

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

Slagle, Louisiana

Financial Report

Year Ended December 31, 2021

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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 Audit of the Financial Statements

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of East Central Vernon Water System, Inc. as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Central Vernon Water System, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Central Vernon Water System Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Central Vernon Water System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Central Vernon Water System, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022, 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
June 9, 2022

FINANCIAL STATEMENTS

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Financial Position
December 31, 2021

ASSETS

Current assets:	
Cash and cash equivalents	\$ 757,188
Accounts receivable, net	<u>64,276</u>
Total current assets	<u>821,464</u>
Restricted assets:	
Cash - meter deposits	67,850
Cash - debt service	<u>419,872</u>
Total restricted assets	<u>487,722</u>
Property, plant and equipment, net	<u>4,361,577</u>
Total assets	<u>\$5,670,763</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities (payable from current assets):	
Accounts payable	\$ 14,682
Accrued salaries and related liabilities	3,068
Current portion of notes payable	117,556
Current portion of URAF liability	65,210
Sales tax payable	<u>1,335</u>
Total current liabilities (payable from current assets)	<u>201,851</u>
Current liabilities (payable from restricted assets):	
Accrued interest payable	6,547
Current portion of notes payable	67,000
Meter deposits	<u>67,850</u>
Total current liabilities (payable from restricted assets)	<u>141,397</u>
Long-term liability:	
URAF liability	391,261
Notes payable	<u>2,579,849</u>
Total long-term liabilities	<u>2,971,110</u>
Total liabilities	<u>3,314,358</u>
Net assets:	
Without donor restrictions	<u>2,356,405</u>
Total liabilities and net assets	<u>\$5,670,763</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, 2021

Changes in net assets without donor restrictions

Program:

Water sales	\$ 889,416
Connection charges	32,014
Late charges	12,466
Interest income	5,341
Miscellaneous income	<u>1,204</u>
Total unrestricted revenues	<u>940,441</u>

Expenses:

Program services	733,406
Supporting services	<u>212,198</u>
Total expenses	<u>945,604</u>
Operating loss	<u>(5,163)</u>

Other increases in net assets:

Insurance proceeds	6,747
Federal income	38,044
Forgiveness of debt	<u>6,102</u>
Total other increases in net assets	<u>50,893</u>

Change in net assets without donor restrictions 45,730

Net assets, beginning of year 2,310,675

Net assets, end of year \$2,356,405

The accompanying notes are an integral part of this statement.

East Central Vernon Water System, Inc.
Slagle, Louisiana

Statement of Functional Expenses
Year Ended December 31, 2021

PROGRAM SERVICES	
Advertising and promotion	\$ 6,292
Auto and truck	15,432
Chemicals	14,121
Depreciation expense	237,955
DHH admin fee	6,285
Employee benefits	10,319
Insurance expense	19,758
Meter readers	43,904
Miscellaneous expense	1,154
Office expense	13,183
Professional fees	35,493
Repairs and maintenance	78,154
Salaries	159,204
Payroll taxes	12,767
Small tools and supplies	5,706
Taxes and licenses	1,459
Telephone	7,840
Training	1,149
Utilities	<u>63,231</u>
TOTAL PROGRAM SERVICES	<u>\$ 733,406</u>
SUPPORTING SERVICES	
Bank charges	\$ 55
Board per diem	3,225
Dues and subscriptions	1,944
Employee benefits	4,930
Interest expense	119,006
Office expense	7,086
Salaries	70,424
Payroll taxes	<u>5,528</u>
TOTAL SUPPORTING SERVICES	<u>\$ 212,198</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, 2021

Cash flows from operating activities:	
Change in net assets without donor restrictions	\$ 45,730
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Depreciation	237,955
Forgiveness of debt	(6,102)
Changes in operating assets:	
Accounts receivable	4,964
Changes in operating liabilities:	
Accounts and other payables	14,682
Accrued salaries and payables	288
Meter deposits	950
Sales tax payable	469
Total adjustments	<u>253,206</u>
Net cash provided by operating activities	<u>298,936</u>
Cash flows from investing activities:	
Purchase of property, plant and equipment	(14,750)
Proceeds of interest-bearing deposits with maturity in excess of ninety days	<u>471,000</u>
Net cash provided by investing activities	<u>456,250</u>
Cash flows from financing activities:	
Repayments of debt	<u>(242,980)</u>
Net change in cash and cash equivalents	512,206
Cash and cash equivalents, beginning of period	<u>732,704</u>
Cash and cash equivalents, end of period	<u>\$ 1,244,910</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, 2021

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	\$ 467,717
Cash and cash equivalents - restricted	
Cash - meter deposits	66,900
Cash - debt service	<u>198,087</u>
Total cash and cash equivalents, beginning of period	<u>732,704</u>
Cash and cash equivalents, end of period -	
Cash and cash equivalents - unrestricted	757,188
Cash and cash equivalents - restricted	
Cash - meter deposits	67,850
Cash - debt service	<u>419,872</u>
Total cash and cash equivalents, end of period	<u>1,244,910</u>
Net change in cash and cash equivalents	<u>\$ 512,206</u>

Supplemental disclosure of cash flow information:

Cash paid during year for interest	<u>\$ 119,002</u>
Assets obtained with long term debt	<u>\$ 14,236</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, 2021, the Water System has recorded a \$191 allowance for doubtful accounts.

