

BELAH-FELLOWHSIP WATER SYSTEM, INC.

**ANNUAL FINANCIAL REPORT
DECEMBER 31, 2019**

Belah-Fellowship Water System, Inc.
Annual Financial Report
December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Belah-Fellowship Water System, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Belah-Fellowship Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, 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 from 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Belah-Fellowship Water System, Inc. as of December 31, 2019, 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 2 to the financial statements, Belah-Fellowship Water System, Inc. adopted Accounting Standards Update No. 2016-14, "*Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*" in the current year related to the presentation of financial statements. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Our opinion is not modified with respect to this matter.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of Belah-Fellowship Water System, Inc. taken as a whole. Act 706 of the Louisiana 2014 Legislative Session requires a Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer, reflected on page 15, to supplement the financial statements and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* requires a Schedule of Expenditures of Federal Awards. These schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records, used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2020, on our consideration of Belah-Fellowship 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 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 Belah-Fellowship Water System, Inc.'s internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Louisiana Legislative Auditor, we have issued a report dated May 29, 2020 on the results of our state-wide agreed upon procedures performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*. The purpose of that report is solely to describe the scope of testing performed on those control and compliance areas identified in the Louisiana Legislative Auditor's state-wide agreed-upon procedures, and the results of that testing, and not to provide an opinion on control or compliance.

Thomas, Cunningham, Broadway & Todtenbier, CPA's

Thomas, Cunningham, Broadway & Todtenbier, CPA's
Natchitoches, Louisiana

May 29, 2020

FINANCIAL STATEMENTS

Belah-Fellowship Water System, Inc.
Statement of Financial Position
Year Ended December 31, 2019

Assets-	
Current Assets-	
Cash	\$ 131,802
Accounts Receivable	20,918
Grant Receivable	<u>83,259</u>
Total Current Assets	<u>\$ 235,979</u>
Non-Current Assets-	
Restricted Cash	\$ 40,841
Property and Equipment, Net	<u>2,986,464</u>
Total Non-Current Assets	<u>\$3,027,305</u>
Total Assets	<u>\$3,263,284</u>
Liabilities-	
Current Liabilities-	
Accounts Payable	\$ 88,783
Accrued Interest	27,611
Current Portion of Long-Term Debt	<u>16,794</u>
Total Current Liabilities	<u>\$ 133,188</u>
Non-Current Liabilities-	
Customer Meter Deposits	\$ 32,650
Long-term Debt, Net of Current Portion	<u>2,759,966</u>
Total Non-Current Liabilities	<u>\$2,792,616</u>
Total Liabilities	<u>\$2,925,804</u>
Net Assets-	
Without Donor Restrictions	<u>\$ 337,480</u>
Total Liabilities & Net Assets	<u>\$3,263,284</u>

See independent auditor's report and notes to the financial statements.

Belah-Fellowship Water System, Inc.
Statement of Activities
Year Ended December 31, 2019

REVENUES WITHOUT DONOR RESTRICTIONS:	
Water Sales	\$285,353
Other Water Income	9,812
Interest	<u>594</u>
Total Revenues Without Donor Restrictions	<u>\$295,759</u>
Expenses-	
Program Services	\$177,338
Management and General	<u>26,227</u>
Total Expenses	<u>\$203,565</u>
Increase in Net Assets	\$ 92,194
Net Assets-Beginning of Year	<u>245,286</u>
Net Assets-End of Year	<u>\$337,480</u>

See independent auditor's report and notes to the financial statements.

Belah-Fellowship Water System, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

EXPENSES:	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Water Testing Expense	\$ 1,365	\$ 0	\$ 1,365
Professional Expense	2,931	0	2,931
Insurance	3,668	0	3,668
Supplies & Materials	9,909	0	9,909
Gas/Oil Expense	1,481	0	1,481
Natural Gas Expense	380	0	380
Utilities	20,018	0	20,018
Interest Expense	38,515	0	38,515
Chemicals	4,190	0	4,190
Repairs & Maintenance	61,889	0	61,889
Meter Reading Expense	7,375	0	7,375
Operator's Fees	14,770	0	14,770
Depreciation	9,109	0	9,109
Dues & Fees	1,459	0	1,459
Bookkeeping Expense	0	21,750	21,750
Storage Building Rent	0	217	217
Office	0	3,170	3,170
Postage	0	1,090	1,090
Other	<u>279</u>	<u>0</u>	<u>279</u>
Total Expenses	<u>\$177,338</u>	<u>\$26,227</u>	<u>\$203,565</u>

See independent auditor's report and notes to the financial statements.

