

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana

Financial Statements
For the years ended December 31, 2017 and 2016

NORTH DESOTO WATER SYSTEM, INC.

FINANCIAL STATEMENTS December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North DeSoto Water System, Inc.
Stonewall, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of North DeSoto Water System, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 North DeSoto Water System, Inc. as of December 31, 2017 and 2016, 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 audits were conducted for the purpose of forming opinions on the basic financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2018, on our consideration of North DeSoto 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North DeSoto Water System, Inc.'s internal control over financial reporting and compliance.

Dees Gardner, Certified Public Accountants, LLC

Mansfield, Louisiana
August 16, 2018

FINANCIAL STATEMENTS

North DeSoto Water System, Inc.
STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 246,308	\$ 248,618
Accounts receivable, trade	58,201	53,142
Other accounts receivable	12,304	-
Inventory	9,085	10,805
Prepaid expenses	3,783	4,113
Total current assets	<u>329,681</u>	<u>316,678</u>
Restricted Assets		
Cash and cash equivalents	<u>137,043</u>	<u>129,649</u>
Property and Equipment		
Wells, lines, tanks, and equipment	3,997,115	3,759,774
Less accumulated depreciation	<u>(1,585,696)</u>	<u>(1,503,807)</u>
Total property and equipment, net	<u>2,411,419</u>	<u>2,255,967</u>
Other Assets		
Deposits	<u>600</u>	<u>600</u>
TOTAL ASSETS	<u><u>\$ 2,878,743</u></u>	<u><u>\$ 2,702,894</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities - Payable from Current Unrestricted Assets		
Accounts payable	\$ 28,094	\$ 11,962
Payroll taxes withhold and accrued	8,919	4,774
Accrued interest payable	448	505
Current portion of long-term debt	<u>54,739</u>	<u>54,726</u>
Total current liabilities payable from current unrestricted assets	<u>92,200</u>	<u>71,967</u>
Current Liabilities - Payable from Restricted Assets		
Meter deposits	<u>92,550</u>	<u>88,850</u>
Long-term Debt		
Notes payable, less current portion	<u>582,630</u>	<u>635,412</u>
TOTAL LIABILITIES	<u><u>767,380</u></u>	<u><u>796,229</u></u>
NET ASSETS		
Unrestricted	<u>2,061,398</u>	<u>1,865,866</u>
Temporarily restricted:		
Revenue note fund	<u>49,965</u>	<u>40,799</u>
TOTAL NET ASSETS	<u><u>2,111,363</u></u>	<u><u>1,906,665</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,878,743</u></u>	<u><u>\$ 2,702,894</u></u>

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

North DeSoto Water System, Inc.
STATEMENTS OF ACTIVITIES

For the years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenues:		
Water sales	\$ 890,238	\$ 846,274
Installation charges	37,103	34,424
Government grants	112,304	35,000
Interest income	-	40
Miscellaneous income	24,617	1,720
Donation of infrastructure	-	2,416
Loss on dry well	-	(68,550)
Transfers from(to) temporarily restricted net assets	(9,166)	(9,713)
Total Increases in Unrestricted Net Assets	1,055,096	841,611
Expenses:		
General operating expenses	859,564	939,815
Total Decreases in Unrestricted Net Assets	859,564	939,815
Change in Unrestricted Net Assets	195,532	(98,204)
Temporarily Restricted Net Assets		
Interest Income	-	37
Transfer from(to) unrestricted net assets	9,166	9,713
Increase in Temporarily Restricted Net Assets	9,166	9,750
Change in Net Assets	204,698	(88,454)
Net Assets at Beginning of Year	1,906,665	1,995,119
Net Assets at End of Year	\$ 2,111,363	\$ 1,906,665

