

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

---

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2015 AND 2014

---

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2015 AND 2014

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-3
Statements of Financial Position.....	4-5
Statements of Activities.....	6
Statements of Functional Expenses.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-13
Supplementary Information	
Statements of Income.....	14-15
Current Year Schedule of Audit Findings and Responses.....	16

# JOHNSON, PERRY, ROUSSEL & CUTHBERT, L.L.P.

ROWLAND H. PERRY, CPA, APC  
CHARLES L. JOHNSON, JR., CPA  
VIOLET M. ROUSSEL, CPA, APC  
JAY CUTHBERT, CPA, APAC

PAM BATTAGLIA, CPA  
DAWN WHITSTINE, CPA



America Counts on CPAs®

*Certified Public Accountants*

3007 Armand Street  
Monroe, Louisiana 71201  
Telephone (318) 322-5156 or (318) 323-1411  
Facsimile (318) 323-6331

- Accounting & Auditing
  - HUD Audits
  - Non-Profit Organizations
  - Governmental Organizations
- Business & Financial Planning
- Tax Preparation & Planning
  - Individual & Partnership
  - Corporate & Fiduciary
- Bookkeeping & Payroll Services

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cheniere-Drew Water System, Inc.  
West Monroe, Louisiana

We have audited the accompanying statements of Cheniere-Drew Water System, Inc. (a non-profit organization), which comprise the statement of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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.

#### **Basis for Qualified Opinion**

The Water System outsourced its billing services to a third party service provider during the fiscal year. We were unable to determine the adequacy of the internal controls over billings of water and sewerage fees since the third party provider did not provide a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 or other information adequate for gaining an understanding of the service providers' internal controls and it was not feasible to obtain this information by other means. As such, we were unable to determine the effect of the service organizations' internal controls on the Water System's water and sewer revenues. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

#### **Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Cheniere-Drew Water System, Inc. as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of income on pages 14-15 are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Johnson Perry Roussel & Cuthbert, L.L.P.*

JOHNSON, PERRY, ROUSSEL & CUTHBERT, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS  
December 1, 2015

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF FINANCIAL POSITION  
 AS OF SEPTEMBER 30, 2015 AND 2014

<u>ASSETS</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,799,128	1,816,483
Accounts Receivable - Water Billings	323,614	239,999
Unbilled Revenues Receivable	42,728	27,946
Accounts Receivable - Other	20,207	20,207
Prepaid Insurance	8,935	10,902
<u>TOTAL CURRENT ASSETS</u>	<u>2,194,612</u>	<u>2,115,537</u>
<u>FIXED ASSETS</u>		
Water Distribution System	7,196,595	6,949,458
Equipment	1,357	1,357
Computers	9,736	9,736
Construction in Progress	-	-
Land	186,309	145,422
Less: Accumulated Depreciation	(2,988,548)	(2,818,821)
<u>NET FIXED ASSETS</u>	<u>4,405,449</u>	<u>4,287,152</u>
<u>OTHER ASSETS</u>		
Deposits	215	215
<u>TOTAL OTHER ASSETS</u>	<u>215</u>	<u>215</u>
<u>TOTAL ASSETS</u>	<u>6,600,276</u>	<u>6,402,904</u>

The accompanying notes are an integral part of these financial statements.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
AS OF SEPTEMBER 30, 2015 AND 2014

LIABILITIES AND NET ASSETS

	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	163,604	143,035
Accrued Expenses	97	-
Current Maturities of Long-Term Debt	<u>297,891</u>	<u>347,185</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>461,592</u>	<u>490,220</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>113,265</u>	<u>111,225</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>-</u>	<u>-</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>-0-</u>	<u>-0-</u>
<u>TOTAL LIABILITIES</u>	<u>574,857</u>	<u>601,445</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets	6,025,419	5,801,459
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
<u>TOTAL NET ASSETS</u>	<u>6,025,419</u>	<u>5,801,459</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>6,600,276</u>	<u>6,402,904</u>

