

MILTON WATER SYSTEM, INC.

Milton, Louisiana

Financial Report

Years Ended June 30, 2018 and 2017

MILTON WATER SYSTEM, INC.

Milton, Louisiana

Financial Report

Years Ended June 30, 2018 and 2017

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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 Milton Water System, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 pages 16 through 18 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 September 20, 2018, on our consideration of the Milton Water System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Milton Water System, Inc.'s internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
September 20, 2018

FINANCIAL STATEMENTS

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 885,258	\$ 833,295
Accounts receivable	126,926	94,022
Prepaid expense	10,318	17,980
Other assets	1,264	1,840
Total current assets	1,023,766	947,137
Restricted assets:		
Cash and cash equivalents	210,951	207,697
Property, plant and equipment, net	4,440,111	4,511,078
Total assets	\$ 5,674,828	\$ 5,665,912
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 37,895	\$ 55,627
Accrued interest payable	4,889	5,357
Notes payable-current	59,388	49,965
Other payables	14,528	13,694
Total current liabilities	116,700	124,643
Long - term liabilities:		
Notes payable-long term	1,990,679	2,175,536
Customer deposits	47,547	44,293
Total long-term liabilities	2,038,226	2,219,829
Total liabilities	2,154,926	2,344,472
Net assets:		
Designated for reserve accounts	366,041	365,127
Unrestricted	3,153,861	2,956,313
Total net assets	3,519,902	3,321,440
Total liabilities and net assets	\$ 5,674,828	\$ 5,665,912

The accompanying notes are an integral part of this statement.

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in unrestricted net assets -		
Revenues:		
Water sales	\$ 1,414,946	\$ 1,335,343
Member fees	10,710	11,034
Finance charges	24,690	26,761
Meter installation fees	93,380	98,020
Reconnect fees	59,838	47,854
NSF charges	2,425	1,950
Grant Income	38,277	20,277
Interest earned	1,671	1,591
Gain (Loss) on disposal	(65)	(3,284)
Miscellaneous income	11,626	168,045
Total revenues	1,657,498	1,707,591
Expenses:		
Program services	1,141,151	1,097,841
Supporting services:		
Management and general	359,387	370,106
Total expenses	1,500,538	1,467,947
Excess of revenues over expenses	156,960	239,644
Other increases in net assets:		
Contributed assets	41,502	-
Increase in unrestricted net assets	198,462	239,644
Net assets, beginning of year	3,321,440	3,081,796
Net assets, end of year	\$ 3,519,902	\$ 3,321,440

The accompanying notes are an integral part of this statement.

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 156,960	\$ 239,644
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	266,636	259,434
Loss on disposal	65	3,284
Customer contribution in aid of construction transfer in	-	125,781
Customer contribution in aid of construction transfer out	-	(125,781)
(Increase) decrease in operating assets		
Accounts receivable	(32,904)	(18,000)
Prepaid expenses	7,662	6,385
Other assets	576	-
Increase (decrease) in operating liabilities		
Accounts payable	(17,732)	29,602
Accrued expenses and other payables	366	10,882
Customer deposits	3,254	1,660
Total adjustments	227,923	293,247
Net cash provided by operating activities	384,883	532,891
Cash flows from investing activities:		
Purchase of property, plant and equipment	(154,232)	(312,674)
Cash flows from financing activities:		
Principal paid on notes payable	(175,434)	(255,592)
Net (decrease) increase in cash and cash equivalents	55,217	(35,375)
Cash and cash equivalents, beginning of year	1,040,992	1,076,367
Cash and cash equivalents, end of year	\$ 1,096,209	\$ 1,040,992
Supplementary cash flow information:		
Interest paid	\$ 108,969	\$ 124,474
Contributed asset - Water lines	\$ 41,502	\$ -

(continued)

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	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 interest bearing deposits - unrestricted	\$ 833,295	\$ 858,450
Cash and interest bearing deposits - restricted	207,697	217,917
Total cash and cash equivalents	1,040,992	1,076,367
Cash and cash equivalents, end of period -		
Cash and interest bearing deposits - unrestricted	885,258	833,295
Cash and interest bearing deposits - restricted	210,951	207,697
Total cash and cash equivalents	1,096,209	1,040,992
Net (decrease) increase	\$ 55,217	\$ (35,375)

The accompanying notes are an integral part of this statement.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of Operations

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

B. Financial Statement Presentation

The Water System has adopted the provisions of FASB Accounting Standards Codification 958-205. FASB Accounting Standards Codification 958-205 requires the Water System to report 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 financial statements of The Water System have been prepared on the accrual basis and accordingly reflect all significant receivables, payables, and other liabilities. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

