

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

Slagle, Louisiana

Financial Report

Year Ended December 31, 2019

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KOLDER, SLAVEN & COMPANY, LLC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of East Central Vernon Water System, Inc., (a nonprofit organization), which comprise the statement of financial position as of December 31, 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 organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Central Vernon Water System, Inc., as of December 31, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2020, on our consideration of the East Central Vernon Water System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Central Vernon Water System, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Central Vernon Water System, Inc.'s internal control over financial reporting and compliance.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Alexandria, Louisiana
May 19, 2020

FINANCIAL STATEMENTS

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Financial Position
December 31, 2019

ASSETS

Current assets:	
Cash and cash equivalents	\$ 443,823
Accounts receivable, net	69,207
Due from governmental entity	<u>78,814</u>
Total current assets	<u>591,844</u>
Certificates of deposit	<u>310,000</u>
Restricted assets:	
Cash - meter deposits	64,049
Cash - debt service	199,053
Certificates of deposit	<u>253,000</u>
Total restricted assets	<u>516,102</u>
Property, plant and equipment, net	<u>4,025,662</u>
Total assets	<u>\$5,443,608</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities (payable from current assets):	
Accounts payable	\$ 39,377
Accrued salaries and related liabilities	2,661
Construction and retainage payable	82,414
Current portion of notes payable	106,268
Current portion of URAF liability	65,211
Sales tax payable	<u>872</u>
Total current liabilities (payable from current assets)	<u>296,803</u>
Current liabilities (payable from restricted assets):	
Accrued interest payable	6,547
Current portion of notes payable	40,000
Meter deposits	<u>64,049</u>
Total current liabilities (payable from restricted assets)	<u>110,596</u>
Long-term liability:	
URAF liability	456,471
Notes payable	<u>2,536,923</u>
Total long-term liabilities	<u>2,993,394</u>
Total liabilities	<u>3,400,793</u>
Net assets:	
Without donor restrictions	<u>2,042,815</u>
Total liabilities and net assets	<u>\$5,443,608</u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Activities
Year Ended December 31, 2019

Changes in net assets without donor restrictions

Program:

Water sales	\$ 867,632
Connection charges	27,842
Late charges	14,407
Interest income	11,128
Miscellaneous income	<u>7,533</u>
Total unrestricted revenues	<u>928,542</u>

Expenses:

Program services	666,189
Supporting services	<u>208,834</u>
Total expenses	<u>875,023</u>
Operating income	<u>53,519</u>

Other increases in net assets:

Forgiveness of debt	35,645
Grant revenue	<u>7,262</u>
Total other increase in net assets	<u>42,907</u>

Change in net assets without donor restrictions 96,426

Net assets, beginning of year 1,946,389

Net assets, end of year \$2,042,815

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Functional Expenses
Year Ended December 31, 2019

PROGRAM SERVICES	
Advertising and promotion	\$ 3,763
Auto and truck	10,709
Bad debt	6,838
Chemicals	10,539
Depreciation expense	177,008
DHH admin fee	4,277
Employee benefits	9,309
Insurance expense	21,694
Meter readers	42,677
Office expense	16,214
Professional fees	30,398
Repairs and maintenance	110,599
Salaries	149,328
Payroll taxes	12,193
Small tools and supplies	949
Taxes and licenses	1,691
Telephone	7,648
Training	1,380
Utilities	<u>48,975</u>
 TOTAL PROGRAM SERVICES	 <u>\$ 666,189</u>
 SUPPORTING SERVICES	
Bank charges	\$ 77
Board per diem	4,225
Dues and subscriptions	859
Employee benefits	4,673
Interest expense	117,880
Office expense	9,093
Salaries	66,750
Payroll taxes	5,206
Miscellaneous expense	<u>71</u>
 TOTAL SUPPORTING SERVICES	 <u>\$ 208,834</u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities:	
Change in net assets without donor restrictions	\$ 96,426
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Depreciation	177,008
Forgiveness of debt	(35,645)
Changes in operating assets:	
Accounts receivable	916
Changes in operating liabilities:	
Accounts and other payables	28,204
Accrued salaries and payables	229
Meter deposits	1,599
Sales tax payable	<u>426</u>
Total adjustments	<u>172,737</u>
Net cash provided by operating activities	<u>269,163</u>
Cash flows from investing activities:	
Purchase of property, plant and equipment	(84,811)
Proceeds of interest-bearing deposits with maturity in excess of ninety days	306,000
Purchase of interest-bearing deposits with maturity in excess of ninety days	<u>(315,000)</u>
Net cash used by investing activities	<u>(93,811)</u>
Cash flows from financing activities:	
Proceeds from DHH loan/loan forgiveness	48,372
Repayments of debt	<u>(270,465)</u>
Net cash used by financing activities	<u>(222,093)</u>
Net change in cash and cash equivalents	(46,741)
Cash and cash equivalents, beginning of period	<u>753,666</u>
Cash and cash equivalents, end of period	<u>\$ 706,925</u>

