

**EAST CENTRAL VERNON
WATER SYSTEM, INC.**

Slagle, Louisiana

Financial Report

Year Ended December 31, 2017

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KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Victor R. Slaven, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*
Brad E. Kolder, CPA, JD*
Stephen J. Anderson, CPA*
Christine C. Doucet, CPA
Wanda F. Arcement, CPA, CVA
Bryan K. Joubert, CPA
Matthew E. Margaglio, CPA
Casey L. Ardoin, CPA, CFE

183 S. Beadle Rd.
Lafayette, LA 70508
Phone (337) 232-4141

11929 Bricksome Ave.
Baton Rouge, LA 70816
Phone (225) 293-8300

1428 Metro Dr.
Alexandria, LA 71301
Phone (318) 442-4421

450 E. Main St.
New Iberia, LA 70560
Phone (337) 367-9204

200 S. Main St.
Abbeville, LA 70510
Phone (337) 893-7944

1234 David Dr. Ste. 203
Morgan City, LA 70380
Phone (985) 384-2020

434 E. Main St.
Ville Platte, LA 70586
Phone (337) 363-2792

332 W. Sixth Ave.
Oberlin, LA 70655
Phone (337) 639-4737

* A Professional Accounting Corporation

WWW.KSRCPAS.COM

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
East Central Vernon Water System, Inc.
Slagle, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of East Central Vernon Water System, Inc., (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Central Vernon Water System, Inc., as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the East Central Vernon Water System, Inc has restated its prior period net assets due to errors discovered in the prior year. Our opinion on the December 31, 2017 financial statements is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2018, on our consideration of the East Central Vernon 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Central Vernon Water System, Inc.'s internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Alexandria, Louisiana
June 15, 2018

FINANCIAL STATEMENTS

East Central Vernon Water System, Inc
Slagle, Louisiana

Statement of Financial Position
December 31, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 477,556
Accounts receivable	88,608
Due from governmental entity	<u>94,767</u>
Total current assets	<u>660,931</u>
Restricted assets:	
Cash - meter deposits	60,800
Cash - debt service	178,101
Certificates of deposit	<u>252,000</u>
Total restricted assets	<u>490,901</u>
Certificates of deposit	<u>283,000</u>
Property, plant and equipment (net)	<u>4,154,408</u>
Total assets	<u>\$ 5,589,240</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities (payable from current assets):	
Accounts payable	\$ 14,131
Accrued salaries and related liabilities	12,723
Construction and retainage payable	94,767
Current portion of long-term debt	96,065
Sales tax payable	<u>200</u>
Total current liabilities (payable from current assets)	217,886
Current liabilities (payable from restricted assets):	
Accrued interest payable	6,227
Current portion of long-term debt	36,000
Meter deposits	<u>60,800</u>
Total current liabilities (payable from current assets)	<u>103,027</u>
Long-term liability:	
URAF liability	652,102
Notes payable	<u>2,723,550</u>
Total long-term liabilities	<u>3,375,652</u>
Total liabilities	<u>3,696,565</u>
Net assets:	
Temporarily restricted	387,874
Unrestricted	<u>1,504,801</u>
Total net assets	<u>1,892,675</u>
Total liabilities and net assets	<u>\$ 5,589,240</u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc
Slagle, Louisiana

Statement of Activities
Years Ended December 31, 2017

Changes In Unrestricted Net Assets

Program:

Water sales	\$ 928,388
Connection charges	33,946
Late charges	19,392
Miscellaneous income	<u>4,913</u>
Total unrestricted revenues	<u>986,639</u>

Expenses:

Program services	716,549
Supporting services	<u>92,885</u>
Total expenses	<u>809,434</u>
Operating income	<u>177,205</u>

Other increases (decreases) in net assets:

