meter Deposits	35,276	52	-	35,328
	<u>\$ 219,783</u>	<u>\$ 289,383</u>	<u>\$ 250,306</u>	<u>\$ 258,860</u>

Note 7 - Contingencies

During the year ended December 31, 2019, the water system expended \$148,826 in federal loan funds from the Environmental Protection Agency passed through the Louisiana Department of Health. These expenses are subject to audit and adjustment by federal and state agencies; therefore, to the extent that the water system has not complied with the rules and regulations governing the loan funds, refunds of any money received may be required. In the opinion of the water system's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the loan funds; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 8 - Subsequent Events

In preparing these financial statements, the water system has evaluated events and transactions for potential recognition or disclosure through August 31, 2020, the date the financial statements were available to be issued.

On March 13, 2020, the President of the United States declared the COVID-19 outbreak to be a national emergency. The water system evaluated the effects of the outbreak and ensuing economic repercussions. As of the report date, the water system has not identified any material effects to the financial statements but was unable to determine what, if any, effects there will be on future operations.

SUPPLEMENTAL INFORMATION

HOLMESVILLE WATER SYSTEM, INC.
SCHEDULE OF COMPENSATION, BENEFITS,
AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2019

SCHEDULE 1

Agency Head
Title

Robert Riser
President

Purpose
Compensation

None

HOLMESVILLE WATER SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II – Financial Statement Findings

2019-01 Inadequate Segregation of Accounting Duties

Criteria:

Proper internal controls require that accounting duties be performed by separate individuals so that one individual could not perpetrate and conceal errors or irregularities without those errors and irregularities being detected by another individual who was performing his or her assigned duties.

Condition:

The water system has too few personnel involved in the accounting system to have adequate separation of duties for internal control.

Cause:

The small size and limited revenues of the water system.

Effect:

Lack of segregation of accounting duties increases the risk that errors or irregularities would not be detected or corrected in a timely manner.

Recommendation:

Establish guidelines for the Board of Directors on a rotating basis to closely monitor reports for billings, payments, and credits issued by the water system. Furthermore, bank statements and bank reconciliations should be reviewed by the board each month.

Management's Response and Corrective Action Plan:

The water system has an accounting workload that can be easily managed by one person. It is not economically feasible to correct this deficiency based on the size of the water system. However, the board will begin reviewing and monitoring reports, bank statements and bank reconciliations as suggested.

2019-02 Accounts Receivable and Water Cutoff

Criteria:

It is the water system's policy to cutoff customer accounts that are past due by thirty days.

Condition:

The water system does not have a system in place to notify management of customer accounts that become past due to allow proper cutoff until payment is received.

Cause:

The water system tracks accounts receivable manually but does not have the capability of using the billing software to notify them of old accounts which could lead to some customer accounts going past due and not being caught timely.

Effect:

Customers could have accounts that go beyond ninety days and leave before the water system becomes aware of the issue.

HOLMESVILLE WATER SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019 (continued)

2019-02 Accounts Receivable and Water Cutoff (continued)

Recommendation:

Management should consider calling the software company to learn how to run reports that will give them accurate information to timely make decisions about customer accounts.

Management's Response and Corrective Action Plan:

The water system is now handling accounts receivable and water cutoff differently than years past. The cutoff policy has been updated in 2019 to state that meters will be shut off after thirty days of delinquency. The water system also contracted out the responsibility of handling accounts receivable and making the system aware when customer's accounts are past due and when the water needs to be shutoff. These changes have made a significant impact on delinquent accounts.

HOLMESVILLE WATER SYSTEM, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

2018-01 Inadequate Segregation of Accounting Duties

Condition Found:

Inadequate segregation of duties.

Effect:

Lack of segregation of accounting duties increases the risk that errors or irregularities would not be detected or corrected in a timely manner.

Recommendation to Prevent Future Occurrences:

Establish guidelines for the Board of Directors on a rotating basis to closely monitor reports for billings, payments, and credits issued by the water system. Furthermore, bank statements and bank reconciliations should be reviewed by the board each month.

Current Status:

The finding was repeated as finding 2019-01.

2018-02 Accounts Receivable and Water Cutoff

Condition Found:

The water system does not have a system in place to notify management of customer accounts that become past due to allow proper cutoff until payment is received.

Effect:

Customers could have accounts that go beyond ninety days and leave before the water system becomes aware of the issue.

Recommendation to Prevent Future Occurrences:

Management should consider calling the software company to learn how to run reports that will give them accurate information to timely make decisions about customer accounts.

Current Status:

The finding was repeated as finding 2019-02.

2018-03 Noncompliance with State Laws and Regulations

Condition Found:

The water system did not submit its reviewed financial statements to the Louisiana Legislative Auditor within the prescribed time period.

Effect:

The water system was not in compliance with the State Statute.

Recommendation to Prevent Future Occurrences:

I recommend that the financial records be ready for audit no later than May 1 of each year.

Current Status:

The finding has been cleared.