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

North DeSoto Water System, Inc.
STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Increase in net assets	\$ 204,698	\$ (88,454)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	126,625	130,142
Noncash donations of infrastructure	-	(2,416)
(Increase) decrease in assets:		
Accounts receivable	(17,363)	9,072
Prepaid expenses	330	1,000
Inventory	1,720	(4,855)
Restricted assets	(7,394)	(3,087)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	20,220	14,041
Meter deposits	3,700	3,050
Net Cash Provided by Operating Activities	332,536	58,493
Cash Flows from Investing Activities:		
Purchase of property and equipment	(282,077)	(32,494)
Net Cash Used by Investing Activities	(282,077)	(32,494)
Cash Flows from Financing Activities:		
Payment on notes payable	(52,769)	(52,202)
Net Cash Provided (Used) by Financing Activities	(52,769)	(52,202)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,310)	(26,203)
Cash and Cash Equivalents, Beginning of Year	248,618	274,821
Cash and Cash Equivalents, End of Year	\$ 246,308	\$ 248,618
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 32,014	\$ 32,304

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

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and Nature of Activities

The North DeSoto Water System, Inc. (the System) is a nonprofit organization incorporated in 1979 under Louisiana Statute R.S. 12:101(8). The System's primary purpose is to provide water service to the North DeSoto Parish community area located in a rural northwest parish of Louisiana. The System currently provides service to approximately 2000 members.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and accordingly reflect all significant receivables, payables, and other liabilities. Revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-210 (formerly SFAS No. 117, *Financial Statements for Not-for-Profit Organizations*). Under FASB ASC 958-210, the System is required 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 net assets.

Unrestricted assets are available for the operation and maintenance of the System. Restricted assets have been established to comply with various loan agreements and to comply with the requirement to maintain a "meter deposit" account.

A description of the three net asset categories follows:

Unrestricted – Net assets whose use is not subject to any restrictions.

Temporarily Restricted – Net assets whose use is subject to restrictions that can be fulfilled by actions pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted – Net assets whose use is subject to restrictions that may be maintained permanently. No permanently restricted assets were held during 2017 and 2016 and accordingly, these financial statements do not reflect any activity related to the class of net assets.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months when purchased. The carrying value of cash and cash equivalents approximated fair value because of the short maturities of these financial instruments.

Trade Accounts Receivable

Trade accounts receivables (water customers) are reported at the amount management expects to collect from balances outstanding at year-end. These water receivables are typically collected within 30 days because of a strict cut-off policy for non-payment. Therefore, management establishes a valuation allowance for any accounts past due over 120 days.

Inventory

Inventory, which consists of digital meters on hand at year-end, are valued at cost.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Prepaid expenses

Payments made to vendors for services that will benefit periods beyond December 31 are recorded as prepaid expenses.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. It is the System's policy to capitalize acquisitions of property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets. The estimated useful lives are as follows:

Water lines, meters, tanks, etc.	25-40 Years
Machinery and equipment	7 Years
Office furniture and fixtures	5-8 Years

Maintenance and repairs are charged to expense when incurred. Betterments and renewals are capitalized. Assets dedicated or donated to the System are recorded at fair market value at the time of donation. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal and the resulting gains or losses are included in the change in net assets.

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The System's significant financial instruments are cash, cash equivalents, accounts receivable, and other short term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Meter Deposits

Members' meter deposits are recorded as a restricted liability and are refundable upon termination of membership.

Compensated Absences

Compensated absences for vacation and sick leave do not accrue. Annual leave must be taken during the year following the employee's anniversary date or it is lost. The cost of leave privileges is recognized as a current year expense when leave is actually taken.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Income Taxes

The System is exempt from federal and state income taxes under IRS Code Section 501 (c) (12). Accordingly, there is no provision for income taxes in these financial statements. The System's federal Exempt Organization Business Income Tax Returns (Form 990) for 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

2. CASH AND CASH EQUIVALENTS

The System has cash and cash equivalents (book balances) at December 31 as follows:

	2017	2016
Interest-bearing demand deposits	\$ <u>383,351</u>	\$ <u>378,267</u>

The System has concentrated its credit risk for cash by maintaining deposits in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). At December 31, 2017, the System had \$399,058 in deposits (collected bank balances). These deposits are secured from risk by \$250,000 of federal deposit insurance and by \$149,058 of pledged marketable securities held by the custodial bank with a value of \$1,794,677.

