

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

**Independent Auditor's Report
and Financial Statements**

December 31, 2021 and 2020

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wright-Pastoria Water Association, Inc.
Wright, Arkansas

Opinion

We have audited the accompanying financial statements of Wright-Pastoria Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright-Pastoria Water Association, Inc. as of November 21, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Wright-Pastoria Water Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Wright-Pastoria Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it

exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Wright-Pastoria Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wright-Pastoria Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2022, on our consideration of Wright-Pastoria Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Wright-Pastoria Water Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Wright-Pastoria Water Association, Inc.'s internal control over financial reporting and compliance.

Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
November 21, 2022

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2021 and 2020

Assets

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|--------------------------|
| Current assets | | |
| Cash and cash equivalents - Note 1 | \$ - | \$ 1,450 |
| Accounts receivable, net of allowance for uncollectible amounts of \$29,040 - Note 1 | 41,085 | 44,549 |
| Total current assets | <u>41,085</u> | <u>45,999</u> |
| Assets limited as to use - Note 2 | | |
| Internally designated - meter deposit fund | 24,280 | 23,760 |
| Restricted under indenture agreement | 149,316 | 48,188 |
| Total assets limited as to use | <u>173,596</u> | <u>71,948</u> |
| Property, plant and equipment - Note 1 | | |
| Land | 5,100 | 5,100 |
| Office furniture and fixtures | 9,425 | 9,425 |
| Pumps and treatment equipment | 368,181 | 368,181 |
| Wells | 36,266 | 36,266 |
| Plant buildings | 235,389 | 235,389 |
| Lines and storage | 1,401,755 | 1,401,755 |
| Tools and equipment | 20,614 | 20,614 |
| Vehicles | 2,500 | 2,500 |
| Construction in progress | 680,578 | 51,000 |
| Total property, plant and equipment | <u>2,759,808</u> | <u>2,130,230</u> |
| Less: accumulated depreciation | <u>(1,626,010)</u> | <u>(1,563,768)</u> |
| Net property, plant and equipment | <u>1,133,798</u> | <u>566,462</u> |
| Total assets | <u>\$ 1,348,479</u> | <u>\$ 684,409</u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2021 and 2020

Liabilities and Net Assets

| | <u>2021</u> | <u>2020</u> |
|---|---------------------------------------|-------------------------------------|
| Current liabilities | | |
| Temporary cash over-draft | \$ 7,670 | \$ 3,147 |
| Current portion of long-term debt - Note 3 | 59,742 | 37,614 |
| Accounts payable | 22,664 | 13,717 |
| Taxes accrued and withheld | 2,350 | 4,722 |
| Accrued interest | 826 | 898 |
| Accrued vacation payable | 1,140 | 1,140 |
| Total current liabilities | <u>94,392</u> | <u>61,238</u> |
| Other noncurrent liabilities | | |
| Meter deposits | 22,125 | 22,100 |
| Total other noncurrent liabilities | <u>22,125</u> | <u>22,100</u> |
| Long-term debt , less current portion - Note 3 | <u>700,687</u> | <u>528,870</u> |
| Total liabilities | <u>817,204</u> | <u>612,208</u> |
| Net assets | | |
| Without donor restrictions | 531,275 | 72,201 |
| Total net assets | <u>531,275</u> | <u>72,201</u> |
| Total liabilities and net assets | <u><u>\$ 1,348,479</u></u> | <u><u>\$ 684,409</u></u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statements of Activities and Changes in Net Assets