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Cash Flows (Continued)
Year Ended December 31, 2019

Reconciliation of cash and cash equivalents per statement
of cash flows to the statement of financial position:

Cash and cash equivalents, beginning of period -	
Cash and cash equivalents - unrestricted	\$ 501,855
Cash and cash equivalents - restricted	
Cash - meter deposits	62,450
Cash - debt service	<u>189,361</u>
Total cash and cash equivalents, beginning of period	<u>753,666</u>
Cash and cash equivalents, end of period -	
Cash and cash equivalents - unrestricted	443,823
Cash and cash equivalents - restricted	
Cash - meter deposits	64,049
Cash - debt service	<u>199,053</u>
Total cash and cash equivalents, end of period	<u>706,925</u>
Net change in cash and cash equivalents	<u>\$ (46,741)</u>

Supplemental disclosure of cash flow information:

Cash paid during year for interest	<u>\$ 117,880</u>
Assets obtained with long term debt	<u>\$ 28,005</u>

The accompanying notes are an integral part of this statement.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of Operations

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

B. Financial Statement Presentation

The Water System reports information regarding its financial position and activities according to two classes of net assets: Net Assets without Donor Restrictions and Net Assets with Donor Restrictions.

The financial statements of the Water System have been prepared on the accrual basis. 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 are comprised of interest-bearing deposits which are stated at cost, which approximates market. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date no longer than three months. Certificates of deposit are classified separate from cash equivalents if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Certificates of deposit are stated at cost which approximates market.

D. Accounts Receivables and Allowance for Doubtful Accounts

Accounts receivable consists primarily of amounts due from billings to customers for water services. Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts. Management periodically evaluates the status of all accounts receivable balances for collectability. The receivable balance is assessed based on management's knowledge and history of collection and the age of the receivable balance. An allowance is recorded for the customer receivables deemed to be uncollectible. As of December 31, 2019, the Water System has recorded a \$5,923 allowance for doubtful accounts.

E. Inventory

Inventory is stated at the lower of cost, using average cost method or fair value. At December 31, 2019, the amount of inventory the Water System had on hand was immaterial to the financial statements.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

F. Property, Plant and Equipment

Property, plant, and equipment, with an acquisition costs of \$1,000 or more is capitalized. Assets donated to the Water System are capitalized at their current fair market value. Property and equipment are valued at historical costs and are being depreciated on a straight-line basis.

G. Net Assets

The net assets of the Water System and changes therein are classified and reported as follows:

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions may be temporary in nature. These restrictions will be satisfied by actions of the Water System or by the passage of time.

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

H. Revenue and Expense Recognition

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

I. Allocation of Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort.

J. Income Tax Status

The Water System is exempt from federal income tax as an organization described in Section 501(c) (12) of the Internal Revenue Code and, therefore has no provision for federal income taxes.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

ASC 740 requires that a tax position be recognized or derecognized based on a "more than not" threshold. This applies to positions taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination.

Management of the Water System has not filed the required Form 990 with the IRS in the system's existence. The Water System could be subject to nominal penalties, interest and back taxes related to the years in which the Form 990 was required to be filed. In addition, the entity is at risks of losing their tax-exempt status and would be taxed as a corporation for federal income tax purposes. The estimated amount of penalties, interest and potential back taxes are unknown at this time. During the year ending December 31, 2019, the Water System received a determination letter from the IRS recognizing them as an exempt organization, with a Form 990 expected to be filed for the year ending December 31, 2019.

K. Vacation, Sick Leave, and Compensated Absences

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

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

L. Advertising

Advertising costs are expensed as incurred. Total advertising expense was \$3,763 for the year ended December 31, 2019.