3. RECEIVABLES

Receivables at December 31, 2017, are as follows:

	2017	2016
Water sales	\$ <u>58,390</u>	\$ <u>54,106</u>
Less allowance for bad debts	<u>(189)</u>	<u>(964)</u>
Total Accounts Receivable	\$ <u>58,201</u>	\$ <u>53,142</u>

The accounts receivable balance is comprised of approximately 2,056 metered accounts, 2021 residential and 35 commercial, with an average monthly balance of \$31 per account.

The allowance for bad debts is based on a percentage of aged receivables over 120 days. An aging of accounts receivable at December 31, 2017, is as follows:

Current	\$ 58,090
31-60 days	1,173
61-90 days	181
91-120 days	(189)
over 120 days	(865)
Allowance	<u>(189)</u>
Total	<u>\$ 58,201</u>

All of the accounts receivables are due from customers in the North DeSoto Parish area. The System's ability to collect the amounts due from customers is affected by economic fluctuations in this geographical area.

Other receivables of \$12,304 is reimbursement due from the DeSoto Parish Police Jury for materials purchased for a line extension.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

4. RESTRICTED ASSETS

Under the terms of the notes payable agreement with the United States Department of Agriculture, the System is required to set aside funds which are restricted to servicing the notes payable and providing for replacement of equipment. The restricted amounts at December 31, 2017 and 2016 for the USDA loan agreements are \$32,586 and \$28,892, respectively. The Community Resource Group loan requires a debt reserve fund be maintained to service that note payable. The restricted amount at December 31, 2017, is \$11,906.

Members are required to pay a meter deposit in the amount of \$50 that is recorded as a restricted liability entitled "meter deposits." The System deposits currently collected meter deposits into a restricted cash account. Upon termination of membership, the deposit is applied to any unpaid account balance with the remaining amount, if any, refunded to the withdrawing member within a reasonable period of time. The amount of member meter deposits was \$92,550 and \$88,850 as of December 31, 2017 and 2016, respectively.

Restricted assets at December 31, 2017, are comprised of:

		2017		2016
Cash and cash equivalents	\$	<u>137,043</u>	\$	<u>129,649</u>

5. FIXED ASSETS

Fixed assets consist of the following at December 31, 2017:

	2016	Additions	Deletions/ Reclassifications	2017
Nondepreciable				
Land	\$ 46,122	-	-	\$ 46,122
Construction in Progress	26,290	-	(25,440)	850
Total nondepreciable assets	<u>72,412</u>	<u>-</u>	<u>(25,440)</u>	<u>46,972</u>
Depreciable				
Buildings	192,264	-	-	192,264
Wells and lines	3,105,394	236,217	25,440	3,367,051
Equipment and machinery	251,760	36,448	-	288,208
Vehicles	134,296	6,500	(44,736)	96,060
Furniture and fixtures	3,648	2,912	-	6,560
Total depreciable assets	<u>3,687,362</u>	<u>282,077</u>	<u>(19,296)</u>	<u>3,950,143</u>
Total assets	<u>3,759,774</u>	<u>282,077</u>	<u>(44,736)</u>	<u>3,997,115</u>
Less accumulated depreciation	<u>(1,503,807)</u>	<u>(128,224)</u>	<u>46,335</u>	<u>(1,585,696)</u>
Net property and equipment	<u>\$ 2,255,967</u>	<u>\$ 153,853</u>	<u>\$ 1,599</u>	<u>\$ 2,411,419</u>

Depreciation expense for December 31, 2017 and 2016 is \$128,224 and \$130,142, respectively.

6. PER DIEM PAID TO BOARD MEMBERS

The System's Board of Directors consists of five members who serve the entity. The directors do not receive any compensation for their services.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

7. NOTES PAYABLE

The System was constructed primarily with funds provided by the Farmers Home Administration of the United States Department of Agriculture and other entities as needed.