The accompanying notes are an integral part of these financial statements.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>SALES</u>		
Water Revenues	1,637,493	1,433,633
Tapping Fees	47,554	50,620
Late Charges	16,860	17,410
Service and Reconnect Charges	20,594	15,990
Membership Fees	2,460	2,205
Commission Fee	1,257	1,243
Other	-	5,944
<u>TOTAL SALES</u>	<u>1,726,218</u>	<u>1,527,045</u>
<u>COST OF SALES</u>		
Water Taps	43,198	41,300
Tapping Materials	11,524	9,405
Sales Tax - Materials	1,131	903
Handling Charges	1,152	940
Chlorine	32,102	27,412
Connect Fees	14,270	11,975
Carbon Refills	64,872	64,554
<u>TOTAL COST OF SALES</u>	<u>168,249</u>	<u>156,489</u>
<u>TOTAL GROSS PROFIT</u>	<u>1,557,969</u>	<u>1,370,556</u>
<u>FUNCTIONAL EXPENSES</u>		
Program Expense	1,276,402	1,201,201
Administrative Expenses	63,278	65,175
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,339,680</u>	<u>1,266,376</u>
<u>NET OPERATING PROFIT. (LOSS)</u>	<u>218,289</u>	<u>104,180</u>
<u>OTHER REVENUES</u>		
Interest Earned	5,671	5,587
<u>TOTAL OTHER REVENUES</u>	<u>5,671</u>	<u>5,587</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	<u>223,960</u>	<u>109,767</u>
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>5,801,459</u>	<u>5,691,692</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>6,025,419</u>	<u>5,801,459</u>

The accompanying notes are an integral part of these financial statements.



CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015  
 (WITH MEMO TOTAL FOR SEPTEMBER 30, 2014)

	Program- Water District	Management And General	9/30/2015 Total	9/30/2014 Total
Accounting	-	15,741	15,741	15,889
Advertising	-	-	-	-
Bad Debt	-	-	-	-
Bank Charges	-	2,196	2,196	2,071
Board Fees	-	29,400	29,400	29,350
Insurance	16,268	-	16,268	17,558
Interest	16,542	-	16,542	17,933
Internet Service	-	-	-	-
Investigative Analysis	888	-	888	933
Management Expense	810,866	-	810,866	731,415
Membership Meetings	-	187	187	323
Meter Reading	73,255	-	73,255	69,627
Miscellaneous	-	2,163	2,163	1,978
Office & Postage	-	5,032	5,032	5,915
Professional Fees	-	8,142	8,142	7,571
Repairs & Maintenance	31,284	-	31,284	30,723
Telephone	-	417	417	2,078
Web Hosting	-	-	-	-
Well Monitoring Fee	4,296	-	4,296	13,875
Well Mapping Fee	2,080	-	2,080	2,080
Utilities	151,196	-	151,196	143,608
<u>Subtotal</u>	1,106,675	63,278	1,169,953	1,092,927
<u>Depreciation</u>	169,727	-	169,727	173,449
<u>TOTAL</u>	<u>1,276,402</u>	<u>63,278</u>	<u>1,339,680</u>	<u>1,266,376</u>

The accompanying notes are an integral part of these financial statements.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Increase in Net Assets	223,960	109,767
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	169,727	173,449
(Increase) Decrease in:		
Accounts Receivable - Water Billings	( 83,615)	62,653
Unbilled Revenues Receivable	( 14,782)	7,615
Accounts Receivable - Other	-	( 1)
Prepaid Insurance	1,968	( 86)
Increase (Decrease) in:		
Accounts Payable	20,567	1,684
Accrued Expenses	97	-
Meter Deposits	<u>2,040</u>	<u>1,055</u>
Total Adjustments	<u>96,002</u>	<u>246,369</u>
Net Cash Provided (Used) by Operating Activities	<u>319,962</u>	<u>356,136</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	( 288,024)	( 267,895)
Net Cash Provided (Used) by Investing Activities	( 288,024)	( 267,895)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	( 49,293)	( 47,562)
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	( 49,293)	( 47,562)
<u>NET INCREASE IN CASH</u>	( 17,355)	40,679
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>1,816,483</u>	<u>1,775,804</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>1,799,128</u>	<u>1,816,483</u>
Cash Paid During the Year for:		
Interest	16,542	24,916

The accompanying notes are an integral part of these financial statements.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Nature of Operations

The Cheniere-Drew Water System, Inc. was incorporated in the State of Louisiana October 23, 1969 as a non-profit corporation.