Belah-Fellowship Water System, Inc.
Statement of Cash Flows
Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in Net Assets	\$ 92,194
Adjustments to Reconcile Decreases in Net Assets to Net Cash Provided by (Used by) Operating Activities:	
Depreciation	9,109
(Increase) Decrease in Receivables	(57,951)
Increase (Decrease) in Payables	80,810
Increase (Decrease) in Customer Meter Deposits	4,100
Increase (Decrease) in Accrued Interest	<u>27,611</u>
Net Cash Provided by Operating Activities	<u>\$ 155,873</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Property & Equipment	<u>\$(2,787,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal Payments on Debt	\$ (68,454)
Loan Proceeds	<u>2,776,760</u>
Net Cash Provided by Financing Activities	<u>\$ 2,708,306</u>
Net Increase in Cash	\$ 76,769
Cash at Beginning of Year	<u>95,874</u>
Cash at End of Year	<u>\$ 172,643</u>
Interest paid during current year	<u>\$ 10,904</u>
Cash & Cash Equivalents	
Unrestricted Cash	\$ 131,802
Restricted Cash	<u>40,841</u>
Total Cash & Cash Equivalents	<u>\$ 172,643</u>

See independent auditor's report and notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Belah-Fellowship Water System, Inc.
Notes to Financial Statements
December 31, 2019

1. Organization:

Belah-Fellowship Water System, Inc. (the Water System) was formed as a non-profit corporation on a non-stock basis under the provisions of Title 12, Sections 201-269, of the Louisiana Revised Statutes on March 10, 1972. The Organization's purpose is to construct, maintain and operate a private water system for the supplying of water to its members, and engage in any activity related thereto.

2. Summary of Significant Accounting Policies:

The accounting and reporting policies of the Water System, conform to generally accepted accounting principles as applicable to non-profit organizations, and are applied on a consistent basis between periods.

The following is a summary of certain significant accounting policies and practices:

- A. Financial Statement Presentation – The Water System has adopted FASB Accounting Standard Update 2016-14 “*Not-for-Profit Organizations (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*”. Under FASB ASU 2016-14, the Water System is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. In addition, the Water System is required to present a statement of cash flows.
- B. Basis of Accounting - The Water System uses the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when they are incurred. Purchases of various operating supplies are recognized as expenses at the time purchased.
- C. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- D. Fixed Assets - Depreciation on all exhaustible fixed assets is charged as an expense against the operations of the Water System. Assets are recorded at cost if purchased or at market value at time of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years. The Organization maintains a threshold level of \$2,500 or more for capitalizing capital assets. Accumulated depreciation was \$286,492 at December 31, 2019.

The costs of normal maintenance and repairs that do not add to the value of that asset or materially extend the life of that asset are not capitalized. When plant and equipment are sold or otherwise disposed of, the asset account and related depreciation are relieved, and any gain or loss is included in activities.

Belah-Fellowship Water System, Inc.
Notes to Financial Statements
December 31, 2019

- E. Income Taxes - The Water System is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization's Form 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2017, 2018, and 2019 are subject to examination by the IRS, generally for three years after they were filed.
- F. Cash and Equivalents - For the purpose of the statements of cash flows, the Water System considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.
- G. Restricted Cash - The Water System has cash in demand deposits and interest bearing deposits that are restricted because their use is limited by loan ordinance, or because they represent customers' deposits.
- H. Program and Support Functions - The Water System considers all expenses associated with providing water to customers to be program services and all remaining expenses are considered support (management and general).

3. Cash and Cash Equivalents:

The cash and cash equivalents of the Water System are subject to the following risk:

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Water System will not be able to recover its deposits. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Water System that the fiscal agent bank has failed to pay deposited funds upon demand. Further, Louisiana Revised Statute 39:1224 states that securities held by a third party shall be deemed to be held in the Water System's name.

At December 31, 2019, book balances of cash and cash equivalents totaled \$172,643. Bank balances at December 31, 2019 totaled \$173,165, all of which is secured by FDIC Insurance.

4. Revenue Receivable:

At December 31, 2019, the Water System's receivables consisting of the following:

Water Charges	\$ 20,918
Grants and receipts from governments	<u>83,259</u>
Total	<u>\$104,177</u>

No accounts are considered uncollectible and, therefore, no provision is recorded.