E. Inventory

Inventory is stated at the lower of cost, using average cost method or fair value. At December 31, 2021, 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.

EAST CENTRAL VERNON WATER SYSTEM, INC.
Slagle, Louisiana

Notes to the Financial Statements

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.

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 has analyzed the tax positions taken by the Water System and has concluded that as of December 31, 2021 there are no uncertain positions take or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Water System is subject to routine audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 \$6,292 for the year ended December 31, 2021.

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,	
	2021	2020
Accounts Receivable	\$ 64,276	\$ 69,240
Deposits	\$ 67,850	\$ 66,900

(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, 2021, the Water System was in compliance with these requirements.

Restricted assets are as follows:

	Cash and Cash Equivalents
Customer Deposits	\$ 67,850
DHH Water Revolving Loan	
Debt service fund	65,655
Debt service reserve fund	37,002
Capital additions and contingencies	101,215
USDA Rural Development Loans	
Depreciation account	216,000
Total	\$ 487,722

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	20,338
Buildings	38,235
Water distribution system	8,433,737
Office furniture & equipment	29,065
Machinery & equipment	143,112
Vehicle	<u>97,157</u>
Total property, plant and equipment	8,781,399
Less: Accumulated depreciation	<u>(4,419,822)</u>
Net property, plant and equipment	<u>\$4,361,577</u>

Property, plant, and equipment are pledged as collateral on all loans from USDA – Rural Development. Depreciation expense for the year ended December 31, 2021 was \$237,955.

(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.	\$ 912,176
\$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.	217,951
\$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.	425,357
\$2,315,000 promissory note, series 2015 due to DHH-Water Revolving Water Loan dated June 25, 2015. Amount drawn through December 31, 2021 was \$2,075,211. The amount available to be drawn upon is \$239,789 at December 31, 2021. 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>1,208,921</u>
Less: current maturities	<u>(184,556)</u>
Long-term debt	<u>\$ 2,579,849</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
2022	\$ 184,556	\$ 110,812	\$ 295,368
2023	193,640	102,706	296,346
2024	203,040	94,197	297,237
2025	211,772	85,282	297,054
2026	221,852	75,945	297,797
2027-2031	1,254,717	207,997	1,462,714
2032-2036	494,828	28,437	523,265
Total	<u>\$ 2,764,405</u>	<u>\$ 705,376</u>	<u>\$ 3,469,781</u>

(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		\$ 168,043
Agreement #13905		
Permit #290-13905		
LA Hwy 121		<u>288,428</u>
Total URAF Liability		<u>\$ 456,471</u>

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
2022	\$ 24,006	\$ 41,204	\$ 65,210
2023	24,007	41,204	65,211
2024	24,007	41,204	65,211
2025	24,007	41,204	65,211
2026	24,007	41,204	65,211
2027 - 2028	48,009	82,408	130,417
Total	<u>\$ 168,043</u>	<u>\$ 288,428</u>	<u>\$ 456,471</u>

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, 2021 totaled \$15,249.

(8) Commitments and Contingencies

At December 31, 2021, the Water System has no pending litigation.

(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 \$511,844 of deposits in excess of FDIC insurance at December 31, 2021.

(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, 2021 follows:

Board Members:	
Ronald Lewis	\$ 500
Willie Banks, Jr.	500
Joe Lynn Bolton	1,250
Ray Charrier	325
Juanita Bolton	325
Lowell Brown	325
	<u>\$ 3,225</u>

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

A detail of compensation, benefits, and other payments paid to President Ronald Lewis for the year ended December 31, 2021 are as follows:

<u>Purpose</u>	<u>Amount</u>
Per Diem	\$ <u>500</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	\$ 757,188
Accounts receivable	<u>64,276</u>
Total current assets	<u>\$ 821,464</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 June 9, 2022, the date which the financial statements were available to be issued.

INTERNAL CONTROL

AND

COMPLIANCE

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CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2021, 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 June 9, 2022.

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) as a basis for designing 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 2021-001 and 2021-002 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on East Central Vernon Water System Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. East Central Vernon Water System Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Kolder, Slaven & Company, LLC
Certified Public Accountants

Alexandria, Louisiana
June 9, 2022

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, 2021

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

A. Internal Control Over Financial Reporting

2021-001 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, 2021

2021-002 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 caused 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, 2021

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

2020-001 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 2021-001.

2020-002 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 2021-002.

B. Compliance

There were no compliance findings to report.