These funds are represented by the following notes payable:

	2017	2016
\$220,000 payable to Community Resource Group, Inc. dated July 21, 2011, due in monthly installments of \$2,280.01 beginning September, 2011, including interest at 4.5% due September, 2021	\$ 85,586	\$ 108,532
\$160,000 note payable to the United States Department of Agriculture dated June, 1981, due in monthly installments of \$780 including interest at 5% due July, 2020	25,340	33,279
\$459,000 note payable to the United States Department of Agriculture beginning draw dated July 26, 2004; final draw March 31, 2006 for upgrades to the system Interest rate of 5% final note in 2042.	386,125	393,515
\$181,020 payable to Community Bank of Louisiana dated April 30, 2015, due in monthly installments of \$1,769.28 beginning May 31, 2015, including interest at 3.25% with a balloon payment of \$99,353 due April, 2020	140,318	154,812
	637,369	690,138
Less portion considered current	(54,739)	(54,726)
Total long-term liabilities	\$ 582,630	\$ 635,412

The annual requirements to amortize all long term debt as of December 31, 2017, are as follows:

Year	Principal	Interest	Total
2018	54,739	30,045	84,784
2019	57,176	27,608	84,784
2020	153,319	21,906	175,225
2021	19,140	18,026	37,166
2022	9,370	17,462	26,832
2023-2027	54,555	79,605	134,160
2028-2032	70,026	64,134	134,160
2033-2037	89,885	44,275	134,160
Thereafter	129,159	18,986	148,145
	\$ 637,369	\$ 322,047	\$ 959,416

Fixed assets of the System (including gross income and revenue to be derived from the operation of the System) are pledged as collateral to secure the mortgages with the United States Department of Agriculture and Community Resources Group.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

7. NOTES PAYABLE (continued)

The loan agreements contain various restrictive covenants among which include maintenance of restricted cash funds at specified amounts, required amounts of insurance coverage and limitations on additional borrowings. The United States Department of Agriculture and Community Resources Group require the System to establish reserves and make monthly payments in order to satisfy payments on outstanding loans.

The USDA required amounts per month for the 1981 loan of \$53 for the Revenue Note Fund. A total of the reserve for the 1981 loan is required to be funded until at an amount sufficient to pay one annual installment of \$9,360 is on deposit. The 2004 loan reserve requires monthly deposits of \$103 until \$26,832 is on deposit, for a total USDA reserve needed of \$36,192. A total of \$32,586 is temporarily restricted in the Revenue Note Fund.

Community Resource Group requires \$228 be deposited in a debt reserve account until the sum of \$27,360 reached. These funds can be used if other funds are not available for payment due on the note or with permission for repairing damage caused by a catastrophe. At December 31, 2017, there is \$11,906 in this reserve account.

8. OTHER COMMITMENTS

As of December 31, 2017, pursuant to an agreement with Community Bank of Louisiana, the System has two available lines of credit. One is an open line of credit for \$100,000. The other one is available for construction costs if the System is unable to pay from funds generated from operations. This loan is for \$225,000. None of these loans are outstanding at the time these financial statements were available to be issued.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Payment of debt principal and interest	\$ 49,965	\$ 40,799
Temporarily restricted net assets	\$ 49,965	\$ 40,799

10. SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES (SIMPLE) IRA PLAN

The system has established a Savings Incentive Match Plan for Employees of Small Employers. Employer contributions under this plan shall be equal to each eligible employee's contribution up to a limit of the lesser of 3% of the employee's compensation for the calendar year of \$600. In order to participate in the Plan, the employee must reasonably expect to earn at least \$5,000 in annual compensation. The Company may reduce the 3% limit to 1% if the limit is not reduced more than two calendar years during the five year period ending with the calendar year in which the reduction is effective, and each employee is notified of the reduced limit within a reasonable period of time before the employee's 60-day election period for the calendar year. The System makes annual contributions under this Plan. The System made contributions of \$4,917 and \$4,989 to the Plan for the years ended December 31, 2017 and 2016.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2017

11. CAPITAL STOCK

The System does not have capital stock. Membership in the System is represented by membership certificates. Such certificates represent the right to use and enjoy the benefits of the System's water supply upon the payment of necessary assessments, if any, and of reasonable charges based on such use, provided such use and enjoyment are consistent with the rules, regulations, and contracts affecting the same as may from time to time be prescribed by the Board of Directors. (Per Article VI of the by-laws of the System).