C. Cash and Cash Equivalents

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

D. Allocation of Functional Expenses

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

E. Revenue Recognition

Water sales are recorded or accrued when earned. Substantially all other revenues are recorded when received.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

F. Income Taxes

The Water System is a nonprofit organization exempt from Federal and State income taxes. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Water System and recognize a tax liability (or asset) if the Water System has undertaken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Water System, and has concluded that as of June 30, 2018 and 2017, respectively, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Water System is subject to routine audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

G. Property and Equipment

The cost of property and equipment, which have an acquisition cost of \$500 or more are capitalized. Property and equipment are valued at historical cost and are being depreciated on a straight-line basis. Depreciation expense totaled \$266,636 and \$259,434 for the years ended June 30, 2018 and 2017, respectively.

H. Bad Debts

Generally accepted accounting principles require the accrual of uncollectible receivables through an allowance account. Uncollectible amounts due from water system customers are written-off using the direct charge-off method. An allowance amount would be immaterial at June 30, 2018 and 2017.

I. Vacation, Sick Leave, and Compensated Absences

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

J. Statement of Cash Flows

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

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

K. Use of Estimates

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

(2) Accounts Receivable

The aging of the accounts receivable is as follows:

	2018	2017
Current	\$ 87,926	\$ 82,701
Over 30 Days	28,445	1,607
Over 60 Days	1,052	311
Over 90 days	9,503	9,403
Total	\$ 126,926	\$ 94,022

(3) Restricted Assets

Restricted assets relate to funds transferred to separate accounts to meet the requirements of the U.S.D.A. loan agreement and customer deposits. The balance of restricted assets for June 30, 2018 and 2017 is as follows:

	2018	2017
USDA reserves	\$ 163,404	\$ 163,404
Customer deposits	47,547	44,293
Total	\$ 210,951	\$ 207,697

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(4) Property, Plant and Equipment

All costs associated with the construction of the water system are included in this account. The Water System follows a policy of capitalizing interest as a part of property, plant and equipment constructed. A schedule of property, plant and equipment for the periods ended June 30, 2018 and 2017 is as follows:

	2018	2017
Land	\$ 2,698	\$ 2,698
Water Treatment Plant	438,188	438,188
Waterwell	101,297	78,807
Ground Storage Reserve	27,794	27,794
Water Distribution System	5,880,693	5,790,388
Meters	1,120,972	1,074,873
Treatment Equipment	3,155	3,155
Equipment and/or Building	3,500	3,500
Filtering System	328,912	328,912
Furniture and Fixtures	32,087	32,087
Vehicles	72,759	72,759
Total	8,012,055	7,853,161
Less: accumulated depreciation	3,571,944	3,342,083
Net Property, Plant and Equipment	\$ 4,440,111	\$ 4,511,078

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

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(5) Notes Payable

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

	2018	2017
Note payable to the United States Department of Agriculture Farmers Home Association, dated February 3, 2000, in the original amount of \$1,500,000, payable in monthly installments of \$8,055, including interest at 5.75 percent annum, secured by a pledge of revenues and accounts receivable from the Water System, a mortgage on the real estate, and personal property owned or purchased by the Water System, and maturing 2/3/2040.	1,054,852	1,158,996
Note payable to the United States Department of Agriculture Farmers Home Association, dated December 29, 2008, in the original amount of \$1,225,000, payable in monthly installments of \$5,562, including interest at 4.5 percent annum, secured by a pledge of revenues and accounts receivable from the Water System, a mortgage on the real estate, and personal property owned or purchased by the Water System, and maturing 12/28/2049.	995,215	1,066,505
Total notes payable	2,050,067	2,225,501
Less: Current portion	59,388	49,965
Long-term debt	<u>\$ 1,990,679</u>	<u>\$ 2,175,536</u>

Notes payable at June 30, 2018, is scheduled to mature as follows:

Year	Principal Only
2019	59,388
2020	57,761
2021	60,890
2022	64,191
2023	67,674
2024-2028	397,700
2029-2033	518,507
2034-2038	527,641
2039-2043	275,758
2044-2047	20,557
	<u>\$ 2,050,067</u>

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(6) Commitments and Contingencies

The Water System is involved in one lawsuit, and management, board members and counsel reasonably estimate there will be no monetary loss regarding any legal matters as of June 30, 2018.

(7) Concentration of Credit Risk

The Water System maintains bank accounts at three separate institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at June 30, 2018 and 2017 exceeded federally insured limits by \$32,378 and \$111,617, respectively.