Belah-Fellowship Water System, Inc.
Notes to Financial Statements
December 31, 2019

5. Fixed Assets:

The following is a summary of changes in fixed assets for the Water System for the period ended December 31, 2019:

	<u>Balance</u> <u>1/1/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/19</u>
Fixed Assets, Not Depreciated-				
Land	\$ 35,415	\$ 0	\$0	\$ 35,415
Construction-in-Progress	0	2,776,760	0	2,776,760
Fixed Assets, Depreciated-				
Water System & Equipment	<u>450,131</u>	<u>10,650</u>	<u>0</u>	<u>460,781</u>
Total Fixed Assets	\$ 485,546	\$2,787,410	\$0	\$3,272,956
Accumulated Depreciation	<u>(277,383)</u>	<u>(9,109)</u>	<u>0</u>	<u>(286,492)</u>
Total Fixed Assets, Net	<u>\$ 208,163</u>	<u>\$2,778,301</u>	<u>\$0</u>	<u>\$2,986,464</u>

Depreciation expense was \$9,109 for the year ended December 31, 2019.

6. Accounts Payable and Accruals:

At December 31, 2019, the Water System's payables consisted of the following:

Vendors	\$ 5,524
Construction	83,259
Interest	<u>27,611</u>
Total	<u>\$116,394</u>

7. Asset Liquidity:

The Water System regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenses over a 12-month period, the Water System considers all expenses related to its regular, recurring, and ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenses. The Water System anticipates revenues to be sufficient to meet its general expense needs.

The Water System does not consider assets including deposits and fixed assets to be available for general expense. Fixed assets cannot be liquidated due to donor and self-imposed restrictions.

Belah-Fellowship Water System, Inc.
Notes to Financial Statements
December 31, 2019

As of December 31, 2019, the following schedule identifies financial assets that could be made readily available within one year of the statement of financial position date to meet general expenditures:

Cash and cash equivalents	\$ 172,643
Receivables	104,177
Fixed Assets, net of accumulated depreciation	<u>2,986,464</u>
Total financial assets, period end	\$3,263,284
Less, those unavailable for general expenses within one year, due to:	
Restricted Cash	40,841
Fixed Assets, net of accumulated depreciation	<u>2,986,464</u>
Financial assets available to meet cash needs for general expenses within one year	\$ <u>235,979</u>

8. Long-Term Liabilities:

Catahoula LaSalle Bank Note Payable:

On June 7, 2018, a promissory note was signed with Catahoula LaSalle Bank for \$109,165 at an annual interest rate of 4.5%. The note was paid in monthly payments of \$985 and was paid in full during 2019. At December 31, 2019, the outstanding balance on the promissory note was \$0.

Louisiana Department of Health, Office of Public Health

On February 1, 2019, a loan and pledge agreement was signed with the LA Department of Health relating to a loan in the amount of \$3,758,000 from the Drinking Water Revolving Loan Fund. The Water System's obligation to repay the loan will be represented by its bond anticipation note maturing not later than 2 years from the date of issue, and bearing interest at a rate of no more than 2.45% per annum (inclusive of the 0.50% LDH Administrative Fee). The bonds were issued pursuant to an authorizing ordinance and sold to the Department, and a dedicated source of revenue must be established for the repayment of the loan. LA Department of Health has provided this loan as interim financing, and Rural Development has obligated funds for a permanent loan closing. The Water System expects the loan closing to occur in June 2020. At December 31, 2019, the outstanding balance on the promissory note was \$2,776,760.

The future maturities of the note are as follows:

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 16,794	\$ 63,097	\$ 79,891
2021	30,258	106,699	136,957
2022	31,455	105,502	136,957
2023	32,699	104,258	136,957
2024	33,699	103,258	136,957
Thereafter	<u>2,631,855</u>	<u>2,218,700</u>	<u>4,850,555</u>
Total	<u>\$2,776,760</u>	<u>\$2,701,514</u>	<u>\$5,478,274</u>

Belah-Fellowship Water System, Inc.
Notes to Financial Statements
December 31, 2019

9. Customer Meter Deposits:

The Water System charges refundable deposits for meter connections. There is a \$100 charge if the customer owns the land and a \$200 charge if the customer is a renter. The Water System has two Certificate of Deposits restricted for the customer meter deposits. At December 31, the customer meter deposits balance is \$32,650.

10. Changes in Long-Term Liabilities:

The following is a summary of changes in long-term liabilities for the year ended December 31, 2019.