12. GRANT REVENUE

During the year end December 31, 2017, the System received a \$100,000 Community Water Enrichment Fund grant applied for and received through the DeSoto Parish Police Jury, for the purpose of updating the System's well and water lines. The System also entered into a separate agreement with the DeSoto Parish Police Jury to fund the cost of materials for the extension of lines on Middleton Road while the System provided the labor. The cost of the materials donated to the System was \$12,304.

13. LEASE COMMITMENTS

Operating Leases

Although the System is not a party to a capital lease agreement, the System has entered into a number of operating leases. The purpose of these leases is to acquire land to drill and operate water wells, construct pipe lines and other necessary structures to obtain water, and manage the water system. These leases have cancellation provisions and are subject to annual appropriations. For the years ended December 31, 2017 and 2016, lease expenditures were \$7,240 and \$5,240, respectively.

14. SUBSEQUENT EVENTS

The System has evaluated subsequent events through August 16, 2018, the date which the financial statements were available to be issued. There are no subsequent events that require disclosure.

SUPPLEMENTARY INFORMATION

North DeSoto Water System, Inc.
SCHEDULE OF GENERAL OPERATING EXPENSES
For the years Ended December 31, 2017 and 2016

	2017	2016
Auto and Truck	\$ 28,472	\$ 19,895
Conferences, seminars, and travel	792	1,157
Depreciation	128,224	130,142
Dues and subscriptions	550	350
Insurance	29,033	33,568
Interest	31,957	32,482
Office expense	15,425	23,978
Professional fees	35,110	17,383
Leases	7,240	5,240
Repairs and maintenance	132,007	87,597
Meter expense	43,873	145,100
Miscellaneous	18,396	13,169
Supplies	23,444	17,550
Salaries and wages	251,447	295,813
Employee benefits	24,753	15,296
Payroll taxes	18,828	22,619
Utilities	65,047	65,367
Uniforms	4,966	13,109
	<u>\$ 859,564</u>	<u>\$ 939,815</u>

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

NORTH DESOTO WATER SYSTEM, INC.
SCHEDULE OF RATES
December 31, 2017

Effective February , 2015

	<u>Usage</u>	<u>Base</u>	<u>Per Additional 1,000 Gallons</u>
Residential:	0-2000 Gallons	\$ 17.75	
	3000-8000 Gallons		\$ 3.25
	9000 Gallons and up		\$ 3.55
Commercial:	0-10,000 Gallons	\$ 37.25	
	11,000 Gallons and up		\$ 3.25
Bulk:	\$1.50 per 100 gallons		
	\$15 per 1000 gallons		

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

NORTH DESOTO WATER SYSTEM, INC.
BOARD OF DIRECTORS
December 31, 2017

		<u>Term Expires</u>
Mr. Andy Bridges 628 Collinswood Stonewall, Louisiana 71078 (318) 925-0906	President	2019
Mr. Allen Johnson 442 Burford Road Stonewall, Louisiana 71078 (318) 925-6348	Director	2019
Mr. Randy Rodgers 173 Lee Lane Stonewall, Louisiana 71078 318-294-1331	Vice-President	2019
Mr. Mark Welch 266 Hall Road Stonewall, Louisiana 71078 318-426-1707	Director	2018
Mr. Curtis McCune (deceased June 28, 2017) 444 Hall Road Stonewall, Louisiana 71078	Director	2018
Mr. Steve Chandler (began August 15, 2017) 274 Douglas Drive Stonewall, Louisiana 71078 318-925-9265	Director	2018

