

Hico Water System, Inc.

Annual Financial Report  
December 31, 2017

Hico Water System, Inc.

Annual Financial Report

December 31, 2017

CONTENTS

	Statement	Page
Independent Accountant's Review Report		1
Financial Statements:		
Statement of Financial Position	A	3
Statement of Activities	B	4
Statement of Cash Flows	C	5
Notes to the Financial Statements		6
Supplemental Information:		
Independent Accountant's Report on Applying Agreed-Upon Procedures		13
Summary of Prior Year Findings		17
Louisiana Attestation Questionnaire		18

**WADE & PERRY**  
Certified Public Accountants  
A Professional Accounting Corporation  
Members: AICPA/ Society of LCPA's

Independent Accountant's Review Report

Board of Commissioners  
Hico Water System, Inc.  
Dubach, Louisiana

We have reviewed the accompanying financial statements of the business-type activities of the Hico Water System, Inc. ("System"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

***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 the financial statements that are free from material misstatement whether due to fraud or error.

***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, and the standards applicable to review engagements contained in *Government Auditing Standards*, issued by the United States Comptroller General. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Reporting Requirements***

In accordance with the *Louisiana Governmental Audit Guide*, and the provisions of state law, we have issued a report dated May 29, 2018, on the results of our agreed-upon procedures on pages 13 through 16. In addition, pages 18 and 19 present the Louisiana Attestation Questionnaire.



Ruston, Louisiana  
May 29, 2018

Hico Water System, Inc.  
Statement of Financial Position  
December 31, 2017

ASSETS		
Cash and equivalents		\$192,564
Receivables		28,906
Prepaid items		0
Restricted assets		171,283
Property, building, & equipment (net)		<u>1,558,993</u>
TOTAL ASSETS		<u>\$1,951,746</u>
LIABILITIES		
Accounts, salaries, and other payables		\$2,496
Accrued interest payable		1,337
Payable from restricted assets		4,940
Loans payable - current		16,397
Loans payable - noncurrent		<u>640,954</u>
TOTAL LIABILITIES		<u>666,124</u>
NET ASSETS		
Unrestricted		<u>1,285,622</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$1,951,746</u>

See accompanying notes and independent accountants' review report.

Hico Water System, Inc.  
Statement of Activities  
Year Ended December 31, 2017

OPERATING REVENUES	
Charges for services	\$236,476
OPERATING EXPENSES	
Accounting	6,732
Insurance	4,018
Contractual services	53,533
Office & other expenses	13,070
Repairs & maintenance	9,043
Chemicals	88
Taxes & licenses	1,193
Salaries & wages	15,600
Utilities	27,294
Depreciation	48,758
Total operating expenses	<u>179,329</u>
Operating income	<u>57,147</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	83
Interest expense	<u>(18,283)</u>
Total non-operating revenues (expenses)	<u>(18,200)</u>
Change in Net Assets	38,947
Net Assets - beginning of year	1,246,675
Prior period adjustment	0
Net Assets - ending of year	<u>\$1,285,622</u>

See accompanying notes and independent accountants' review report.

Hico Water System, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2017

Cash Flows from Operating Activities	
Receipts from customers and users	\$231,393
Payments to suppliers	(130,523)
Payments to employees	(15,600)
Net Cash Provided by Operating Activities	<u>85,270</u>
Cash Flows from Noncapital Financing Activities	
Loan proceeds from USDA	0
Net Cash Provided (Used) by Noncapital Financing Activities	<u>0</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of property & equipment	(5,215)
Capital contributions	0
Principal paid on capital debt	(15,945)
Interest paid on capital debt	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(21,160)</u>
Cash Flows from Investing Activities	
Miscellaneous income	0
Interest and dividends received	83
Net Cash Provided by Investing Activities	<u>83</u>
Net Increase in Cash and equivalents	64,193
Cash and equivalents, Beginning of Year	<u>299,654</u>
Cash and equivalents, End of Year	<u><u>\$363,847</u></u>
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities	
Operating income	\$38,864
Depreciation expense	48,758
(Increase) decrease in accounts receivable	(5,083)
Increase (decrease) in customer deposits	260
Increase (decrease) in accounts, salaries, and other payables	2,471
Net Cash Provided by Operating Activities	<u><u>85,270</u></u>
Reconciliation of total cash and cash investments:	
Current assets - cash and cash investments	\$192,564
Restricted assets - cash and cash investments	171,283
Total cash and cash investments	<u><u>\$363,847</u></u>

See accompanying notes and independent accountants' review report.