Governmental <u>Activities</u>	Balance <u>01-01-19</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-19</u>
Catahoula LaSalle Bank	\$68,454	\$ 0	\$68,454	\$ 0
LA Department of Health	0	2,776,760	0	2,776,760
Customer Meter Deposits	<u>28,550</u>	<u>4,800</u>	<u>700</u>	<u>32,650</u>
Total	<u>\$97,004</u>	<u>\$2,781,560</u>	<u>\$69,154</u>	<u>\$2,809,410</u>

11. Compensation Paid to Board Members:

The members of the Board of Directors receive no compensation for their services.

12. Contributions:

The Water System has adopted FASB Accounting Standard Update 2016-14 “*Not-for-Profit Organizations (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*”. No contributions were received in the current year.

13. Pending Litigation:

The Water System has no legal action pending at December 31, 2019.

14. Subsequent Events:

Management has evaluated events through May 29, 2020, the date on which the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Water System operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Water System anticipates this could negatively affect its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

OTHER SUPPLEMENTARY INFORMATION

Belah-Fellowship Water System, Inc.
Schedule of Compensation, Benefits and Other Payments to
Agency Head or Chief Executive Officer
For the Year Ended December 31, 2019

Agency Head Name: Joseph "Clyde" Crooks, President

<u>Purpose</u>	<u>Amount</u>
Salary	\$0
Benefits – Insurance	0
Benefits – Retirement	0
Benefits – SS/Medicare	0
Car Allowance	0
Cell Phone	0
Dues	0
Vehicle Rental	0
Per Diem	0
Reimbursements	0
Travel	0
Housing	0
Unvouchered Expenses	0
Special Meals	0
Other	<u>0</u>
Total	<u>\$0</u>

See independent auditor's report.

OTHER REPORTS

T | C | B | T
THOMAS, CUNNINGHAM, BROADWAY & TODTENBIER
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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 of
Belah-Fellowship Water System, Inc.

We have audited, in accordance with the 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 Belah-Fellowship Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Belah-Fellowship 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 Belah-Fellowship Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Belah-Fellowship 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 the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Belah-Fellowship Water System, Inc.'s financial statements are free from 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*.

Belah-Fellowship Water System's Response to Findings

Belah-Fellowship Water System's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Belah-Fellowship Water System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 purposes. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Thomas, Cunningham, Broadway & Todtenbier, CPA's

Thomas, Cunningham, Broadway & Todtenbier, CPA's
Natchitoches, Louisiana

May 29, 2020

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Belah-Fellowship Water System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Belah-Fellowship Water System, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Belah-Fellowship Water System, Inc.'s major federal programs for the year ended December 31, 2019. Belah-Fellowship Water System, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Belah-Fellowship Water System, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Belah-Fellowship Water System, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Belah-Fellowship Water System, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Thomas, Cunningham, Broadway & Todtenbier, CPA's

Thomas, Cunningham, Broadway & Todtenbier, CPA's
Natchitoches, Louisiana

May 29, 2020

Belah-Fellowship Water System, Inc.
Schedule of Audit Findings and Questioned Costs
December 31, 2019

I. Summary of Audit Results

The following summarize the audit results:

1. An unmodified opinion was issued on the financial statements of Belah-Fellowship Water System, Inc. as of and for the year ended December 31, 2019.
2. The audit disclosed one significant deficiency in internal control which was not determined to be a material weakness, identified as finding 2019-001 – *Segregation of Duties*.
3. The audit disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
4. An unmodified opinion was issued on compliance for major programs.
5. The audit did not disclose any findings related to federal awards that are required to be reported under the Uniform Guidance.
6. The following program was major for the year ended December 31, 2019:
 - Drinking Water Revolving Loan Fund Program (CFDA #66.468)
7. \$750,000 was the threshold used to distinguish Type A from Type B programs.
8. Belah-Fellowship Water System, Inc. does not qualify as a low-risk auditee.

II. Findings in Accordance with *Government Auditing Standards* and the *Uniform Guidance*

Internal Control-

2019-001 *Segregation of Duties*

Criteria – Proper internal controls dictate that duties be segregated so that no one individual performs or controls all duties related to the accounting system.

Condition – In reviewing the internal control structure, we noted that the Belah-Fellowship Water System does not have adequate segregation of duties with respect to all areas of the accounting function.

Cause – Due to a lack of funds, the Belah-Fellowship Water System does not have a sufficient number of individuals to adequately separate accounting duties or to prepare the Water System's annual financial statements with related note disclosures.

