

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana

Financial Statements
For the years ended December 31, 2018 and 2017

NORTH DESOTO WATER SYSTEM, INC.

FINANCIAL STATEMENTS December 31, 2018 and 2017

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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, 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.

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 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, 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 audits were conducted for the purpose of forming an opinion on the 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 June 9, 2019, 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
June 9, 2019

FINANCIAL STATEMENTS

North DeSoto Water System, Inc.
STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

| ASSETS | 2018 | (Restated) 2017 |
|---|--------------|--------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 430,403 | \$ 246,308 |
| Accounts receivable, trade | 56,751 | 58,201 |
| Other accounts receivable | - | 12,304 |
| Inventory | 23,760 | 9,085 |
| Prepaid expenses | 2,818 | 3,783 |
| Total current assets | 513,732 | 329,681 |
| Restricted Assets | | |
| Cash and cash equivalents | 141,143 | 137,043 |
| Property and Equipment | | |
| Wells, lines, tanks, and equipment | 4,310,786 | 4,146,707 |
| Less accumulated depreciation | (1,807,968) | (1,656,913) |
| Total property and equipment, net | 2,502,818 | 2,489,794 |
| Other Assets | | |
| Deposits | 600 | 600 |
| TOTAL ASSETS | \$ 3,158,293 | \$ 2,957,118 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities - Payable from Current Unrestricted Assets | | |
| Accounts payable | \$ 16,110 | \$ 28,094 |
| Payroll taxes withhold and accrued | 10,270 | 8,919 |
| Accrued interest payable | 687 | 448 |
| Current portion of long-term debt | 97,976 | 54,739 |
| Total current liabilities payable from current unrestricted assets | 125,043 | 92,200 |
| Current Liabilities - Payable from Restricted Assets | | |
| Meter deposits | 96,600 | 92,550 |
| Long-term Debt | | |
| Notes payable, less current portion | 613,463 | 582,630 |
| TOTAL LIABILITIES | 835,106 | 767,380 |
| NET ASSETS | | |
| Unrestricted | 2,268,614 | 2,139,773 |
| Temporarily restricted: | | |
| Revenue note fund | 54,573 | 49,965 |
| TOTAL NET ASSETS | 2,323,187 | 2,189,738 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 3,158,293 | \$ 2,957,118 |

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, 2018 and 2017

| | 2018 | (Restated) 2017 |
|--|--------------|--------------------|
| Unrestricted Net Assets | | |
| Revenues: | | |
| Water sales | \$ 952,435 | \$ 890,238 |
| Installation charges | 18,645 | 37,103 |
| Government grants | 30,519 | 112,304 |
| Miscellaneous income | 128 | 24,617 |
| Transfers from(to) temporarily restricted net assets | (4,608) | (9,166) |
| Total Increases in Unrestricted Net Assets | 997,119 | 1,055,096 |
| Expenses: | | |
| General operating expenses | 868,278 | 864,142 |
| Total Decreases in Unrestricted Net Assets | 868,278 | 864,142 |
| Change in Unrestricted Net Assets | 128,841 | 190,954 |
| Temporarily Restricted Net Assets | | |
| Transfer from(to) unrestricted net assets | 4,608 | 9,166 |
| Increase in Temporarily Restricted Net Assets | 4,608 | 9,166 |
| Change in Net Assets | 133,449 | 200,120 |
| Net Assets at Beginning of Year | 2,189,738 | 1,906,665 |
| Restatement of Net Assets | | 82,953 |
| Net Assets at End of Year | \$ 2,323,187 | \$ 2,189,738 |