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

NORTH DESOTO WATER SYSTEM, INC.
SCHEDULE OF INSURANCE
December 31, 2016

Coverage	Inception Date	Expiration Date	Limits of Liability		Deductible Amount		
<u>Business Automobile Combined Limit</u>	4/1/2017	4/1/2018	\$	1,000,000	Each person	\$	500
Auto Medical			\$	5,000	Each person	\$	500
Uninsured/Underinsured Motorist			\$	1,000,000	Each accident	\$	500
Hired/Non-owned			\$	1,000,000	Each accident	\$	500
Hired Physical Damag			\$	50,000	Each accident	\$	500
<u>Commercial General Liability</u>	4/1/2017	4/1/2018					
Personal Injury and Advertising Injury			\$	1,000,000	Per Occurrence	\$	0 per occurrence
General Aggregate			\$	3,000,000	Aggregate per Coverage		
Products--Completed Operations			\$	3,000,000	Aggregate		
Damage To Premises Rented to You			\$	1,000,000	Any One Premises		
Medical Expense			\$	10,000	Per Accident		
<u>Public Officials & Management Liability</u>	4/1/2017	4/1/2018					
Aggregate Limit			\$	3,000,000		\$	1,000
Wrongful Acts/Employee Practices/Employee Benefit Plans			\$	1,000,000	Per Occurrence	\$	1,000
Action for Injunctive Relief			\$	5,000	Per Occurrence	\$	1,000
<u>CommercialCrime</u>	4/1/2017	4/1/2018					
Employee Theft			\$	100,000	Per Loss	\$	1,000
Forgery or Alteration			\$	100,000	Per Occurrence	\$	1,000
Theft of Money, Securities,			\$	100,000	Inside Per Occurrence	\$	1,000
Robbery/Safe Burglary			\$	5,000	Inside Per Occurrence	\$	1,000
Crime outside the Premises			\$	100,000	Per Occurrence	\$	1,000
Computer Fraud			\$	100,000	Per Occurrence	\$	1,000
Funds Transfer Fraud			\$	100,000	Per Occurrence	\$	1,000
Money Orders			\$	100,000	Per Occurrence	\$	1,000
<u>Property and Contents</u>	4/1/2017	4/1/2018					
Personal Property			\$	47,300	\$10,000 per unscheduled item	\$	1,000
			\$	25,000	John Deere Backhoe	\$	1,000
Real Property			\$	891,942	Tanks, Pumps & Other Equipment as per scheduled property value	\$1,000 < \$50,000 \$2,500 > \$50,000	
Borrowed, Rented, or Leased			\$	100,000		\$	1,000
<u>Workmen's Compensation</u>	4/1/2017	4/1/2018	\$	1,000,000	Each accident		
			\$	1,000,000	Disease policy limit		
			\$	1,000,000	Disease each employee		

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



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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*

Board of Directors
North DeSoto Water System, Inc.
Stonewall, 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 North DeSoto Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of and for the years ended December 31, 2017 and 2016, 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 August 16, 2018.

Internal Control Over Financial Reporting

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

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 over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, 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 combination of deficiencies, in internal control such that there is more than a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses :2017-01, 2017-02, 2017-03.

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 charges with governance. We did not identify any items we considered significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North DeSoto 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 my audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 2017-04, 2017-05.

North DeSoto Water System Inc.'s Response to Findings

North DeSoto Water System Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The responses were 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 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. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 25:513, this report is distributed by the Louisiana Legislative Auditor as public document.

Dees Gardner, Certified Public Accountants, LLC

Mansfield, Louisiana
August 16, 2018

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana
Schedule of Findings and Responses
December 31, 2017

FINDINGS RELATED TO INTERNAL CONTROLS

2017-01. Inadequate segregation of duties.

Criteria - Good internal control requires that different personnel be assigned to authorize transactions, record transactions, and maintain custody of assets.

Condition - The System has one administrative office employee and does not have adequate segregation of functions or duties within the accounting and billing system.

Effect – Monitoring controls that could be used to detect errors and/or inappropriate actions cannot be performed effectively.

Cause – The System has limited staff in the office.

Recommendation - The duties should be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related assets; 2) separating initializing transactions from general ledger posting and maintenance; 3) separating monitoring responsibility from record-keeping. Where these segregations are not practical, we recommend close supervision and review.