(8) Related Party Transactions

The Water System paid \$0 and \$3,606 for June 30, 2018 and 2017, respectively, in insurance premiums to a company that is owned by a family member of a board member of the Water System.

(9) Operating Lease

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

(10) Board of Directors

The Board of Directors of the Water System for the year ended June 30, 2018 are as follows:

<u>Board Member</u>	<u>Term</u>	<u>Address</u>
President - Sinda Soileau	January 2016 - January 2019	129 Julie Drive, Lafayette, LA
Glen Gudiry	October 2017 - October 2020	PO Box 398, Milton, LA
Larry Soileau	February 2016 - February 2019	122 Julie Drive, Lafayette, LA
Betty Guillory	October 2016 - October 2019	911 E. Milton Ave., Lafayette, LA
Lisa Noel	October 2017 - October 2020	221 Julie Drive, Lafayette, LA

(11) Agency Transactions

The Water System acts as an intermediary to facilitate the transfer of “customer contribution in aid of construction” payments between subdivision developers and a local government. These payments are to be used by the local government for improvements to its water system. For June 30, 2018 and 2017 the amount transferred was \$0 and \$125,781, respectively.

Milton Water System, Inc.
Milton, Louisiana

Notes to Financial Statements

(12) Concentrations

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

(13) Subsequent Events

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

(14) 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 more 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.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organization that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Water System is evaluating the potential impact of the amendment on the Water System's financial statements.

SUPPLEMENTARY INFORMATION

MILTON WATER SYSTEM, INC.
Milton, Louisiana

Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Program services:		
Auto and truck	\$ 2,672	\$ 14,538
Chemicals	1,301	1,761
Customer service and repairs	114	795
Depreciation	266,419	259,217
Dottie expense	1,621	1,931
Insurance	38,652	32,953
Maintenance and supplies	6,891	1,203
Meter reading	51,618	49,752
Rent - equipment	8,400	8,400
Repairs and maintenance (equipment)	1,458	5,478
Repairs and maintenance (treatment)	4,678	10,044
Repairs and maintenance (line)	41,531	47,116
Salaries	105,492	107,569
Taxes - payroll	8,315	8,646
Telephone	1,339	1,401
Supplies and tools	11,866	13,603
Training and education	710	565
Utilities	8,292	7,972
Water purchases	579,782	524,879
Total program services	\$ 1,141,151	\$ 1,097,841
Supporting services:		
Management and general		
Accounting	\$ 20,435	\$ 19,340
Advertising	-	66
Bank charges	1,627	1,381
Depreciation	217	217
Dues and subscriptions	873	2,875
Insurance	19,643	15,161
Interest	108,501	124,818
Legal	4,292	4,013
Management fees	3,559	11,583
Miscellaneous	595	321
Office expense	8,349	11,514
Postage	30,991	29,225
Repairs and maintenance	13,113	8,150
Salaries	129,099	123,634
Taxes - payroll	10,261	9,816
Telephone	5,798	5,838
Utilities	2,034	2,154
Total supporting services	\$ 359,387	\$ 370,106

The accompanying notes are an integral part of this statement.

Milton Water System, Inc.
Milton, Louisiana

Schedule of Insurance in Force
(Unaudited)
June 30, 2018

Policy Issuer	Policy Period	Type Of Insurance Coverage
Stiel Insurance of Acadiana, Inc.	1/17/18 to 1/17/19	General Liability \$3,000,000 General Aggregate \$1,000,000 Personal and Advertising \$1,000,000 Professional \$1,000,000 Employee Benefits \$1,000,000 Wrongful Acts \$1,000,000 Employment Injury \$1,000,000 Rental Property \$10,000 Medical Expense Commercial Property \$331,836 Building & Contents Crime Policy \$25,000 Employee Dishonesty \$10,000 Office Contents \$10,000 Computer Fraud
AmTrust North American Insurance Company	7/24/17 to 7/24/18	Automobile \$500,000 Bodily injury & property damage
Louisiana's Worker's Compensation	9/1/17 to 9/1/18	Worker's Compensation \$100,000 Bodily Injury by Accident \$100,000 Bodily Injury by Disease
Western Surety Company	6/12/18 to 6/12/19	Surety Crime Policy Bond \$20,000 Customer Service \$50,000 Office Manager \$50,000 Operations Manager \$50,000 Board of Directors - President \$50,000 Board of Directors - Treasurer