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, 2018 and 2017

| | <u>2018</u> | <u>(Restated) 2017</u> |
|---|-------------------|----------------------------|
| Cash Flows from Operating Activities: | | |
| Increase in net assets | \$ 133,449 | \$ 200,120 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 151,055 | 132,802 |
| Noncash donations of infrastructure | - | - |
| (Increase) decrease in assets: | | |
| Accounts receivable | 13,754 | (17,363) |
| Prepaid expenses | 965 | 330 |
| Inventory | (14,675) | 1,720 |
| Restricted assets | (4,100) | (7,394) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (10,394) | 20,220 |
| Meter deposits | 4,050 | 3,700 |
| Net Cash Provided by Operating Activities | <u>274,104</u> | <u>334,135</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | <u>(164,079)</u> | <u>(283,676)</u> |
| Net Cash Used by Investing Activities | <u>(164,079)</u> | <u>(283,676)</u> |
| Cash Flows from Financing Activities: | | |
| Payment on notes payable | <u>74,070</u> | <u>(52,769)</u> |
| Net Cash Provided (Used) by Financing Activities | <u>74,070</u> | <u>(52,769)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 184,095 | (2,310) |
| Cash and Cash Equivalents, Beginning of Year | <u>246,308</u> | <u>248,618</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 430,403</u> | <u>\$ 246,308</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 30,524</u> | <u>\$ 32,014</u> |

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

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2018

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 2018 and 2017 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 approximates 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. 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, 2018

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, 2018

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 2015, 2016, and 2017 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:

| | | |
|----------------------------------|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Interest-bearing demand deposits | \$ <u>571,546</u> | \$ <u>383,351</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, 2018, 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, 2018, are as follows:

| | | |
|------------------------------|-------------------------|-------------------------|
| | <u>2018</u> | <u>2017</u> |
| Water sales | \$ <u>56,751</u> | \$ <u>58,390</u> |
| Less allowance for bad debts | <u>-</u> | <u>(189)</u> |
| Total Accounts Receivable | \$ <u><u>56,751</u></u> | \$ <u><u>58,201</u></u> |

The accounts receivable balance is comprised of approximately 2,154 metered accounts, 2117 residential and 37 commercial, with an average monthly balance of \$28 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, 2018, is as follows:

| | |
|---------------|------------------|
| Current | \$ 55,477 |
| 31-60 days | 3,095 |
| 61-90 days | (240) |
| 91-120 days | 558 |
| over 120 days | <u>(2,139)</u> |
| Total | <u>\$ 56,751</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.

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2018

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, 2018 and 2017 for the USDA loan agreements are \$34,458 and \$32,586, respectively. The Community Resource Group loan requires a debt reserve fund be maintained to service that note payable. The restricted amount at December 31, 2018, 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 \$96,600 and \$92,550 as of December 31, 2018 and 2017, respectively.

Restricted assets at December 31, 2018, are comprised of:

| | | | | |
|---------------------------|----|----------------|----|----------------|
| | | 2018 | | 2017 |
| Cash and cash equivalents | \$ | <u>141,143</u> | \$ | <u>137,043</u> |

5. FIXED ASSETS

Fixed assets consist of the following at December 31, 2018:

| | (Restated) 2017 | Additions | Deletions/ Reclassifications | 2018 |
|-------------------------------|---------------------|------------------|---------------------------------|---------------------|
| <u>Nondepreciable</u> | | | | |
| Land | \$ 46,122 | - | - | \$ 46,122 |
| Construction in progress | 850 | - | (850) | - |
| Total nondepreciable assets | <u>46,972</u> | <u>-</u> | <u>(850)</u> | <u>46,122</u> |
| <u>Depreciable</u> | | | | |
| Buildings | 192,264 | - | - | 192,264 |
| Wells and lines | 3,513,316 | - | - | 3,513,316 |
| Equipment and machinery | 291,535 | 164,929 | - | 456,464 |
| Vehicles | 96,060 | - | - | 96,060 |
| Furniture and fixtures | 6,560 | - | - | 6,560 |
| Total depreciable assets | <u>4,099,735</u> | <u>164,929</u> | <u>-</u> | <u>4,264,664</u> |
| Total assets | <u>4,146,707</u> | <u>164,929</u> | <u>(850)</u> | <u>4,310,786</u> |
| Less accumulated depreciation | <u>(1,656,913)</u> | <u>(151,055)</u> | | <u>(1,807,968)</u> |
| Net property and equipment | <u>\$ 2,489,794</u> | <u>13,874.00</u> | <u>(850)</u> | <u>\$ 2,502,818</u> |