The Water System originated with a \$730,000 loan from the Department of Housing and Urban Development and was substantially completed and began operations May 31, 1975.

The Water System provides water to members residing in the Cheniere-Drew area.

Method of Accounting

The Water System prepares its financial statements on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

Cash and Cash Equivalents

The Water System considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Accounts Receivable

An allowance for uncollectible accounts in the amount of \$600 has been provided. Management believes that accounts receivable are substantially collectible and requires customers to provide meter deposits.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Unbilled Revenues

Unbilled revenues consist of water revenues earned but not billed.

Fixed Assets and Depreciation

Fixed assets with a value greater than \$1,000 are capitalized and stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using straight-line methods. Substantially all assets are depreciated over a 40-year life, with office equipment depreciated over a 5-year life. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized.

Income Taxes

The Water System, a non-profit corporation under the Internal Revenue Code Section 501(c)(12) is exempt from federal and Louisiana income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Advertising Expenses

The Water System expenses advertising costs as they are incurred. Advertising expenses for the years ended September 30, 2015 and 2014 were immaterial.

NOTE 2: LONG-TERM DEBT:

On March 28, 1973, the Cheniere-Drew Water System, Inc. obtained a note payable to the United States Department of Housing and Urban Development in the amount of \$730,000 collateralized by the Water System and a pledge of net revenue from the ownership and/or operation of the Water System. The note was subsequently sold to a trust that was established at sale in a mortgage securitization.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 2: LONG-TERM DEBT: (Continued)

The Water System had a \$1,000,000 revolving line of credit with Community Trust Bank. The Water System drew \$972,000 of the revolving line of credit and will make monthly payments of \$7,922.48 with a fixed interest rate of 6.46%. In 2005, this line of credit was converted to permanent financing and a new line of credit of \$750,000 was obtained. As of September 30, 2015, they have not drawn from the new line of credit. The Water System is pledged as collateral on the loan.

Interest expense on the above note amounted to \$16,542 and \$17,933 for the years ended September 30, 2015 and 2014, respectively.

NOTE 3: CONCENTRATIONS OF RISK:

The Water System maintains cash balances at several financial institutions located in north Louisiana. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2015 and 2014, the Water System's uninsured cash balances total \$1,049,128 and \$1,066,483, respectively.

Concentrations of credit risk with respect to water billing receivables are limited due to the large number of customers and small balances. This risk is minimized further by customer meter deposits.

NOTE 4: COMMITMENTS AND CONTINGENCIES:

The Water System, because of the nature of its operations, routinely engages in agreements with engineers and contractors to provide future goods and services. At September 30, 2015, the Water System had completed all projects under construction.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 5: CONTRACT FOR OPERATION AND MAINTENANCE OF THE UTILITY SYSTEM:

The Water System contracts with M-N Utilities, Inc. to operate and maintain the Water System on a monthly basis.

The Board negotiated a 3-year contract with M-N Utilities, Inc. in December 2011.

The Water System contracts with Ouachita Meter Reading Service, LLC to provide meter reading services on a monthly basis. The Board negotiated a 3-year contract with Ouachita Meter Reading Service, LLC in December of 2011.

NOTE 6: RELATED PARTY TRANSACTIONS:

There were no material related party transactions for the years ended September 30, 2015 and 2014.

NOTE 7: CONSTRUCTION IN PROGRESS:

There was no construction in progress as of September 30, 2015.

NOTE 8: FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services. The organization has no fund-raising costs.