Milton Water System, Inc.
Milton, Louisiana

Schedule of Number of Utility Customers
(Unaudited)
June 30, 2018

The Water System has a total of 3,786 customers at June 30, 2018, comprised of residential, commercial and wholesale customers, some of which are inactive. A summary of customers is as follows:

<u>Customers</u>	<u>Active</u>	<u>Inactive</u>	<u>Total</u>
Residential	3,716	-	3,716
Commercial	54	2	56
Wholesale	<u>16</u>	<u>-</u>	<u>16</u>
Total	<u>3,786</u>	<u>2</u>	<u>3,788</u>

The water rates of the System at June 30, 2018 are as follows:

	<u>Milton Side:</u>	<u>Lafayette Side:</u>
Residential rates (3/4" pipe):		
Rate for the first 2,000 gallons	\$ 12.65	\$ 17.16
Rate per 1,000 gallons thereafter	\$ 1.82	\$ 4.41
Residential rates (1" pipe):		
Rate for the first 2,000 gallons	\$ 15.65	\$ 20.16
Rate per 1,000 gallons thereafter	\$ 1.82	\$ 4.41
Commercial rates (3/4" pipe):		
Rate for the first 2,000 gallons	\$ 12.65	\$ 17.16
Rate per 1,000 gallons thereafter	\$ 1.82	\$ 4.41
Commercial rates (1" pipe):		
Rate for the first 2,000 gallons	\$ 15.65	\$ 20.16
Rate per 1,000 gallons thereafter	\$ 1.82	\$ 4.41
School rates:		
Rate for the first 2,000 gallons		\$ 78.45
Rate per 1,000 gallons thereafter		\$ 1.82
2" Meter rates:		
Rate for the first 2,000 gallons		\$ 23.16
Rate per 1,000 gallons thereafter		\$ 4.41

Wholesale rates:

Factor of \$4.41 above the cost of water purchased from the City of Lafayette.

The Water System charges a 10% penalty of the total water charge for those customers paying their bill after the due date.

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER MATTERS**

KOLDER, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Milton Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milton Water System, Inc.'s internal control over financial reporting (internal control) 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 Milton Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Milton Water System, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of current and prior year audit findings and management's corrective action plan, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Milton Water System, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as item 2018-002 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as item 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milton Water System Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Milton Water System Inc.'s Response to Findings

The Milton 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. The 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Although the intended use of this report may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
September 20, 2018

Milton Water System, Inc.
Milton, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended June 30, 2018

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

A. Internal Control Over Financial Reporting

2018-001 Inadequate Segregation of Accounting Functions

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

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

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

Additionally, Statements on Standards for Attestation Engagements (SSAE) AT§501.07 states:

“An entity's internal control over financial reporting includes those policies and procedures that pertain to an entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in either annual financial statements or interim financial statements, or both.”

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

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

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

Milton Water System, Inc.
Milton, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended June 30, 2018

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board members have determined that it is not cost effective to achieve complete segregation of duties within the accounting department. No plan is considered necessary.

2018-002 Customer deposits misappropriation

CONDITION: Milton Water System, Inc. discovered a misappropriation of customer deposits. The total misappropriation is unknown at the date of this report, but as of this date the Water System noted \$2,550 in deposits missing.

CRITERIA: Sound business practices require that policies and procedures be in place and enforced to provide adequate supervision of accounting staff and adequate segregation of accounting functions in order to prevent misappropriation.

CAUSE: The cause of the condition is a lack of adequate segregation of accounting functions. The lack of segregation of accounting functions contributed to two employees' ability to misappropriate funds.

EFFECT: Currently \$1,950 of customer deposits during the year ended June 30, 2018 and \$600 subsequent to the year ended June 30, 2018 may have been misappropriated.

RECOMMENDATION: The Water System should take steps to ensure that all customer deposits are deposited in the Water System's bank accounts. The Water System should also adopt and implement policies and procedures that require all customer deposits be reviewed for accuracy by an employee and/or board member independent of the accounting function on a regular basis.

MANAGEMENT'S CORRECTIVE ACTION PLAN: Milton Water System has since terminated the two employees. The Water System has contacted law enforcement and is reviewing all customer files to try and quantify the extent of the misappropriation. Management has implemented additional checks and balance procedures to ensure that all customer deposits are deposited into the Water System's bank accounts.

B. Compliance

There are no compliance findings to be reported.

Milton Water System, Inc.
Milton, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan (Continued)
Year Ended June 30, 2018

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2017-001 Inadequate Segregation of Accounting Functions

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

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

CURRENT STATUS: Unresolved. See item 2018-001.

B. Compliance

There were no compliance findings reported.