

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2018 AND 2017

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2018 AND 2017

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## 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, 2018 and 2017, 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

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 and accounts receivable. 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, 2018 and 2017, 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.

#### **Qualified Opinion on Supplementary Information**

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, except for the possible effects on the service organization's internal controls on the Water System's water and sewer revenues and receivables for the qualified opinion on the financial statements as explained in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Johnson Perry Roussel & Cuthbert, LLP*

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

CERTIFIED PUBLIC ACCOUNTANTS

November 28, 2018

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF FINANCIAL POSITION  
 AS OF SEPTEMBER 30, 2018 AND 2017

ASSETS

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 1,982,719	\$ 2,231,487
Accounts Receivable - Water Billings	328,510	282,410
Unbilled Revenues Receivable	42,083	34,996
Accounts Receivable - Other	20,881	20,302
Prepaid Insurance	28,765	9,493
	2,402,958	2,578,688
 <u>TOTAL CURRENT ASSETS</u>		
 <u>FIXED ASSETS</u>		
Water Distribution System	8,396,206	7,336,491
Equipment	1,357	1,357
Computers	9,736	9,736
Construction in Progress	72,652	51,336
Land	186,309	186,309
Less: Accumulated Depreciation	(3,516,301)	(3,335,251)
	5,149,959	4,249,978
 <u>NET FIXED ASSETS</u>		
 <u>OTHER ASSETS</u>		
Deposits	65	65
	65	65
 <u>TOTAL OTHER ASSETS</u>		
 <u>TOTAL ASSETS</u>		
	\$ 7,552,982	\$ 6,828,731

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

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF FINANCIAL POSITION  
 AS OF SEPTEMBER 30, 2018 AND 2017

LIABILITIES AND NET ASSETS

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 202,449	\$ 158,609
Accrued Expenses	240	497
Current Maturities of Long-Term Debt	<u>144,989</u>	<u>194,303</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>347,678</u>	<u>353,409</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>138,948</u>	<u>125,913</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>-</u>	<u>-</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>486,626</u>	<u>479,322</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets	7,066,356	6,349,409
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
<u>TOTAL NET ASSETS</u>	<u>7,066,356</u>	<u>6,349,409</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,552,982</u>	<u>\$ 6,828,731</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, 2018 AND 2017

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>SALES</u>		
Water Revenues	\$ 2,314,419	\$ 1,892,312
Tapping Fees	55,660	51,160
Late Charges	24,829	21,101
Service and Reconnect Charges	40,800	34,010
Membership Fees	3,825	3,435
Commission Fee	2,412	1,795
Other	15,522	8,315
	<hr/>	<hr/>
<u>TOTAL SALES</u>	2,457,467	2,012,128
<u>COST OF SALES</u>		
Water Taps	48,967	48,348
Tapping Materials	13,402	8,164
Sales Tax - Materials	1,448	884
Handling Charges	1,340	816
Chlorine	35,242	29,944
Connect Fees	18,825	12,905
Carbon Refills	53,919	112,455
Contract Labor	9,000	9,000
	<hr/>	<hr/>
<u>TOTAL COST OF SALES</u>	182,143	222,516
<u>TOTAL GROSS PROFIT</u>	2,275,324	1,789,612
<u>FUNCTIONAL EXPENSES</u>		
Program Expenses	1,505,076	1,460,770
Administrative Expenses	60,672	55,960
	<hr/>	<hr/>
<u>TOTAL FUNCTIONAL EXPENSES</u>	1,565,748	1,516,730
<u>NET OPERATING PROFIT (LOSS)</u>	709,576	272,882
<u>OTHER REVENUES</u>		
Interest Earned	7,371	5,607
Non-Cash Contributions	-	-
	<hr/>	<hr/>
<u>TOTAL OTHER REVENUES</u>	7,371	5,607
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	716,947	278,489
<u>NET ASSETS AT BEGINNING OF YEAR</u>	6,349,409	6,070,920
<u>NET ASSETS AT END OF YEAR</u>	\$ 7,066,356	\$ 6,349,409

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 YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>Program-</u> <u>Water District</u>	<u>Management</u> <u>And General</u>	9/30/2018 <u>Total</u>	9/30/2017 <u>Total</u>
Accounting	\$ -	\$ 18,473	\$ 18,473	\$ 15,928
Bad Debt	8,356		8,356	10,083
Bank Charges	-	2,231	2,231	1,718
Board Fees	-	29,400	29,400	29,400
Insurance	25,029	-	25,029	14,461
Interest	12,546	-	12,546	13,023
Investigative Analysis	-	-	-	444
Management Expense	999,293	-	999,293	956,467
Membership Meeting	-	1,041	1,041	671
Meter Reading	86,164	-	86,164	81,876
Miscellaneous	-	891	891	1,918
Office & Postage	-	4,952	4,952	5,021
Professional Fees	-	3,271	3,271	829
Repairs & Maintenance	38,946	-	38,946	59,835
Telephone	-	413	413	475
Well Monitoring Fee	5,471	-	5,471	6,391
Well Mapping Fee	2,089	-	2,089	2,100
Utilities	146,132	-	146,132	141,845
<u>Subtotal</u>	<u>1,324,026</u>	<u>60,672</u>	<u>1,384,698</u>	<u>1,342,485</u>
<u>Depreciation</u>	<u>181,050</u>	<u>-</u>	<u>181,050</u>	<u>174,245</u>
<u>TOTAL</u>	<u>\$ 1,505,076</u>	<u>\$ 60,672</u>	<u>\$ 1,565,748</u>	<u>\$ 1,516,730</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, 2018 AND 2017