Notes to the Financial Statements



Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2017

## INTRODUCTION

The Hico Water System, Inc. (“System”) was organized in 1973 as a not for profit water system to provide water usage and service to the customers of the System in Lincoln parish. The System has five commissioners comprising the board who are appointed by the Board of Commissioners. The System serves approximately 488 active customers and employs one person. The System operates two facilities that operate two wells at each site with approximately 100 miles of water lines.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Method of Accounting

The accompanying financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) utilizing the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenses are generally recognized when the related liability is incurred. Purchases of various operating supplies are regarded as expenses at the time purchased.

#### B. Financial Statement Presentation

The System has adopted FASB Accounting Standard Codification 958-205 “Not-for-Profit Organizations.” Under FASB ASC 958-205, the System is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the System is required to present a statement of cash flows.

#### C. Cash and Equivalents

Cash and cash equivalents include amounts in time deposits and those investments with original maturities of 180 days or less. For purposes of the statement of cash flows, cash includes amounts in demand deposits, interest-bearing deposits, and money market accounts.

#### D. Receivables

Accounts receivable consists of amounts due from members for water service provided prior to year end. All receivables are reported at their gross value and, where applicable, are reduced by the estimated portion that is expected to be uncollectible. As of December 31, 2017, all receivables were expected to be collected; therefore, there was no allowance for doubtful accounts.

#### E. Property and equipment

Expenditures for routine maintenance, repairs and other renewals of items are charged to expense as incurred. Expenditures for property and equipment and for renewals and betterments, which extend the originally estimated economic life of the assets, are capitalized and carried at historical costs. The System does not maintain a threshold level for capitalizing property and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 5 to 10 years for furniture, fixtures, machinery & equipment, 50 years for the water system, and 10 to 20 years for buildings and improvements.

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2017

F. Compensated Absences

The System has no policy relating to vacation and sick leave; therefore, no liability has been recorded.

G. Estimates

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

2. CASH AND CASH EQUIVALENTS

At December 31, 2017, the System has cash and cash equivalents (book balances) totaling \$363,847 as follows:

Demand deposits	\$197,504
Interest-bearing demand deposits	166,343
Investments	<u>0</u>
Total	<u>\$363,847</u>

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2017, the System has \$367,980 in deposits (collected bank balances). These deposits are secured from risk by \$367,980 of federal deposit insurance and \$0 of pledged securities held by the custodial bank in the name of the fiscal agent bank. (GASB Category 3).

3. RECEIVABLES

The receivables of \$28,906 at December 31, 2017, consist solely of amounts due from customers.

4. RESTRICTED ASSETS

Certain resources of the System are classified as restricted assets on the statement of financial position because they represent customers' deposits being held by the fund. At December 31, 2017, the System had the following restricted assets:

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2017

Cash - customer deposits	\$4,940
Cash - Reserve Fund	41,646
Cash - Short-lived asset Fund	<u>124,697</u>
Total	<u><u>\$171,283</u></u>

5. PROPERTY & EQUIPMENT

Capital assets and depreciation activity as of and for the year ended December 31, 2017, for the primary government is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$0			\$0
Construction in progress	0			0
Total capital assets not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital assets being depreciated				
Buildings	0			0
Improvements other than buildings	26,302	\$5,215		31,517
Machinery and equipment	281,252			281,252
Water system additions	25,500			25,500
Infrastructure	1,558,663			1,558,663
Total capital assets being depreciated	<u>1,891,717</u>	<u>5,215</u>	<u>0</u>	<u>1,896,932</u>
Accumulated depreciation	289,181	48,758		337,939
Total capital assets being depreciated, net	<u>\$1,602,536</u>	<u>(\$43,543)</u>	<u>\$0</u>	<u>\$1,558,993</u>

Depreciation expense for the year ended December 31, 2017 was \$48,758.