Years Ended December 31, 2021 and 2020

| | Without Donor Restrictions | Without Donor Restrictions |
|---|-------------------------------|-------------------------------|
| | <u>2021</u> | <u>2020</u> |
| Operating revenues | | |
| Sale of water, net | \$ 254,137 | \$ 171,749 |
| Sewer charges | 7,972 | 8,162 |
| Late charges | 10,478 | 7,766 |
| Connection and reconnection fees | 425 | 549 |
| Membership fees | 1,800 | 2,000 |
| Miscellaneous | 14,182 | 23,725 |
| Trash fees | 55,310 | 71,186 |
| EIDL covid support | - | 3,000 |
| Total operating revenue | <u>344,304</u> | <u>288,137</u> |
| Operating expenses | | |
| Salaries and wages | 54,971 | 72,050 |
| Payroll taxes | 4,559 | 5,614 |
| Contract labor | 59,708 | 24,700 |
| Repairs and maintenance | 49,324 | 18,964 |
| Vehicle expense | 9,245 | 87 |
| Utilities | 23,543 | 20,044 |
| Insurance | 8,378 | 6,101 |
| Legal and accounting | 6,900 | 6,982 |
| Office supplies | 6,705 | 4,351 |
| Chemicals | 4,718 | 5,456 |
| Postage | 1,083 | 1,497 |
| Testing | 4,698 | 4,934 |
| Bad debts | 34,116 | 654 |
| Depreciation | 62,242 | 62,928 |
| Trash fees | 54,198 | 69,006 |
| Total operating expenses | <u>384,388</u> | <u>303,368</u> |
| Operating (loss) | <u>(40,084)</u> | <u>(15,231)</u> |
| Other revenue (expense) | | |
| Interest income | 162 | 295 |
| Interest expense | (16,741) | (17,934) |
| Gain on forgiveness of loan and bond payable | 515,737 | - |
| Total other revenue (expense) | <u>499,158</u> | <u>(17,639)</u> |
| Increase (Decrease) in net assets without donor restrictions | <u>459,074</u> | <u>(32,870)</u> |
| Net assets, without donor restrictions - beginning of year | <u>72,201</u> | <u>105,071</u> |
| Net assets, without donor restrictions - end of year | <u><u>\$ 531,275</u></u> | <u><u>\$ 72,201</u></u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statement of Functional Expenses

Year Ended December 31, 2021

| | <u>Program</u> | <u>Management and General</u> | <u>Total</u> |
|---|--------------------------|--|--------------------------|
| For the year ended December 31, 2021 | | | |
| Salaries and wages | \$ 30,971 | \$ 24,000 | \$ 54,971 |
| Payroll taxes | 4,559 | - | 4,559 |
| Contract labor | 59,708 | - | 59,708 |
| Repairs and maintenance | 49,324 | - | 49,324 |
| Vehicle | 9,245 | - | 9,245 |
| Utilities | 23,543 | - | 23,543 |
| Insurance | - | 8,378 | 8,378 |
| Legal and accounting | - | 6,900 | 6,900 |
| Office supplies | - | 6,705 | 6,705 |
| Chemicals | 4,718 | - | 4,718 |
| Postage | 1,083 | - | 1,083 |
| Testing | 4,698 | - | 4,698 |
| Bad debts | - | 34,116 | 34,116 |
| Depreciation | 62,242 | - | 62,242 |
| Interest expense | 16,741 | - | 16,741 |
| Trash fees | 54,198 | - | 54,198 |
| | <u>54,198</u> | <u>-</u> | <u>54,198</u> |
| Total expenses | <u>\$ 321,030</u> | <u>\$ 80,099</u> | <u>\$ 401,129</u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statement of Functional Expenses