Depreciation expense for December 31, 2018 and 2017 is \$151,055 and \$128,224, 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, 2018

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:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| \$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 | \$ 61,586 | \$ 85,586 |
| \$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 | 17,059 | 25,340 |
| \$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 | 378,704 | 386,125 |
| \$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 | 127,834 | 140,318 |
| \$49,846 payable to Wells Fargo Vendor Financial Services, LLC dated December 1, 2017, due in monthly installments of \$1,042.10 beginning January 15, 2018, without interest due March, 2025 for a mini excavator | 37,338 | - |
| \$108,087 payable to Ditch Witch Financial Services dated July 19, 2018, due in monthly installments of \$2,435.66 beginning April 14, 2018, including interest at 3.90% due May, 2022 for a boring machine | 88,918 | - |
| | <u>711,439</u> | <u>637,369</u> |
| Less portion considered current | <u>(97,976)</u> | <u>(54,739)</u> |
| Total long-term liabilities | <u>\$ 613,463</u> | <u>\$ 582,630</u> |

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2018

7. NOTES PAYABLE (continued)

The annual requirements to amortize all long term debt as of December 31, 2018, are as follows:

| Year | Principal | Interest | Total |
|-----------|-------------------|-------------------|---------------------|
| 2019 | 97,976 | 28,541 | 126,517 |
| 2020 | 192,964 | 22,903 | 215,867 |
| 2021 | 59,627 | 19,095 | 78,722 |
| 2022 | 16,996 | 17,580 | 34,576 |
| 2023 | 9,849 | 16,983 | 26,832 |
| 2024-2028 | 57,348 | 76,812 | 134,160 |
| 2029-2033 | 73,611 | 60,549 | 134,160 |
| 2034-2038 | 94,487 | 39,673 | 134,160 |
| 2039-2043 | 108,581 | 12,984 | 121,565 |
| | <u>\$ 711,439</u> | <u>\$ 295,120</u> | <u>\$ 1,006,559</u> |

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.

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 \$34,458 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, 2018, there is \$11,906 in this reserve account.

8. OTHER COMMITMENTS

As of December 31, 2018, 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:

| | | | |
|--|----|---------------|---------------|
| | | 2018 | 2017 |
| Payment of debt principal and interest | \$ | <u>54,573</u> | <u>49,965</u> |
| Temporarily restricted net assets | \$ | <u>54,573</u> | <u>49,965</u> |

North DeSoto Water System, Inc.

Notes to the Financial Statements

December 31, 2018

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 \$11,786 and \$4,917 to the Plan for the years ended December 31, 2018 and 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, 2018, the System received a \$30,519 Community Water Enrichment Fund grant applied for and received through the Town of Stonewall, for the purpose of updating the System's well and water lines.

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, 2018 and 2017, lease expenditures were \$6,240 and \$5,240, respectively.

14. RESTATEMENT OF NET ASSETS

The beginning net assets for December 31, 2017 were adjusted to post various neighborhood water lines that had been dedicated to the Water System in various prior years to maintain, but had not been accounted for.

| | |
|--|---------------------|
| Total Net Assets, December 31, 2017, as previously reported | \$ 2,111,363 |
| To account for Water lines dedicated in prior years at basis | 149,593 |
| To account for prior years depreciation on dedicated lines | (71,218) |
| Total Net Assets, December 31, 2017, Restated | <u>\$ 2,189,738</u> |