6. ACCOUNTS, SALARIES, AND OTHER PAYABLES

The payables of \$2,496 at December 31, 2017, are as follows:

Withholdings	\$190
Accounts	2,306
Other	<u>0</u>
Total	<u><u>\$2,496</u></u>

7. LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation loans payable transactions for the year ended December 31, 2017:

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2017

Long-term obligations at beginning of year	\$673,296
Additions	0
Deductions	<u>(15,945)</u>
Long-term obligations at end of year	<u><u>\$657,351</u></u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of December 31, 2017:

Current portion	\$16,397
Long-term portion	<u>640,954</u>
Total	<u><u>\$657,351</u></u>

The loans payable at December 31, 2017, are comprised of the following individual issues:

	<u>Outstanding 12/31/17</u>
\$818,000 USDA loans dated 6-4-12, due in monthly installments of \$2,855 through July 4, 2045, interest at 2.75%	<u>\$657,351</u>
Total	<u><u>\$657,351</u></u>

The annual requirements to amortize all loans outstanding as of December 31, 2017, including interest of \$278,060 are as follows:

Year Ending December 31,	
2018	\$34,260
2019	34,260
2020	34,260
2021	34,260
2022	34,260
2023 - 2027	171,300
2028 - 2032	171,300
2033 - 2037	171,300
2038 - 2042	171,300
2043 - 2045	<u>78,911</u>
Total	<u><u>\$935,411</u></u>

8. FLOW OF FUNDS: RESTRICTIONS ON USE - UTILITIES REVENUES

There shall also be set aside into a "Reserve Fund" an amount equal to 10% of the monthly payment each month over the life of the loan until there is an amount accumulated equal to one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise.

Hico Water System, Inc.  
Notes to the Financial Statements  
As of and For the Year Ended December 31, 2017

Funds will also be set aside into a "Short-lived Asset Fund" at the rate of \$1,254 per month in addition to that required for the debt service reserve until such time as a minimum balance of \$116,500 is achieved for the replacement of the short lived assets identified.

9. INCOME TAXES

The System is exempt from federal income taxes. Therefore, no provision for federal income taxes has been made in the accompanying financial statements.

10. LITIGATION AND CLAIMS

Management of the System is not aware of any litigation or claims against it at December 31, 2017.

11. DATE OF MANAGEMENT REVIEW

Subsequent events have been evaluated through May 29, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

# WADE & PERRY

Certified Public Accountants  
A Professional Accounting Corporation  
Members: AICPA/ Society of LCPA's

Independent Accountant's Report  
on Applying Agreed-Upon Procedures

Board of Commissioners  
Hico Water System, Inc.  
Dubach, LA 71235

We have performed the procedures enumerated below, which were agreed to by Hico Water System, Inc., and the Louisiana Legislative Auditor (the specified parties), on the System's compliance with certain laws and regulations contained in the accompanying Louisiana Attestation Questionnaire during the fiscal year ended December 31, 2017, as required by Louisiana Revised Statute 24:513 and the *Louisiana Governmental Audit Guide*. The System's management is responsible for its financial records and compliance with applicable laws and regulations. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

*Public Bid Law*

1. Obtain documentation for all expenditures made during the year for material and supplies exceeding \$30,000, and public works exceeding \$154,450. Compare the documentation for these expenditures to LRS 38:2211-2296 (the public bid law) or RS 39:1551-1775 (state procurement code), whichever is applicable; and report whether the expenditures were made in accordance with these laws.

There were no expenditures made during the year for material and supplies exceeding \$30,000 and there were no expenditures made for public works exceeding \$154,450.

*Code of Ethics for Public Officials and Public Employees*

2. Obtain a list of the immediate family members of each board member as defined by LRS 42:1101-1124 (the ethics law).

Management provided us with the required list.

3. Obtain a list of all employees paid during the fiscal year.

Management provided us with the required list.