Year Ended December 31, 2020

| | <u>Program</u> | <u>Management and General</u> | <u>Total</u> |
|---|--------------------------|--|--------------------------|
| For the year ended December 31, 2020 | | | |
| Salaries and wages | \$ 45,673 | \$ 26,377 | \$ 72,050 |
| Employee benefits | 3,559 | 2,055 | 5,614 |
| Payroll taxes | 24,700 | - | 24,700 |
| Contract labor | 18,964 | - | 18,964 |
| Repairs and maintenance | 87 | - | 87 |
| Utilities | 20,044 | - | 20,044 |
| Insurance | - | 6,101 | 6,101 |
| Legal and accounting | - | 6,982 | 6,982 |
| Office supplies | - | 4,351 | 4,351 |
| Chemicals | 5,456 | - | 5,456 |
| Postage | 1,497 | - | 1,497 |
| Testing | 4,934 | - | 4,934 |
| Bad debts | - | 654 | 654 |
| Depreciation | 62,928 | - | 62,928 |
| Interest expense | 17,934 | - | 17,934 |
| Trash fees | 69,006 | - | 69,006 |
| | <u>69,006</u> | <u>-</u> | <u>69,006</u> |
| Total expenses | <u>\$ 274,782</u> | <u>\$ 46,520</u> | <u>\$ 321,302</u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|--------------------|------------------------|
| Cash flows from operating activities: | | |
| Increase(decrease) in net assets | \$ 459,074 | \$ (32,870) |
| Adjustments to reconcile the (decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation | 62,242 | 62,928 |
| Provision for bad debts | 34,116 | 654 |
| Net changes in: | | |
| Accounts receivable | (30,652) | (13,675) |
| Restricted cash | (101,648) | (102) |
| Accounts payable | 13,470 | 1,924 |
| Accrued liabilities | (2,444) | 571 |
| Meter deposits | 25 | 635 |
| Net cash provided by operating activities | <u>434,183</u> | <u>20,065</u> |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (629,578) | (51,000) |
| Net cash (used in) investing activities | <u>(629,578)</u> | <u>(51,000)</u> |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (551,460) | (34,592) |
| Proceeds from long-term debt | 745,405 | 66,797 |
| Net cash provided by financing activities | <u>193,945</u> | <u>32,205</u> |
| Net increase (decrease) in cash and cash equivalents | (1,450) | 1,270 |
| Cash and cash equivalents at beginning of year | <u>1,450</u> | <u>180</u> |
| Cash and cash equivalents at end of year | <u><u>\$ -</u></u> | <u><u>\$ 1,450</u></u> |
| <u>Supplemental disclosure:</u> | | |
| Operating activities reflect: | | |
| Interest paid | <u>\$ 16,813</u> | <u>\$ 17,934</u> |

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies

Nature of Business

Wright-Pastoria Water Association, Inc. was incorporated as a non-profit corporation under the laws of the State of Arkansas to construct, operate and maintain a rural water system.

The Association supplies fresh water to approximately 400 active members in the Wright, Arkansas area.

Basis of Accounting

The Association recognizes revenues and expenses under the accrual method of accounting.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments with an original maturity of three months or less, excluding amounts that are restricted under the terms of long-term debt agreements or held for meter deposits.

Assets Limited as to Use

Assets limited as to use primarily include assets held under debt agreements and designated assets set aside by the Board members for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes.

Accounts Receivable and Bad Debts

The Association states accounts receivable for services rendered at net realizable amounts from customers. The Association provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

At December 31, 2021, gross accounts receivable was \$70,124 with allowance for uncollectible accounts of \$29,040. At December 31, 2020, gross accounts receivable was \$50,369 with allowance for uncollectible accounts of \$5,820.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (Cont.)

Property, Plant and Equipment

Property, plant and equipment acquisitions of \$1,000 or more are capitalized and recorded at cost. Assets are depreciated using the straight-line method over estimated useful lives of 5 - 15 years for furniture and equipment, and 20 - 50 years for buildings, storage tanks, and distribution lines. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during the construction phase of these fixed assets is reflected in the capitalized value of the asset constructed. The Association capitalized \$-0- and \$-0- in interest cost for the years ended December 31, 2021 and 2020, respectively. The Association's property, plant and equipment are pledged as security for various USDA Rural Utilities Service Loans, Arkansas Natural Resources Commission (ANRC), and Arkansas Development Finance and Authority (ADFA).

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Depreciation expense for the years ended December 31, 2021 and 2020 was \$62,242 and \$62,928, respectively.

Accounts Payable

Accounts payable consist of various trade accounts which are generally payable within thirty (30) days.

Accrued Interest Payable

Accrued interest payable consists of interest due to the United States Department of Agriculture and Arkansas Natural Resources Commission on notes payable due December 31, 2021 and 2020.

Accrued expenses

Accrued expenses as of December 31, 2021 and 2020, comprise sales tax payable, employee reimbursement payable, various employee benefit payables.

Meter deposits

At December 31, 2021 and 2020, meter deposits are liabilities payable to water and sewer customers As a requirement to obtain services.

Statement of Operations

For purposes of display, transactions considered by management to be ongoing, major, or central to the provision of water services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (Cont.)