2017-02. Bank account reconciliations did not correlate with the bank statements or the general ledger.

Criteria – Timely reconciling all bank accounts is a key component of good controls over cash. Reconciling the bank balance with the book balance is necessary to confirm that all receipts and disbursements are recorded by the System and ensuring complete and accurate monthly financial statements. Reconciling also ensures checks are clearing the bank in a reasonable time and that all items (errors, unrecorded deposits and checks, etc.) are appropriately recorded. Reconciled cash balances should agree to the general ledger checking account balance.

Condition – The bank reconciliation for the System's operating account for December 31, 2017, did not reconcile to the bank statement or agree with the general ledger. The reconciliation completed for December 31, 2017 was performed on November 14, 2017.

Effect – Revenues and expenses reported on the monthly financial statements were not complete and accurate. The book balance of the operating account was understated \$7,747, per the financial statements reviewed by the board for December 31, 2017. After an examination of the operating account, it was determined:

- 1) Water sales had been over stated \$8,616 due to incorrectly reported deposits.
- 2) The meter expense was over stated due to an eft payment recorded for \$8,280 that did not occur.
- 3) Bank service charges were under reported by \$215.
- 4) Duplicate payments for safe drinking water and a payroll check were recorded. The duplicate payroll check resulted in an over calculation of payroll owed.
- 5) An eft for fuel cleared on the reconciliation did not occur.
- 6) Several disbursements written to the IRS in QuickBooks cleared to the Louisiana Department of Revenue on the bank statements.

Cause - Fictitious transactions were recorded in order to reconcile to the bank statement.

Recommendation – Items should only be cleared on the bank reconciliation that match items cleared on the bank statements by the exact vendor name and amount. A good internal control practice is to have bank reconciliations performed by an employee or outside accounting professional who does not have responsibility or authority to sign checks, receive and deposit cash, or authorize disbursements. In addition to a board member reviewing the bank statements before given to the bookkeeper for reconciling, a board member should review the bank reconciliations after they are completed to ensure consistency with the bank statement and general ledger and indicate their review by signature and date.

2017-03. Timesheets do not support hours per the payroll journal

Criteria – Good controls over payroll consists of employees keeping simple time sheets to document hours worked, timesheets approved by an appropriate supervisor, and simple records maintained to account for vacation and sick leave earned and taken. Employees of the System use a finger print time clock.

Condition – Timesheets were examined by the auditors to verify employees were being paid based on the actual hours they work as indicated by the time clock system. Hours paid to employees did not match the hours worked as indicated by the timesheets printed from the time clock. The System's payroll period ends on Wednesday. Timesheets are not always complete for the hours worked on Wednesdays, the last day of the pay period.

Effect – Timesheets did not support wages paid, therefore payroll fraud may not be detected or prevented in a timely manner.

Cause – Payroll checks were run on Wednesday before the pay period had ended and employees had clocked out.

Recommendation – Payroll should not be prepared until the payroll period has ended and all proper documentation to substantiate a payroll check is available. All time sheets and attendance reports should be reviewed and approved by the Supervisor. Adequate records should be maintained to account for vacation and sick leave earned and taken by all employees. A proper system of checks and balances over the payroll function should be implemented when feasible. Good internal controls separate the functions of preparing checks, signatory authority, and reconciling the bank accounts.

FINDINGS RELATED TO COMPLIANCE

2017.04. Violation of State Audit Requirement.

Criteria - The Water System is subject to R.S. 24:513(A)(5)(a), requiring "audits be completed within six months of the close of the entity's fiscal year."

Finding - The System's annual financial audit was not completed and filed with the Louisiana Legislative Auditor on or before June 30, 2017.

Condition - Because of a local grant, the System is subject to the above reporting requirement. The grant is not received every year. Therefore, the state reporting requirement is sometimes overlooked.

Effect – The System is not in compliance with the financial reporting standards and is in violation of the above statute.