4. Report whether any employees' names appear on both lists obtained in Procedures 2 and 3.

None of the employees' names appear on both lists.

5. Obtain a list of all disbursements made during the year; and a list of outside business interests of board members, employees, and board members' and employees' immediate families. Report whether any vendors appear on both lists.

Management provided the requested information. None of the businesses of board members, employees, and board members' and employees' immediate families appeared as vendors on the list of disbursements.

#### *Budgeting*

6. Obtain a copy of the legally adopted budget and all amendments.

There was no budget adopted.

7. Trace documentation for the adoption of the budget and approval of any amendments to the minute book, and report whether there are any exceptions.

There was no budget adopted.

8. Compare the revenues and expenditures of the final budget to actual revenues and expenses. Report whether actual revenues failed to meet budgeted revenues by 5% or more, and whether actual expenditures exceed budgeted amounts by 5% or more.

There was no budget adopted.

#### *Accounting and Reporting*

9. Obtain the list of all disbursements made during the fiscal year. Randomly select 6 disbursements, and obtain documentation from management for these disbursements. Compare the selected disbursements to the supporting documentation, and:

- (a) Report whether the six disbursements agree to the amount and payee in the supporting documentation;

We examined supporting documentation for all six of the selected disbursements and found that payment was for the proper amount for all six of the selected disbursements.

- (b) Report whether the six disbursements were coded to the correct fund and general ledger account

All six payments were properly coded to the correct fund and general ledger accounts.

- (c) Report whether the six disbursements were approved in accordance with management's policies and procedures.

Inspection of the images of the cancelled checks indicated approval from Secretary/treasurer and additional board member for all invoices paid. We considered the signature of the Secretary/treasurer and additional board member on the cancelled check as approval of disbursements paid.



### *Meetings*

10. Obtain evidence from management to support that agendas for meetings recorded in the minute book were posted or advertised as required by LRS 42:11 through 42:28 (the open meetings law); and report whether there are any exceptions.

The System has asserted that it has complied with the open meetings law.

### *Debt*

11. Obtain bank deposits slips for the fiscal year, and scan the deposit slips in order to identify and report whether there are any deposits appear to be proceeds of banks loans, bonds, or like indebtedness. If any such proceeds are identified, obtain from management evidence of approval by the State Bond Commission, and report any exceptions.

We inspected copies of all bank statements for the period under examination and noted no deposits which appeared to be proceeds of bank loans, bonds, or like indebtedness.

### *Advances and Bonuses*

12. Obtain the list of payroll disbursements and meeting minutes of the governing board, if applicable. Scan these documents to identify and report whether there are any payments or approval of payments to employees that may constitute bonuses, advance or gifts.

Payroll records and a reading of the minutes of the System did not indicate approval for payments to employees which would constitute bonuses, advance or gifts.

### *State Audit Law*

13. Report whether the agency provided for a timely report in accordance with RS 24:513.

The agency's report was submitted to the Legislative Auditor before the statutory due date of June 30, 2018.

14. Inquire of management and report whether the agency entered into any contracts that utilized state funds as defined in RS 39:72.1 A (2); and that were subject to the public bid law (RS 38:2211, et seq.), while the agency was not in compliance with RS 24:513 (the audit law).

The System's management represented that the System did not enter into any contracts during the fiscal year that were subject to the bid law.


### *Prior Comments and Recommendations*

15. Obtain and report management's representation as to whether any prior-year suggestions, exceptions, recommendations, and/or comments have been resolved.

Our prior year report, dated May 1, 2017, did not include any suggestions, exceptions, recommendations, or comments except as noted in the summary of prior year findings.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the United States Comptroller General. We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on management's compliance with the foregoing matters. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on the System's compliance with certain laws and regulations contained in the accompanying Louisiana Attestation Questionnaire, as required by LRS 24:513 and the Louisiana Governmental Audit Guide, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

  
Ruston, Louisiana  
May 29, 2018

Hico Water System, Inc.  
Summary of Prior Year Findings  
For the Year Ended December 31, 2017

2016-1. Significant deficiency in internal control over segregation of duties.