Effect – Without adequate segregation of duties and oversight, intentional or unintentional errors could be made and not detected within the accounting system.

Recommendation – Keeping in mind the limited number of individuals to which the duties can be assigned, and since the costs associated with establishing an appropriate system of internal control should not outweigh the benefits derived from it, we do not have a recommendation to make.

Belah-Fellowship Water System, Inc.
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2019

Management's Response – Management has provided as much segregation as possible with the resources available and will continue to monitor assignment and segregation of duties. In addition, we have evaluated the cost/benefit of establishing a system to prepare our annual financial statements and have determined it is in the best interest of the Water System to have our independent auditors prepare our financial statements. We understand that we should review the financial statements and notes and accept responsibility for their contents and presentation.

III. PRIOR YEAR AUDIT FINDINGS

This is a first year audit; therefore, there are no prior year findings.

Belah-Fellowship Water System, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>State Contract Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
U. S. Department of Environmental Protection: Passed through the LA Department of Health-			
Drinking Water State Revolving Funds	66.468	Loan No. 1059001-01	\$2,776,760

See independent auditor's report.

Belah-Fellowship Water System, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Belah-Fellowship Water System, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Belah-Fellowship Water System, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D – SUBRECIPIENTS

Belah-Fellowship Water System, Inc. did not provide any funding to subrecipients.

T | C | B | T
THOMAS, CUNNINGHAM, BROADWAY & TODTENBIER
Certified Public Accountants

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**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
STATEWIDE AGREED-UPON PROCEDURES**

To the Board of Directors of
Belah-Fellowship Water System, Inc.

We have performed the procedures enumerated below, which were agreed to by Belah-Fellowship Water System, Inc. (a nonprofit organization) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2019 through December 31, 2019. The Commission is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated findings are enumerated below.

Written Policies and Procedures

1. We obtained and inspected the entity's written policies and procedures and observed whether those written policies and procedures address each of the following categories and subcategories (or noted that the entity does not have any written policies and procedures), as applicable:
 - ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - ***Disbursements***, including processing, reviewing, and approving.
 - ***Receipts***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation.)
 - ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

- **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).
- **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.
 - a) *Procedure Results – We noted exceptions. There are no written policies and procedures for budgeting, receipts, travel, debt service or disaster recovery/business continuity.*

Board (or Finance Committee, if applicable)

2. We obtained and inspected the board/committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent documents in effect during the fiscal period, and:
 - Observed that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - Observed that the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternatively, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*
 - For governmental entities, obtained the prior year audit report and observed the unrestricted fund balance in the General Fund. If the General Fund had a negative ending unrestricted fund balance in the prior year audit report, observed that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the General Fund.
 - a) *Procedure Results – We noted no exceptions.*

Bank Reconciliations

3. We obtained a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. We identified the entity's main operating account. We selected the entity's main operating account and randomly selected four additional accounts (or all if less than five). We randomly selected one month from the fiscal period, and obtained and inspected the corresponding bank statement and reconciliation for the selected accounts, and observed that:
 - Bank reconciliations include evidence that they were prepared within two months of the related statement closing date (e.g. initialed and dated, electronically logged);
 - Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g. initialed and dated, electronically logged); and
 - Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

a) Procedure Results – We noted no exceptions.

Collections

4. We obtained a listing of deposit sites for the fiscal period where deposits for cash/check/money order (cash) are prepared and management's representation that the listing is complete. We randomly selected the required amount of deposit sites (up to five).
5. We obtained a listing of collection locations and management's representation that the listing is complete. We randomly selected one collection location for each deposit site selected. We obtained and inspected written policies and procedures relating to employee job duties at each collection location, and observed that job duties were properly segregated at each collection location such that:
 - Employees that are responsible for cash collections do not share cash drawers/registers.
 - Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
 - We inquired of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
6. We randomly selected two deposit dates for each of the bank accounts selected for procedure #3 under "Bank Reconciliations" above. We obtained supporting documentation for each of the deposits selected and:
 - We observed that receipts are sequentially pre-numbered.