Forgiveness of debt	28,430
Interest income	7,425
Interest expense	(128,998)
Gain on disposal of assets	<u>240,107</u>
Total other increase (decrease) in net assets	<u>146,964</u>
Change in net assets	324,169
Net assets, beginning of year, as restated	<u>1,568,506</u>
Net assets, end of year	<u><u>\$ 1,892,675</u></u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc
Slagle, Louisiana

Statement of Cash Flows
Years Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 324,169
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Depreciation	164,810
Gain on sale of assets	(240,107)
(Increases) decreases in operating assets:	
Accounts receivable	(21,955)
Due from governmental agency	(94,767)
Interest receivable	754
Increase (decrease) in operating liabilities:	
Accounts payable	(680)
Accrued salaries and payables	8,564
Construction and retainage payable	29,967
Sales tax payable	200
Accrued interest payable	<u>(3,448)</u>
Total adjustments	<u>(156,662)</u>
Net cash provided by operating activities	<u>167,507</u>
Cash flows from by investing activities:	
Proceeds from sale of assets	88,160
Purchase of property, plant and equipment	(110,961)
Proceeds of interest-bearing deposits with maturity in excess of ninety days	270,000
Purchase of interest-bearing deposits with maturity in excess of ninety days	<u>(270,000)</u>
Net cash used by investing activities	<u>(22,801)</u>
Cash flows from financing activities:	
Meter deposits	1,550
Repayments of debt	(129,000)
Proceeds from debt	<u>66,337</u>
Net cash used by financing activities	<u>(61,113)</u>
Net change in cash and cash equivalents	83,593
Cash and cash equivalents, beginning of period	<u>632,864</u>
Cash and cash equivalents, end of period	<u>\$ 716,457</u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc
Slagle, Louisiana

Statement of Cash Flows (Continued)
Years Ended December 31, 2017

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 cash equivalents - unrestricted	\$ 413,064
Cash and cash equivalents - restricted	<u>219,800</u>
Total cash and cash equivalents, beginning of period	<u>632,864</u>
Cash and cash equivalents, end of period -	
Cash and cash equivalents - unrestricted	477,556
Cash and cash equivalents - restricted	<u>238,901</u>
Total cash and cash equivalents, end of period	<u>716,457</u>
Net change	<u>\$ 83,593</u>

Supplemental disclosure of cash flow information:

Cash paid during year for interest	<u>\$ 130,764</u>
Payment of USDA principal/interest/fees from sale of assets	<u>\$ 261,640</u>

The accompanying notes are an integral part of this statement.

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

East Central Vernon Water System, Inc. (Water System) is a nonprofit organization formed under the laws of the State of Louisiana on March 13, 1986. The Water System provides water to its members in the Vernon parish area. The Water System is governed by a board of directors composed of nine members elected by the members of the Water System.

A. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Water System reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted assets.

The Water System's financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred.

B. 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. Certificates of deposit are classified separate from cash equivalents if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Certificates of deposit are stated at cost.

C. Accounts Receivables and Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid balances. The Water System provides for losses on accounts receivables using the direct write off method. It is the Water System's policy to write-off uncollectible accounts receivable when management determined the receivable will not be collected. Generally accepted accounting principles require the accrual of uncollectible receivables through an allowance account. An allowance amount would be immaterial at December 31, 2017.

D. Inventory

Inventory is stated at the lower of cost, using average cost method or fair value. At December 31, 2017, the amount of inventory the Water System had on hand was immaterial to the financial statements.

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

E. Property, Plant and Equipment

Property, plant and equipment, with an acquisition costs of \$1,000 or more is capitalized. Assets donated to the Water System are capitalized at their current fair market value. The costs of normal repairs and maintenance that do add value to the assets or materially extend the assets lives are not capitalized. Any improvements that do add value or extend the life of the assets, are capitalized and depreciated over the remaining life of the asset. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water System	40 years
Building	40 years
Office furniture & equipment	3-10 years
Machinery & equipment	5-10 years
Vehicle	5 years

F. Income Tax Status

The Water System is exempt from federal income tax as an organization described in Section 501(c) (12) of the Internal Revenue Code. 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. Current management noted that the Water System had not filed the required Form 990 with the IRS in the system's existence. The Water System could be subject to nominal penalties, interest and back taxes related to the years in which the Form 990 was required to be filed. In addition, the entity is at risks of losing their tax-exempt status and would be taxed as a corporation for federal income tax purposes. The estimated amount of penalties, interest and potential back taxes are unknown at this time.