15. SUBSEQUENT EVENTS

The System has evaluated subsequent events through June 9, 2019, 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, 2018 and 2017

| | 2018 | (Restated) 2017 |
|-----------------------------------|-------------------|--------------------|
| Auto and Truck | \$ 19,890 | \$ 28,472 |
| Conferences, seminars, and travel | 902 | 792 |
| Depreciation | 151,055 | 132,802 |
| Dues and subscriptions | 3,162 | 550 |
| Insurance | 24,943 | 29,033 |
| Interest | 30,764 | 31,957 |
| Office expense | 18,563 | 15,425 |
| Professional fees | 38,076 | 35,110 |
| Leases | 6,240 | 7,240 |
| Repairs and maintenance | 106,476 | 132,007 |
| Meter expense | 31,034 | 43,873 |
| Miscellaneous | 26,293 | 18,396 |
| Supplies | 27,480 | 23,444 |
| Salaries and wages | 258,571 | 251,447 |
| Employee benefits | 32,965 | 24,753 |
| Payroll taxes | 18,217 | 18,828 |
| Utilities | 72,803 | 65,047 |
| Uniforms | 844 | 4,966 |
| | <u>\$ 868,278</u> | <u>\$ 864,142</u> |

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

NORTH DESOTO WATER SYSTEM, INC.
SCHEDULE OF RATES
December 31, 2018

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, 2018

| | | <u>Term Expires</u> |
|---|---------------------|--------------------------------|
| Mr. Andy Bridges 628 Collinswood Stonewall, Louisiana 71078 (318) 925-0906 | President | 2019 |
| Mr. Randy Rodgers 173 Lee Lane Stonewall, Louisiana 71078 318-294-1331 | Vice-President | 2019 |
| Mr. Kyle Kennington 501 Easton Private Drive Stonewall, LA 71078 318-469-1455 | Secretary-Treasurer | 2020 |
| Mr. Mark Welch 266 Hall Road Stonewall, Louisiana 71078 318-426-1707 | Director | 2021 |
| Mr. Steve Chandler 274 Douglas Drive Stonewall, Louisiana 71078 318-925-9265 | Director | 2021 |

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

NORTH DESOTO WATER SYSTEM, INC.
SCHEDULE OF INSURANCE
December 31, 2018

| Coverage | Inception Date | Expiration Date | Limits of Liability | | Deductible Amount | | |
|---|----------------|-----------------|---------------------|-----------|---|--|------------------|
| <u>Business Automobile Combined Limit</u> | 4/1/2018 | 4/1/2019 | \$ | 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> | 4/1/2018 | 4/1/2019 | | | | | |
| 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> | 4/1/2018 | 4/1/2019 | | | | | |
| 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>Commercial Crime</u> | 4/1/2018 | 4/1/2019 | | | | | |
| 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> | 4/1/2018 | 4/1/2019 | | | | | |
| 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> | 4/1/2018 | 4/1/2019 | \$ | 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.

OTHER REPORTS



Dees Gardner, Certified Public Accountants, LLC

Deborah D. Dees, CPA/CFF

122 Jefferson Street

Maura Dees Gardner, CPA, CFE

Mansfield, LA 71052

318-872-3007

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, 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 June 9, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 2018-01.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
June 9, 2019

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana
Schedule of Findings and Responses
December 31, 2018

FINDINGS RELATED TO INTERNAL CONTROLS

2018-01. 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. This issue was resolved by the end of the fiscal year as the System restructured the payroll procedures and timing of paying employees to allow for the payroll period to end and time to cut off properly so that timesheets support the payroll records.

Effect – Timesheets did no 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 – The System resolved the issue before the end of the fiscal year end.

MANAGEMENT'S RESPONSE: The issue has been resolved. Management has restructured 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 are reviewed and approved by the System Supervisor. Controls have been implemented to ensure adequate vacation and sick leave records.

FINDINGS RELATED TO COMPLIANCE

None.

NORTH DESOTO WATER SYSTEM, INC.
Stonewall, Louisiana
Schedule of Prior Years' Findings
December 31, 2018

Schedule of Prior Years' Findings

2017-01 Inadequate segregation of duties. Resolved.

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

2017-03 Timesheets do not support hours per the payroll journal. Partially Resolved. See Finding 2018-02.

2017-04 Violation of State Audit Requirement. Resolved.

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