- We traced sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
- We traced the deposit slip total to the actual deposit per the bank statement.
- We observed that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
- We traced the actual deposit per the bank statement to the general ledger.

a) *Procedure Results – We noted no exceptions.*

Non-Payroll Disbursements – General (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

7. We obtained a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. We randomly selected the required amount of disbursement locations (up to five).
8. For each location selected under #8 above, we obtained written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and we observed that job duties are properly segregated such that:
 - At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - At least two employees are involved in processing and approving payments to vendors.
 - The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
9. For each location selected under #8 above, we obtained the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtained management's representation that the population is complete. We randomly selected 5 disbursements for each location, and obtained supporting documentation for each transaction and:
 - We observed that the disbursement matched the related original invoice/billing statement.
 - We observed that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

a) *Procedure Results – We noted no exceptions.*

Credit Cards/Debit Cards/Fuel Cards/P-Cards

10. We obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. We obtained management's representation that the listing is complete.

11. Using the listing prepared by management, we randomly selected the required amount of cards (up to five) that were used during the fiscal period. We randomly selected one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), and obtained supporting documentation, and:
 - We observed that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder.
 - We observed that finance charges and late fees were not assessed on the selected statements.
12. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, we randomly selected the required amount transactions (up to ten) from each statement, and obtained supporting documentation for the transactions. For each transaction, we observed that it is supported by (1) an original itemized receipt that identified precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals.
 - a) *Procedure Results – The Water System has no credit cards.*

Travel and Expense Reimbursement

13. We obtained from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. We randomly selected five reimbursements, and obtained the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the five reimbursements selected:
 - If reimbursed using a per diem, we agreed the reimbursement rate to those rates established by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - If reimbursed using actual costs, we observed that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - We observed that each reimbursement was supported by documentation of the business/public purpose and other documentation required by written policy.
 - We observed that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.
 - a) *Procedure Results – The Water System has no travel and expense reimbursements.*

Contracts

14. We obtained from management a listing of all agreements/contracts for professional services, materials, and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. We obtained management's representation that the listing is complete. We randomly selected the required amount of contracts (up to five) from the listing, and:
 - We observed that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

- We observed that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
- If the contract was amended (e.g. change order), we observed that the original contract terms provided for such an amendment.
- We randomly selected one payment from the fiscal period for each of the selected contracts, obtained the supporting invoice, agreed the invoice to the contract terms, and observed that the invoice and related payment agreed to the terms and conditions of the contract.

a) Procedure Results – We noted no exceptions.

Payroll and Personnel

15. We obtained a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. We randomly selected five employees/officials, obtained related paid salaries and personnel files, and agreed paid salaries to authorized salaries/pay rates in the personnel files.
16. We randomly selected one pay period during the fiscal period. For the five employees/officials selected under #16 above, we obtained attendance and leave documentation for the pay period, and:
 - We observed that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).
 - We observed that supervisors approved the attendance and leave of the selected employees/officials.
 - We observed that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
17. We obtained a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. If applicable, we selected the two employees/officials, and obtained related documentation of the hours and pay rates used in management's termination payment calculations. If applicable, we agreed the hours to the employees/officials' cumulative leave records and the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
18. We obtained management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

a) Procedure Results – The Water System has no personnel.

Ethics

19. Using the five randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, we obtained ethics compliance documentation from management, and:
 - We observed that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

- We observed that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

a) *Procedure Results – The Water System has no personnel.*

Debt Service (excluding nonprofits)

20. We obtained a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. We selected all bonds/notes on the listing, obtained supporting documentation, and observed that State Bond Commission approval was obtained for each bond/note issued.

21. We obtained a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. We randomly selected one bond/note, inspected debt covenants, obtained supporting documentation for the reserve balance and payments, and agreed actual reserve balances and payments to those required by debt covenants.

a) *Procedure Results – Debt Service requirements are not applicable to nonprofit organizations.*

Other

22. We obtained a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. We selected all misappropriations on the listing, obtained supporting documentation, and observed that the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

a) *Procedure Results – We noted no exceptions. Management represented that they are not aware of any misappropriations.*

23. We observed whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

a) *Procedure Results – We noted no exceptions.*

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Thomas, Cunningham, Broadway & Todtenbier, CPA's

Thomas, Cunningham, Broadway & Todtenbier, CPA's
Natchitoches, Louisiana

May 29, 2020

Belah-Fellowship Water System, Inc.
Management's Response to Exceptions to
Statewide Agreed-Upon Procedures
For the Year Ended December 31, 2019

MANAGEMENT'S RESPONSE TO EXCEPTIONS:

Item 1: Exception – There is no policies and procedures for budgeting, receipts, travel, debt service or disaster recovery/business continuity.

Response – Management will institute policies which address functions in accordance with best practices.