G. Allocation of Functional Expenses

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

H. Vacation, Sick Leave, and Compensated Absences

Employees of East Vernon Central Water System, Inc earn ten (10) days of annual leave per year, if employed between one (1) to ten (10) years and fifteen (15) days of annual leave per year, if employed for more than ten (10) years. Vacation time may be carried over each year, but upon termination or resignation the balance paid for annual leave is limited to \$2,500. No amounts were accrued for vacation payable due to the amounts being immaterial to the financial statements.

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

Sick leave is earned per pay period for employees and can be carried over with no limitation on the hours accrued. Sick leave is not payable on termination or resignation; it is recorded as an expense of the period in which paid.

I. Advertising

Advertising costs are expensed as incurred. Total advertising expense was \$3,253 for the year ended December 31, 2017.

J. Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. An example of estimates includes the useful lives over which fixed assets are depreciated.

(2) Accounts Receivable

Accounts receivable is comprised of utility services that have been billed but not yet collected. An aging schedule of billed accounts receivable as of December 31, 2017 is as follows:

0-30 days	\$ 65,142
30-60 days	14,972
60-90 days	3,544
over 90 days	<u>4,950</u>
Accounts receivable	<u>\$ 88,608</u>

(3) Restricted Assets

Restricted assets relate to funds transferred to separate accounts to meet the requirements of the USDA Rural Development Loans (Note 6), the Department of Health and Hospitals Drinking Water Revolving Loan (Note 6) and customer deposits. Specific requirements related to the reserve funds noted by the Rural Development Loan and Water Revolving Loans, dictate that certain minimum balances and monthly transfers are made timely. At December 31, 2017, the Water System was in compliance with these requirements. Restricted assets are as follows:

	Cash and Cash Equivalents	Certificates of Deposits	Total
Customer Deposits	\$ 60,800	\$ -	\$ 60,800
DHH Water Revolving Loan	178,101	37,000	215,101
USDA Rural Development Loans	<u>-</u>	<u>215,000</u>	<u>215,000</u>
Total	<u>\$ 238,901</u>	<u>\$ 252,000</u>	<u>\$ 490,901</u>

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(5) Property, Plant and Equipment

A summary of property, plant and equipment are as follows:

Land	\$ 19,755
Construction in progress	1,353,709
Buildings	30,984
Water distribution system	6,192,727
Office furniture & equipment	25,931
Machinery & equipment	124,485
Vehicle	<u>86,936</u>
Total property, plant and equipment	7,834,527
Less: Accumulated depreciation	<u>(3,680,119)</u>
Net property, plant and equipment	<u>\$ 4,154,408</u>

Property, plant, and equipment are pledged as collateral on all loans from USDA – Rural Development. Depreciation expense for the years ended December 31, 2017 was \$164,810.

(6) Changes in Long-Term Debt

Long-term debt at December 31, 2017 is comprised of the following:

\$1,986,000 promissory note payable to USDA-Rural Development dated January 14, 1992, due in monthly installments of \$9,752, including interest at 5%, final maturity at January 14, 2032.	\$ 1,170,606
\$475,000 promissory note payable to USDA-Rural Development dated January 14, 1992, due in monthly installments of \$2,333, including interest at 5%, final maturity at January 14, 2032.	279,826
\$800,000 promissory note payable to USDA-Rural Development dated December 22, 1994, due in monthly installments of \$4,056, including interest at 5%, final maturity at December 22, 2034.	520,211
\$1,515,000 promissory note, series 2015 due to DHH-Water Revolving Water Loan dated June 25, 2015. Amount drawn on loan up to December 31, 2017 was \$944,971. Payments are due in annual installments based on percentages specified in the note and semi-annual installments of interest at 2.95%. Final maturity is June 1, 2035. The agreement provides for 30% principal forgiveness on each principal drawdown so that the maximum amount of principal repayment will be \$1,060,500.	<u>884,972</u>
Less: Current maturities	<u>(132,065)</u>
Long-term debt	<u>\$ 2,723,550</u>

