



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Communication with Those Charged with Governance

To the Board of Directors
Gonzales County Water Supply Corporation

We have audited the financial statements of Gonzales County Water Supply Corporation as of and for the year ended December 31, 2022, and have issued our report thereon dated April 17, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 22, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Gonzales County Water Supply Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Gonzales County Water Supply Corporation is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022 except for the following:

- Because the Corporation reads meters 2 months before billing, the Corporation is owed 2 months of consumption at year-end. Previously, this unbilled receivable was not recorded on the Corporation's financial statements. Because of the significance, the Corporation decided to start recording this amount.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the useful lives of depreciable assets.

Management's estimate of the useful lives of depreciable assets is based on published industry guidance and professional judgment. We evaluated the key factors and assumptions used to develop the estimate listed above and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Significant Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. However, we did assist management with a few material accounting entries such as:

1. Prior period adjustment for understated unbilled water receivables of \$389,518
2. Prior period adjustment for understated SAWS settlement revenue of \$278,750
3. Prior period adjustment for overstated deferred revenue of \$27,336
4. Prior period adjustment for overstated prepaid engineering fees of \$23,651
5. Accrual of grant revenue for generator project funded by Gonzales County

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Audit

As noted above, we have identified the existence of material misstatements that affect the prior period financial statements on which the predecessor auditor had previously reported without modification. The most significant changes related to understated unbilled water receivables and SAWS settlement revenue in the prior year. Management agreed to revise these balances. Our opinion on the financial statements is not impacted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant Gonzales County Water Supply Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated April 17, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Gonzales County Water Supply Corporation we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Gonzales County Water Supply Corporation. During the current audit we became aware of the following matter to bring to your attention:

The Water Supply Corporation exceeded the federal insured limits at Sage Capital and Wells Fargo by \$36,698 and \$172,429, respectively. The standard FDIC insurance amount is \$250,000 per depositor per insured bank. Funds in excess of FDIC coverage would not be recoverable in the event that a financial institution was insolvent. The Board should review the Corporation's deposits and consider moving funds to additional financial institutions to ensure that funds do not exceed coverage.

This report is intended solely for the information and use of the Board of Directors and management of Gonzales County Water Supply Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Armstrong, Vaughan & Associates, P.C.

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April 17, 2023