M. 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.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(2) Contract Balances

The timing of revenue recognition, billings, and cash collections result in billed accounts receivable. The Water System requires customer deposits resulting in contract liabilities. The beginning and ending contract balances are as follows

	December 31,	
	2019	2018
Accounts Receivable	\$ 73,422	\$ 70,123
Deposits	\$ 64,049	\$ 62,450

(3) Restricted Assets

Restricted assets relate to funds transferred to separate accounts to meet the requirements of the USDA Rural Development Loans, the Department of Health and Hospitals Drinking Water Revolving Loan and customer deposits. Specific requirements related to the reserve funds noted by the Rural Development Loan and Water Revolving Loans, dictate that certain minimum balances and monthly transfers are made timely. At December 31, 2019, the Water System was in compliance with these requirements.

Restricted assets are as follows:

	Cash and Cash Equivalents	Certificates of Deposits	Total
Customer Deposits	\$ 64,049	\$ -	\$ 64,049
DHH Water Revolving Loan			
Debt service fund	98,151	-	98,151
Debt service reserve fund	-	37,000	37,000
Capital additions and contingencies	100,902	-	100,902
USDA Rural Development Loans			
Depreciation account	-	216,000	216,000
Total	\$ 263,102	\$ 253,000	\$ 516,102

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(4) Property, Plant and Equipment

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

Land	\$ 19,755
Construction in progress	1,519,854
Buildings	30,985
Water distribution system	6,194,127
Office furniture & equipment	29,065
Machinery & equipment	137,265
Vehicle	<u>97,157</u>
Total property, plant and equipment	8,028,208
Less: Accumulated depreciation	<u>(4,002,546)</u>
Net property, plant and equipment	<u>\$ 4,025,662</u>

Property, plant, and equipment are pledged as collateral on all loans from USDA – Rural Development. Depreciation expense for the year ended December 31, 2019 was \$177,008.

(5) Changes in Long-Term Debt

\$1,986,000 promissory note payable to USDA-Rural Development dated January 14, 1992, due in monthly installments of \$9,752, including interest at 5%, final maturity at January 14, 2032.	\$ 1,047,830
\$475,000 promissory note payable to USDA-Rural Development dated January 14, 1992, due in monthly installments of \$2,333, including interest at 5%, final maturity at January 14, 2032.	250,431
\$800,000 promissory note payable to USDA-Rural Development dated December 22, 1994, due in monthly installments of \$4,056, including interest at 5%, final maturity at December 22, 2034.	475,266
\$2,315,000 promissory note, series 2015 due to DHH-Water Revolving Water Loan dated June 25, 2015. Amount drawn through December 31, 2019 was \$1,493,804. The amount available to be drawn upon is \$821,196 at December 31, 2019. Payments are due in annual installments based on percentages specified in the note and semi-annual installments of interest at 2.95%. Final maturity is June 1, 2035. The agreement provides for 30% principal forgiveness on each principal drawdown so that the maximum amount of principal repayment will be \$1,620,500.	<u>909,664</u>
Less: current maturities	<u>(146,268)</u>
Long-term debt	<u>\$ 2,536,923</u>

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

The annual debt service requirements are as follows:

	Principal payments	Interest payments	Total payments
2020	\$ 146,268	\$ 113,669	\$ 259,937
2021	151,769	106,988	258,757
2022	159,555	99,993	259,548
2023	166,639	92,655	259,294
2024	174,039	84,972	259,011
2025 and thereafter	1,884,921	357,848	2,242,769
Total	\$ 2,683,191	\$ 856,125	\$ 3,539,316

(6) URAF Liability

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

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

Repayment of the funded amounts will begin in 2019. In accordance with the program requirements, no interest is charged to the Water System. The annual minimum repayment requirements are as follows:

	LA Hwy 8	LA Hwy 121	Total payments
2020	\$ 24,007	\$ 41,204	\$ 65,211
2021	24,007	41,204	65,211
2022	24,007	41,204	65,211
2023	24,007	41,204	65,211
2024	24,007	41,204	65,211
2025 and thereafter	72,019	123,608	195,627
Total	\$ 192,054	\$ 329,628	\$ 521,682

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(7) Retirement Commitments

The Water System contributes up to 7% of an employee's annual salary to a defined contribution retirement plan, in the employee's name. Contributions to the plan at December 31, 2019 totaled \$13,892.