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

The annual debt service requirements are as follows:

	<u>Principal payments</u>	<u>Interest payments</u>	<u>Total payments</u>
2018	\$ 132,065	\$ 123,203	\$ 255,268
2019	139,037	117,139	256,176
2020	145,268	110,772	256,040
2021	151,767	104,108	255,875
2022	159,554	97,112	256,666
2023 and thereafter	<u>2,127,924</u>	<u>499,461</u>	<u>2,627,385</u>
Total	<u>\$ 2,855,615</u>	<u>\$ 1,051,795</u>	<u>\$ 3,907,410</u>

(7) URAF Liability

The Water System entered into funding arrangements with the State of Louisiana, Utility Relocation Assistance Fund (URAF). Under this program the Water System received funding for two different projects as follows:

Agreement #13946	
Permit #290-13946	
LA Hwy 8	\$ 240,066
Agreement #13905	
Permit #290-13905	
LA Hwy 121	<u>412,036</u>
Total URAF Liability	<u>\$ 652,102</u>

Upon meeting certain conditions, the Water System will be obligated to repay the amounts funded. In accordance with the program requirements, no interest is charged to the Water System and no structured repayment period exists.

(8) Retirement Commitments

The Water System contributes up to 7% of an employee's annual salary to a defined benefit retirement plan, in the employee's name. Contributions to the plan at December 31, 2017 totaled \$13,862.

(9) Commitments and Contingencies

East Vernon Central Water System, Inc was not involved in any lawsuits at December 31, 2017.

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(10) Concentration of Credit Risk

The Water System maintains most of its cash deposits at one financial. Cash accounts at banks are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. The Water System has \$353,387 in excess of FDIC coverage.

(11) Compensation of Board Members

A detail of the per diem paid to the President of the board and board members for the years ended December 31, 2017 follows:

	Title	Term Expiration	2017
Billy Graham	President	2020	\$ 950
Ronnie Lewis	Vice President	2019	500
Joe Lynn Bolton	Secretary/Treasurer	2020	1,015
Ray Charrier	Member	2019	275
Juanita Bolton	Member	2021	475
Willie Banks Jr.	Member	2019	475
Lowell Brown	Member	2020	325
Sandra L. Craft	Member	2021	200
Don Holton	Member	2017	225
Total			\$ 4,440

(12) Compensation of Agency Head

A detail of compensation, benefits, and other payments paid Billy Graham, East Central Vernon Water System, Inc's board president, for the year ended December 31, 2017.

Purpose	Amount
Per Diem	\$ 950

(13) Subsequent Event Review

The Water System has evaluated subsequent events through the date of the independent auditor's report, the date which the financial statements were available to be issued.

EAST VERNON CENTRAL WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(14) Prior Period Adjustments

The Water System noted a couple errors in estimates and assumptions included in prior periods. Loan balances and property plant and equipment were found to be understated in the prior period financial statements. As a result, the beginning balances of assets and liabilities have been corrected. The effect of these adjustments on net position/fund balance is as follows:

Net position as previously reported	\$ 1,822,406
Net adjustment of loan balances	(633,507)
Net adjustment of property, plant & equipment	<u>379,607</u>
Net position as restated	<u>\$ 1,568,506</u>

(15) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, Revenue from Contracts with Customers (Topic 606). This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective for annual periods beginning after December 15, 2018 and is not expected to have a significant impact on the Water System's financial statements.