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Increase in Net Assets	\$ 716,947	\$ 278,489
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	181,050	174,245
(Increase) Decrease in:		
Accounts Receivable – Water Billings	(46,100)	(82,515)
Unbilled Revenues Receivable	(7,087)	(7,877)
Accounts Receivable – Other	(579)	-
Prepaid Insurance	(19,272)	(159)
Utility Deposits	-	-
Increase (Decrease) in:		
Accounts Payable	43,840	15,488
Accrued Expenses	(257)	182
Meter Deposits	13,035	10,935
	<u>164,630</u>	<u>110,299</u>
Total Adjustments		
Net Cash Provided (Used) by Operating Activities	<u>881,577</u>	<u>388,788</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	<u>(1,081,031)</u>	<u>(100,116)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,081,031)</u>	<u>(100,116)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	<u>(49,314)</u>	<u>(52,620)</u>
Net Cash Provided (Used) by Financing Activities	<u>(49,314)</u>	<u>(52,620)</u>
<u>NET INCREASE IN CASH</u>	(248,768)	236,052
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>2,231,487</u>	<u>1,995,435</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 1,982,719</u>	<u>\$ 2,231,487</u>
Cash Paid During the Year for:		
Interest	\$ 13,023	\$ 12,546

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

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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 \$584 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, 2018 AND 2017

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, 2018 and 2017 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, 2018 AND 2017

NOTE 2: LONG-TERM DEBT: (Continued)

The Water System has a Note Payable to Origin Bank in the original amount of \$418,110. The loan bears interest at a rate of 3.500%. Payments of \$5,000 are due on the 15<sup>th</sup> of each month. The Water System is pledged as collateral on the loan.

Five year debt maturity schedule is as follows:

<u>Year Ended</u>	
9/30/2019	56,075
9/30/2020	57,809
9/30/2021	31,105

Interest expense on the above note amounted to \$12,546 and \$13,023 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, the Water System's uninsured cash balances total \$1,391,675 and \$1,632,899, 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, 2018 and 2017, 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, 2018 AND 2017

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 1-year contract with M-N Utilities, Inc. in December 2017.

The Water System contracts with Ouachita Meter Reading Service, LLC to provide meter reading services on a monthly basis. The Board negotiated a 1-year contract with Ouachita Meter Reading Service, LLC in December of 2017.

NOTE 6: RELATED PARTY TRANSACTIONS:

There were no material related party transactions for the years ended September 30, 2018 and 2017.

NOTE 7: CONSTRUCTION IN PROGRESS:

Slocum Road and Camp Road has incurred \$72,652 in cost and is construction in progress as of September 30, 2018. The Eagle Lake Treatment Facility was construction in progress as of September 30, 2017, and was completed during the year ended September 30, 2018.

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 9: SUBSEQUENT EVENTS: (Continued)

accompanying notes. Management evaluated the activity of the Water System through November 28, 2018, the date the report was available for issue, and concluded that no subsequent 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 2017, 2016, 2015, and 2014 are open for examination by various taxing authorities.

SUPPLEMENTARY INFORMATION



CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF INCOME  
 FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>SALES</u>		
Water Revenues	\$ 2,314,419	\$ 1,892,312
Tapping Fees	55,660	51,160
Late Charges	24,829	21,101
Service and Reconnect Charges	40,800	34,010
Membership Fees	3,825	3,435
Commission Fee	2,412	1,795
Other	15,522	8,315
	<hr/>	<hr/>
<u>TOTAL SALES</u>	<u>2,457,467</u>	<u>2,012,128</u>
 <u>COST OF SALES</u>		
Water Taps	48,967	48,348
Tapping Materials	13,402	8,164
Sales Tax - Materials	1,448	884
Handling Charges	1,340	816
Chlorine	35,242	29,944
Connect Fees	18,825	12,905
Carbon Refills	53,919	112,455
Contract Labor	9,000	9,000
	<hr/>	<hr/>
<u>TOTAL COST OF SALES</u>	<u>182,143</u>	<u>222,516</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>\$ 2,275,324</u>	 <u>\$ 1,789,612</u>

See Independent Auditors' Report.

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

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF INCOME  
 FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>9/30/2018</u>	<u>9/30/2017</u>
<u>OPERATING EXPENSES</u>		
Accounting	\$ 18,473	\$ 15,928
Bad Debt	8,356	10,083
Bank Charges	2,231	1,718
Board Fees	29,400	29,400
Depreciation	181,050	174,245
Insurance	25,029	14,461
Interest	12,546	13,023
Investigative Analysis	-	444
Management Expense	999,293	956,467
Membership Meetings	1,041	671
Meter Reading	86,164	81,876
Miscellaneous	891	1,918
Office and Postage	4,952	5,021
Professional Fees	3,271	829
Repairs and Maintenance	38,946	59,835
Telephone	413	475
Well Monitoring Fee	5,471	6,391
Well Mapping Fee	2,089	2,100
Utilities	146,132	141,845
	1,565,748	1,516,730
<u>INCREASE IN NET ASSETS FROM OPERATIONS</u>	709,576	272,882
<u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	7,371	5,607
Non-Cash Contribution	-	-
	7,371	5,607
<u>NET INCOME IN NET ASSETS</u>	\$ 716,947	\$ 278,489

See Independent Auditors' Report.

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
CURRENT YEAR SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
SEPTEMBER 30, 2018

2018-1 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.

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
CORRECTIVE ACTION TAKEN ON PRIOR YEAR FINDINGS  
SEPTEMBER 30, 2018

2017-1

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.

Status: Management has determined that it is not cost effective to cure this finding.

See independent auditors' report.

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