(8) Commitments and Contingencies

At December 31, 2019, the Water System is a defendant in pending litigation. While damages are alleged, their outcome cannot be predicted with certainty.

(9) Concentration of Credit Risk

The Water System maintains most of its cash deposits at one financial institution. Cash accounts at banks are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. The Water System has \$544,434 of deposits in excess of FDIC insurance at December 31, 2019.

(10) Compensation of Board Members

A detail of the per diem paid to the President of the board and board members for the year ended December 31, 2019 follows:

Board Members:

Ronald Lewis	\$ 750
Willie Banks, Jr.	750
Joe Lynn Bolton	800
Ray Charrier	475
Juanita Bolton	525
Lowell Brown	475
Sandra L. Craft	450
	<u>\$ 4,225</u>

(11) Compensation, Benefits, and Other Payments to Board President

A detail of compensation, benefits, and other payments paid to to President Ronald Lewis for the year ended December 31, 2019 are as follows:

<u>Purpose</u>	<u>Amount</u>
Per Diem	<u>\$ 750</u>

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

(12) Liquidity and Availability of Resources

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

Cash and cash equivalents	\$ 443,823
Accounts receivable	73,422
Due from other governmental entity	78,814
Certificates of deposits	<u>310,000</u>
Total current assets	<u>\$ 906,059</u>

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

(13) Subsequent Event Review

The Water System has evaluated subsequent events through May 19, 2020, the date which the financial statements were available to be issued.

(14) Change in Accounting Pronouncements

Effective January 1, 2019 the Water System adopted ASC Topic 606 using the modified retrospective method. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative adjustment was recorded. Adoption of this Topic resulted in additional disclosures being presented within the notes to the financial statements.

Effective January 1, 2019 the Water System adopted ASC Topic 230 using the modified retrospective method. Results for reporting periods beginning after January 1, 2019 are presented under ASC 230. The adoption of ASC 230 did not result in any changes to the statement of cash flows as presented from the prior period.

**INTERNAL CONTROL
AND
COMPLIANCE**

KOLDER, SLAVEN & COMPANY, LLC

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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*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Central Vernon Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 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 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Central Vernon Water System, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Central Vernon Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of East Central Vernon Water System, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of East Central Vernon Water System, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of current and prior year audit findings and management's corrective action plan as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Central Vernon Water System, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kolder, Slaven & Company, LLC
Certified Public Accountants

Alexandria, Louisiana
May 19, 2020

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2019

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

A. Internal Control Over Financial Reporting

2019-001 Inadequate Segregation of Accounting Functions

Fiscal year finding initially occurred: Unknown.

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

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

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

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

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

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

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board concurs with the audit finding. Due to size of staffing, the achievement of adequate segregation of duties is desirable, but cost prohibitive. All efforts are given to segregate duties where feasible. In an effort to establish more sound controls the Board monitors activity and balances in all accounts.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2019

2019-002 Application of Generally Accepted Accounting Principles (GAAP)

Fiscal year finding initially occurred: Unknown.

CONDITION: Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to nonprofit and quasi-public entities in the financial statement preparation process.

CRITERIA: The Water System's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statement, including the ability of its management and staff to detect potential misstatements that may exist in the financial statements and related disclosures.

CAUSE: The cause of the condition results from a reliance on the external auditor as part of the internal control process.

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

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

CORRECTIVE ACTION PLAN: We evaluated the cost vs. benefit of establishing enhanced controls over financial reporting and determined that it would not be cost effective to enhance these controls. Currently, our financial staff receive annual training related to their job duties. Additionally, we carefully review the financial statements, related notes and all proposed journal entries. All questions are adequately answered by our Auditors to allow us to appropriately supervise these functions. We feel that we have taken appropriate steps to reduce the financial statement risk cause by this finding.

B. Compliance

There were no compliance findings to report.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Schedule of Current and Prior Year Audit Findings
And Management's Corrective Action Plan
Year Ended December 31, 2019

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2018-001 Inadequate Segregation of Accounting Functions

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

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

CURRENT STATUS: Unresolved. See item 2019-001.

2018-002 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to nonprofit and quasi-public entities in the financial statement preparation process.

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

CURRENT STATUS: Unresolved. See item 2019-002.

B. Compliance

There were no compliance findings to report.