The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Water System: Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. The amendments in this ASU will be effective for entities other than public business entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Water System does not expect the guidance to have a material impact on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)* to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for profit entity's liquidity, financial performance and cash flows. The amendments in this Update make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities the amendment is effective for fiscal years beginning after December 15, 2017. The Water System is evaluating the potential impact of the amendment on the Water System's financial statements.

SUPPLEMENTARY INFORMATION

East Central Vernon Water System, Inc
Slagle, Louisiana

Statement of Functional Expenses
Years Ended December 31, 2017

PROGRAM SERVICES	
Advertising and promotion	\$ 3,253
Auto and truck	11,480
Chemicals	8,129
Contract labor	5,940
Depreciation expense	164,810
DHH admin fee	4,174
Employee benefits	9,493
Insurance expense	24,523
Meter readers	45,315
Office expense	18,876
Professional fees	29,931
Repairs and maintenance	162,565
Salaries and related expenses	162,769
Small tools and supplies	2,149
Taxes and licenses	339
Telephone	6,685
Training	630
Travel	112
Utilities	<u>55,376</u>
TOTAL PROGRAM SERVICES	<u>\$ 716,549</u>
SUPPORTING SERVICES	
Bank charges	\$ 78
Board per diem	4,440
Dues and subscriptions	2,089
Employee benefits	4,369
Office expense	11,153
Salaries and related expenses	67,242
Miscellaneous expense	<u>3,514</u>
TOTAL SUPPORTING SERVICES	<u>\$ 92,885</u>

The accompanying notes are an integral part of this statement.

INTERNAL CONTROL

AND

COMPLIANCE

KOLDER, SLAVEN & COMPANY, LLC

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Ville Platte, LA 70586
Phone (337) 363-2792

332 W. Sixth Ave.
Oberlin, LA 70655
Phone (337) 639-4737

* A Professional Accounting Corporation

WWW.KCSRPCAS.COM

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*

The Board of Directors
East Central Vernon Water System, Inc.
Slagle, 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 East Central Vernon Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Central Vernon Water System, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Central Vernon Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of East Central Vernon 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 East Central Vernon 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 did identify certain deficiencies in internal control, described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

East Central Vernon Water System, Inc.'s Response to Findings

The East Central Vernon Water System, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of current and prior year audit findings and management's corrective action plan. East Central Vernon Water System, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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

Alexandria, Louisiana
June 15, 2018

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2017

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

A. Internal Control Over Financial Reporting

2017-001 Inadequate Segregation of Accounting Functions

CONDITION: The East Central Vernon Water System, 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 Water System 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 Water System has determined that it is not costs effective to achieve complete segregation of duties within the accounting department. No plan is considered necessary.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2017

2017-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The East Central Vernon Water System, Inc. does not have adequate internal controls over recording the entity's financial transactions or preparing its financial statements, including the related notes in accordance with generally accepted accounting principles (GAAP).

CRITERIA: AU-C §265.A37 identifies the following as a deficiency in the design of (internal) controls:

“... in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.”

CAUSE: The cause of the condition is the result of a failure to design or implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Financial statements and related supporting transactions may reflect a departure from generally accepted accounting principles.

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

MANAGEMENT'S CORRECTIVE ACTION PLAN: Linda Smith, System Administrator has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and determined that it is in the best interests of the Water System to outsource this task to its independent auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

B. Compliance

There were no compliance findings to report.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2017

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2016-001 Inadequate Segregation of Accounting Functions

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

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.

CURRENT STATUS: Unresolved. See item 2017-001.

2016-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The East Central Vernon Water System, Inc. does not have adequate internal controls over recording the entity's financial transactions or preparing its financial statements, including the related notes in accordance with generally accepted accounting principles (GAAP).

RECOMMENDATION: Management should evaluate the additional costs required to achieve the desired benefit and determine if it is economically feasible in relation to the benefit received.

CURRENT STATUS: Unresolved. See item 2017-002

B. Compliance

There were no compliance findings to report.