

RICHWOODS WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
Richwoods Water Association, Inc.

We have performed the procedures enumerated below for the Richwoods Water Association, Inc., ("the Organization"), (a nonprofit organization), for the year ended December 31, 2022. The Organization's management is responsible for accounting records.

Richwoods Water Association, Inc. has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of issuing a report on findings based on specific procedures performed on subject matter. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Cash and Investments

1. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
2. Confirm with depository institutions the cash on deposit and investments.
3. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

Findings: No findings identified.

Receipts

1. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
2. Agree 10 customer payments on the accounts receivable sub-ledger to deposit and billing documents.
3. For one deposit, agree the cash/check composition of the deposit with receipt information.

Findings: No findings identified.

Accounts Receivable

1. Agree 10 customer billings to the accounts receivable sub-ledger.
2. Determine that five (5) customer adjustments were properly authorized.

Findings: *No findings identified.*

Disbursements

1. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$ 500, whichever is greater.
2. Analyze all property, plant, and equipment disbursements.
3. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

Findings: *No findings identified.*

Property, Plant, and Equipment

1. Determine that additions and disposals were properly accounted for in the records. (Materiality level - 5% of total equipment or \$500, whichever is greater.)

Findings: *No findings identified.*

Long-Term Debt

2. Schedule long-term debt and verify changes in all balances for the year.
3. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
4. Determine that the appropriate debt service accounts have been established and maintained.

Findings: *No findings identified.*

General

1. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

Findings: *No findings identified.*

We were engaged by the Organization to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants.

We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Organization, Arkansas Legislative Joint Auditing Committee and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Seavoy & Associates LLC". The signature is written in a cursive, flowing style.

Monticello, Arkansas
September 25, 2023

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Richwoods Water Association, Inc.

Management is responsible for the accompanying financial statements of Richwoods Water Association, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

A handwritten signature in black ink that reads "Searcy & Associates LLC". The signature is written in a cursive, flowing style.

Monticello, Arkansas
September 25, 2023

RICHWOODS WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
For the Year Ended December 31, 2022

	<u>2022</u>
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 22,108
Accounts receivable (net)	22,047
Other current assets	<u>2,623</u>
Total current assets	46,778
 <u>Fixed assets, net of accumulated depreciation</u>	 1,207,874
 <u>Other Assets</u>	
Cash reserve - meter deposits	38,614
Cash reserve - debt service	<u>74,296</u>
Total other assets	<u>112,910</u>
 Total assets	 <u><u>\$ 1,367,562</u></u>
 <u>Liabilities and Net Assets</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 12,106
Accrued interest	781
Accrued payroll	3,251
Other accrued expenses	1,921
Current portion of notes payable	<u>48,947</u>
Total current liabilities	67,006
 <u>Long term liabilities</u>	
Notes payable, net of current amount	556,775
Customer deposits	<u>38,614</u>
Total long term liabilities	<u>595,389</u>
 Total liabilities	 662,395
 <u>Net assets</u>	
Net assets without restrictions	630,871
Net assets with restrictions	<u>74,296</u>
Total net assets	<u>705,167</u>
 Total liabilities and net assets	 <u><u>\$ 1,367,562</u></u>

The accompanying notes are an integral part of the financial statements

RICHWOODS WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

	<u>2022</u>
<u>Changes in net assets</u>	
Revenues	
Water services	\$ 319,174
Total revenues	<u>319,174</u>
Expenses	
Operating expenses	271,694
General and administrative	<u>41,363</u>
Total expenses	<u>313,057</u>
Income (loss) from operations	6,117
Non-operating income (expense)	
Interest income and net gain on investments	384
Interest expense	<u>(27,296)</u>
Total non-operating income (expense)	<u>(26,912)</u>
Change in net assets	(20,795)
<u>Change in net assets</u>	(20,795)
<u>Net assets, beginning of year</u>	<u>725,962</u>
<u>Net assets, end of year</u>	<u>\$ 705,167</u>

The accompanying notes are an integral part of the financial statements

RICHWOODS WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	<u>2022</u>
<u>Cash flows from operating activities</u>	
Income from operations	\$ 6,117
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	36,582
Changes in assets and liabilities:	
Accounts receivable	(3,553)
Accounts payable	(3,607)
Accrued expenses	1,421
Total adjustments	<u>30,843</u>
Net cash provided by (used for) operating activities	36,960
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	38,061
Interest income and net gain on investments	<u>384</u>
Net cash provided by (used for) investing activities	<u>38,445</u>
<u>Cash flows from financing activities</u>	
Principal payments	(46,727)
Interest payments	(27,570)
Change in customer deposits	<u>2,207</u>
Net cash provided by (used for) financing activities	<u>(72,090)</u>
<u>Change in cash and cash equivalents</u>	3,315
<u>Cash and cash equivalents, beginning of year</u>	<u>131,703</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 135,018</u>
 <u>Cash and cash equivalents</u>	 \$ 22,108
<u>Restricted cash and cash equivalents</u>	<u>112,910</u>
	<u>\$ 135,018</u>
 <u>Supplemental Information</u>	
Cash paid for sales tax	\$ 21,627