Status: Unresolved

2016-2. Significant deficiency in internal control - disbursements

Status: Resolved

**LOUISIANA ATTESTATION QUESTIONNAIRE**  
(For Attestation Engagements of Governmental Agencies)

5/25/17 (Date Transmitted)

Wade & Perry CPAs (CPA Firm Name)  
116 North Pinecrest Dr (CPA Firm Address)  
Ruston LA 71270 (City, State Zip)

In connection with your engagement to apply agreed-upon procedures to the control and compliance matters identified below, as of 12/31/2017 (date) and for the year then ended, and as required by Louisiana Revised Statute (R.S.) 24:513 and the *Louisiana Governmental Audit Guide*, we make the following representations to you.

**Public Bid Law**

It is true that we have complied with the public bid law, R.S. Title 38:2211-2296, and, where applicable, the regulations of the Division of Administration and the State Purchasing Office.

Yes  No

**Code of Ethics for Public Officials and Public Employees**

It is true that no employees or officials have accepted anything of value, whether in the form of a service, loan, or promise, from anyone that would constitute a violation of R.S. 42:1101-1124.

Yes  No

It is true that no member of the immediate family of any member of the governing authority, or the chief executive of the governmental entity, has been employed by the governmental entity after April 1, 1980, under circumstances that would constitute a violation of R.S. 42:1119.

Yes  No

**Budgeting**

We have complied with the state budgeting requirements of the Local Government Budget Act (R.S. 39:1301-15), R.S. 39:33, or the budget requirements of R.S. 39:1331-1342, as applicable.

Yes  No

**Accounting and Reporting**

All non-exempt governmental records are available as a public record and have been retained for at least three years, as required by R.S. 44:1, 44:7, 44:31, and 44:36.

Yes  No

We have filed our annual financial statements in accordance with R.S. 24:514, and 33:463 where applicable.

Yes  No

We have had our financial statements reviewed in accordance with R.S. 24:513.

Yes  No

We have complied with R.S. 24:513 A. (3) regarding disclosure of compensation, reimbursements, benefits and other payments to the agency head, political subdivision head, or chief executive officer.

Yes  No

**Meetings**

We have complied with the provisions of the Open Meetings Law, provided in R.S. 42:1 through 42:28.

Yes  No

**Debt**

It is true we have not incurred any indebtedness, other than credit for 90 days or less to make purchases in the ordinary course of administration, nor have we entered into any lease-purchase agreements, without the approval of the State Bond Commission, as provided by Article VII, Section 8 of the 1974 Louisiana Constitution, Article VI, Section 33 of the 1974 Louisiana Constitution, and R.S. 39:1410.60-1410.65.

Yes  No

**Advances and Bonuses**

It is true we have not advanced wages or salaries to employees or paid bonuses in violation of Article VII, Section 14 of the 1974 Louisiana Constitution, R.S. 14:138, and AG opinion 79-729.

Yes  No

**Prior-Year Comments**

We have resolved all prior-year recommendations and/or comments.

Yes  No

**General**

We are responsible for our compliance with the foregoing laws and regulations and the internal controls over compliance with such laws and regulations.

Yes  No

We have evaluated our compliance with these laws and regulations prior to making these representations.

Yes  No

We have disclosed to you all known noncompliance of the foregoing laws and regulations, as well as any contradictions to the foregoing representations.

Yes  No

We have made available to you all records that we believe are relevant to the foregoing agreed-upon procedures.

Yes  No

We have provided you with any communications from regulatory agencies, internal auditors, other independent practitioners or consultants or other sources concerning any possible noncompliance with the foregoing laws and regulations, including any communications received between the end of the period under examination and the issuance of your report.

Yes  No

We will disclose to you, the Legislative Auditor, and the applicable state grantor agency/agencies any known noncompliance that may occur up to the date of your report.

Yes  No

The previous responses have been made to the best of our belief and knowledge.

<u>Vicky Key</u>	Secretary	<u>5/25/17</u>	Date
<u>Vicky Key</u>	Treasurer		Date
<u>[Signature]</u>	President	<u>5/25/17</u>	Date