Cause – The System is a non-profit entity that is typically not subject to the Louisiana Audit Law, however, during the year ended December 31, 2017, a \$100,000 Community Water Enrichment Fund grant was applied for and received through the DeSoto Parish Police Jury for the purpose of improvements to the System's wells and lines. The System also entered into an agreement with the Police Jury where they would pay for the cost of materials to expand the System's line down Middleton Road. The filing requirement to the Legislative Auditor was not realized until after the audit procedures had begun.

Recommendation. The report should be submitted to the Louisiana Legislative Auditor as soon as possible.

2017-05. Unable to verify payroll liabilities owed at the year end

Criteria – Payroll taxes withheld from employees wages and the employers portion of payroll taxes must be remitted in a timely manner and all required reports filed by the specified due dates.

Condition – Various payments made the Louisiana Department of Revenue for either withholding tax or sales taxes paid were recorded in QuickBooks as having been made to the Internal Revenue Service. Tax payments made for 941 payments were written to the vendor “Community Bank.” Financial institutions stopped accepting 941 tax payment in 2009. Notices were received during 2017 from the Internal Revenue Services and the Louisiana Department of Revenue regarding various tax payments having been made incorrectly or not in a timely manner. The first quarter 2017 Louisiana Withholding Tax Form L-1 due April 30, 2017 was filed April 27, 2018. A reissued payroll check was not voided in a timely manner.

Effect – The System is penalized for incorrect tax payments and filing reports after their due dates.

Cause – Not all payroll tax payments and payroll reports were filed in a timely manner. The vendor name for 941 payments was not changed when the financial institution ceased taking payments. Reissued payroll checks were not voided in a timely manner. The function in QuickBooks used for paying payroll taxes was not always used resulting in overstating the general ledger account “taxes and licenses” that has historically been used by the System for licenses and fees.

Recommendation – Payroll tax forms and payments should be reconciled continually with the general ledger and bank statements to ensure payments were made to the proper payees. Liability account balances should be monitored that proper debits and credits are posted in the general ledger. All tax payments paid and forms filed should be done so by the proper due dates.

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana
Schedule of Prior Years' Findings
December 31, 2017

Schedule of Prior Years' Findings

2016-01 Segregation of duties. Unresolved.

2016-02 Violation of state audit requirement. Unresolved.



To: Dees Gardner CPA's, LLC

RE: North Desoto Water System Audit Findings 2017

Management's Response to the Auditors' Findings

Finding 2017-01. Inadequate segregation of duties.

We agree with the auditors' finding and will implement controls and segregate the accounting and billing functions when possible among the small administrative staff and members of the board. The System has contracted the services of an outside accounting firm to segregate some of the accounting functions. For those segregations that are not practical, the board will be responsible for close supervision and review.

Finding 2017-02. Bank reconciliations did not correlate with the bank statements or the general ledger.

We agree with the auditors' finding and recommendations. The System has contracted with an outside accounting firm, and this firm will perform bank reconciliations. A board member will review the bank reconciliations and indicate their approval of the reconciliations accuracy by signature and date.

Finding 2017-03. Timesheets do not support hours per the payroll journal.

We agree with the auditors' finding and recommendations. We will restructure the procedure and timing of paying employees as to allow for the payroll period to end and time to properly cut off so that all timesheets support the payroll records. All timesheets will be reviewed and approved by the System Supervisor. Controls have been implemented to ensure adequate vacation and sick leave records.

Finding 2017-04. Violation of State Audit Requirement.

We agree with the auditors' finding and recommendations. Management will be more conscientious communicating with the auditors during the years when public funds are received so that the timing of the audit can be performed and completed in accordance with R.S. 24:513 (A)(5)(a).

Finding 2017-05. Unable to verify payroll liabilities owed at the year end.

We agree with the auditors' finding and recommendation. The System has contracted with an outside accounting firm to prepare the quarterly and annual payroll reports timely and to reconcile the general ledger and bank statements for accuracy to the payroll records. The board will be receiving a copy of the general ledger during meetings to review, and a board member will review the reconciliations to monitor for outstanding payroll liability payments.



Randal S. Rodgers

VP North Desoto Board of Directors