The accompanying notes are an integral part of the financial statements

RICHWOODS WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	2022		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 28,112	\$ 12,048	\$ 40,160
Payroll taxes	2,076	890	2,966
Repairs and maintenance	36,582	-	36,582
Water purchases	99,812	-	99,812
Operating supplies and other	7,164	-	7,164
Utilities	12,736	2,248	14,984
Office supplies	681	6,132	6,813
Insurance	3,007	1,002	4,009
Professional fees	505	9,595	10,100
Other expenses	502	502	1,004
Depreciation	80,517	8,946	89,463
Total expenses	<u>\$ 271,694</u>	<u>\$ 41,363</u>	<u>\$ 313,057</u>

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

RICHWOODS WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Richwoods Water Association, Inc. (the "Organization") is a not-for-profit corporation established under the laws of the State of Arkansas and is nontaxable for Federal and State income tax purposes under the Internal Revenue Code Section 501(c)(12). The Organization was formed to provide rural water service to its constituents in the surrounding rural community.

Method of Accounting

The financial states of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

The Organization derives its revenues primarily from water services provided to its customers. Revenues are recognized when control of these services are provided to / transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. Sales and other taxes the Organization collects concurrent with revenue producing activities are excluded from revenue. Other fees charged to customers are reported within revenue. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale.

Federal Tax Status

No provision for federal income taxes is required since the Organization is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. The Organization files an exempt return in the U.S. federal jurisdiction.

Concentrations and Credit Risks

The Organization's credit risks primarily relate to cash and cash equivalents. The Organization maintains several cash accounts at a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

RICHWOODS WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 1 (continued)

Accounts Receivable

Accounts receivable relate to water service billings and are recorded at estimated net realizable value. Accounts are written off as they are deemed uncollectible by management based on the length of time outstanding and historical experience. Credit extended to customers are generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit and deposits can be offset against the receivable for delinquent billings or returned to the customer when the account is closed.

An allowance for doubtful accounts is maintained. The allowance for doubtful accounts for the year ended December 31, 2022 was \$5,225. Bad debts are charged to operations as they are deemed uncollectible.

Property and Equipment

Property and Equipment are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Buildings & Improvements	20-25 years
Furniture & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and value greater than \$1,000. Maintenance and repairs are charged to expense as incurred.

Net Asset Classifications

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. Accordingly, net assets and changes in net assets are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets not available for use in general operations and are subject to donor restrictions.

Functional Allocation of Expenses

The costs of providing the water services and other program services of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the program and supporting services. The statement of functional expenses presents the natural classification detail of expenses by function.

The Organization classifies as program service expense those items which are directly attributable to the specific water service program. Those expenses which are not directly attributable to the program service are included in management and general expenses.

RICHWOODS WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 1 (continued)

Date of Management's Review

The Organization evaluated its December 31, 2022 financial statements for subsequent events through September 25, 2023, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

	<u>2022</u>
Cash and cash equivalents	\$ 135,018
Receivables	<u>22,047</u>
	157,065
Less: restricted cash for deposit accounts	(38,614)
Less: restricted cash for debt requirements	<u>(74,296)</u>
Available for general expenditure	<u>\$ 44,155</u>

Restricted cash consists of funds held in reserve by the Company as required by the U.S. Department of Agriculture – Rural Development and Arkansas Natural Resources Commission. In accordance with loan covenants, USDA – Rural Development requires the Organization to maintain cash of \$58,248, which equals the amount required to make payments for one year. In addition, \$16,048 is reserved to make the annual payment to Arkansas Natural Resources Commission. Cash deposits temporarily restricted for debt service were \$74,296 at December 31, 2022. A reserve is required to be maintained to repay customers' deposits, when customers leave the system. The reserve amounts required at December 31, 2022 was \$43,790.

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (currently approximately \$80,000). The Organization currently is operating below the intended goal but have increased rates starting in January 2023 and are expected to increase the free cash flow to meet the Organization's goal in the next fiscal year.

RICHWOODS WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following balances at December 31:

	<u>2022</u>
Distribution system	\$ 3,069,153
Furniture & equipment	36,500
Water plant facility	<u>39,814</u>
	3,170,134
Accumulated depreciation	<u>(1,962,260)</u>
	<u><u>\$ 1,207,874</u></u>

NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2022</u>
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$3,818, including principal and interest through November 2033; interest at 5%, secured by property and equipment	\$ 377,920
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$219, including principal and interest through September 2039; interest at 4.5%, secured by property and equipment	29,867
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$802, including principal and interest through March 2049; interest at 2.75%, secured by property and equipment	182,651
Note payable to the ANRC for the purchase of property and equipment, payable in annual installments of \$16,049, including principal and interest through September 2023; interest at 5%, secured by property and equipment	15,284

RICHWOODS WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 4 (continued)

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31:

2023	\$	48,947
2024		35,266
2025		36,947
2026		38,711
2027		40,561
Thereafter		405,290
	\$	<u>605,722</u>