NOTE 9: SUBSEQUENT EVENTS:

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Water System through December 1, 2015, the date the report was available for issue, and concluded that no subsequent

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 9: SUBSEQUENT EVENTS: (Continued)

events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements.

NOTE 10: UNCERTAIN TAX POSITIONS:

The Water System is subject to examination by various taxing authorities. Management has reviewed the Water System's activities and believes that no additional amounts or disclosures are needed, as the effect of any uncertain tax positions is not material to the financial statements. The tax returns for the years 2014, 2013, 2012, and 2011 are open for examination by various taxing authorities.

NOTE 11: LAWSUIT:

The Water System has one lawsuit pending against it which may be material. The suit is a claim that the Water System breached a duty to provide service to a new development. The amount of damages sought is unknown to the Water System. The Water System is proceeding with vigorous defense of the litigation. The litigation is currently in the discovery phase and the likelihood of a positive outcome to the Water System is high.

SUPPLEMENTARY INFORMATION



CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>SALES</u>		
Water Revenues	1,637,493	1,433,633
Tapping Fees	47,554	50,620
Late Charges	16,860	17,410
Service and Reconnect Charges	20,594	15,990
Membership Fees	2,460	2,205
Commission Fee	1,257	1,243
Other	-	5,944
	<u>1,726,218</u>	<u>1,527,045</u>
 <u>COST OF SALES</u>		
Water Taps	43,198	41,300
Tapping Materials	11,524	9,405
Sales Tax - Materials	1,131	903
Handling Charges	1,152	940
Damage Claims	-	-
Chlorine	32,102	27,412
Connect Fees	14,270	11,975
Carbon Refills	64,872	64,554
	<u>168,249</u>	<u>156,489</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>1,557,969</u>	 <u>1,370,556</u>

See independent auditors' report.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF INCOME (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>9/30/2015</u>	<u>9/30/2014</u>
<u>OPERATING EXPENSES</u>		
Accounting	15,741	15,889
Advertising	-	-
Bank Charges	2,196	2,071
Board Fees	29,400	29,350
Depreciation	169,727	173,449
Insurance	16,268	17,558
Interest	16,542	17,933
Internet Service	-	-
Investigative Analysis	888	933
Management Expense	810,866	731,415
Membership Meetings	187	323
Meter Reading	73,255	69,627
Miscellaneous	2,163	1,978
Office and Postage	5,032	5,915
Professional Fees	8,142	7,571
Repairs and Maintenance	31,284	30,723
Telephone	417	2,078
Web Hosting	-	-
Well Monitoring Fee	4,296	13,875
Well Mapping Fee	2,080	2,080
Utilities	<u>151,196</u>	<u>143,608</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>1,339,680</u>	 <u>1,266,376</u>
 <u>INCREASE IN NET ASSETS FROM OPERATIONS</u>	 <u>218,289</u>	 <u>104,180</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>5,671</u>	<u>5,587</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>5,671</u>	 <u>5,587</u>
 <u>NET INCOME IN NET ASSETS</u>	 <u>223,960</u>	 <u>109,767</u>

See independent auditors' report.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
CURRENT YEAR SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
SEPTEMBER 30, 2015

2015-1 Internal Control Finding

Finding: The Water System outsources its billings of water and sewerage fees to a third party service organization.

Since the service organization did not provide a Report on Controls at a Service Organization, or other information adequate for gaining an understanding of the service provider's internal controls, we were unable to determine the adequacy of internal controls over the billings of water and sewerage fees in order to assess risks of errors in the financial statements. Consequently, mistakes could be made and not detected and corrected in a timely manner.

Recommendation: We recommend the Water System obtain a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 and/or other information in order to gain an adequate understanding of the internal controls at the service organization.

Management's  
Corrective  
Action Plan: Management will research the cost effectiveness of a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16. Management will also contact the service provider and communicate the need for a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16, or have another audit organization provide us information adequate to gain an understanding of the service provider's internal control.

See independent auditors' report.

- 16 -