Operating (loss)

The System's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water and sewer utility services. Operating expenses are all expenses incurred to provide water and sewer utility services, other than financing costs.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code and therefore no income taxes on earnings have been accrued. However, the Association is subject to federal income tax on any unrelated business taxable income.

Uncertainty in Income Taxes

In July 2006, authoritative guidance was issued that created a single model to address uncertainty in income tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to the authoritative guidance, tax liabilities were recorded as incurred. Management has determined that there are no material unrecorded tax liabilities as of December 31, 2021 or 2020. Tax years open to audit by the Internal Revenue Service and State of Arkansas are 2019, 2020 and 2021.

Net Assets

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

With donor restrictions

This classification is composed of net assets that are limited by donors to a specific time period or purpose and net assets that have been restricted by donors to be maintained by the Association in perpetuity. Net assets subject to donor-imposed stipulations that may be maintained in perpetuity may still permit use of the income earned on the related investments for general or specific purposes. Net assets with donor restrictions also include net assets subject to donor-imposed stipulations that may or will be met by actions of the Association and/or the passage of time.

Without donor restrictions

This classification is composed of net assets that are available for the general use of the Association including but not limited to board designated net assets. These net assets are not subject to donor-imposed restrictions. Additionally, support that is restricted by the donor will be reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires net assets with donor restrictions are reclassified to net assets without donor restrictions.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (Cont.)

Risk Management

The Association is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses, natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Revenue from Contracts with Customers

The Organization recognized revenue from exchange transactions from contracts with customers for water and sewer services. The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU 2014-09 and ASC 606), Revenue from contracts with Customers. This standard applies to exchange transactions with customers that are bound by contracts or similar arrangement and establishes performance obligation approach to revenue recognition with a focus on the transfer of control of promised goods or services to a customer. The following exchange transactions were reported in the statements of activities:

Water and sewer services – The Organization provides water and sewer services (including various fees and charges that are directly related) to Association members in the Wright, AR area. Contracts are entered into with members to provide these services. Performance obligations are determined based on the amount (gallons) of water or sewer service provided to members, over a month, as the performance obligation is satisfied. The Organization believes that this method provides a faithful depiction of the transfer of service over the term of the performance obligation. Revenue for the performance obligation satisfied over time is recognized as water or sewer fees charges. The organization measures the performance obligation from the start of a billing cycle to the end of the billing cycle based on usage. The pricing is based on the service provided. The transaction price does not include any price concessions. The Organization determined that there were no services provided without a contract in place and, therefore, has no expected adjustment to receivable or revenue. Total revenue of \$288,994 and \$213,951 related to water and sewer services was recognized in the year ended June 30, 2022 and 2021, respectively. Accounts receivable of \$41,085 and \$44,549 were recognized as of June 30, 2022 and 2021 for services provided.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers for the effects of a significant financing component, due to the Organizations expectation that the period between the time the service is provided to the customer and the time the customer pays for the services will be one year or less.

Trash Fees – The association collects trash fees on behalf of Jefferson County. Revenue is recognized when collected from members and expensed when paid to Jefferson County.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies (Cont.)

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

Certain reclassifications have been made to the 2020 financial statement presentation to conform to the 2021 presentation. These reclassifications had no effect on the net income or loss as previously reported.

Note 2 – Assets Limited as to Use

Restricted funds are established to ensure the Association meets the requirements of the U.S. Department of Agriculture Rural Utilities Service long-term debt obligations. The Association also maintains a separate meter deposit fund.

The balances in the restricted accounts at December 31, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|-------------------------|
| Internally designated - meter deposits funds: | | |
| Cash and savings accounts | \$ 11,630 | \$ 11,110 |
| Certificates of deposit | 12,650 | 12,650 |
| | <u>24,280</u> | <u>23,760</u> |
| Held under indenture agreement: | | |
| Cash and savings accounts | \$ 149,316 | \$ 48,188 |
| | <u>149,316</u> | <u>48,188</u> |
| Total assets limited as to use | <u>\$ 173,596</u> | <u>\$ 71,948</u> |

Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the years ended December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-----------------|----------------------|----------------------|
| Income: | | |
| Interest income | <u>\$ 162</u> | <u>\$ 295</u> |

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 – Long-Term Debt

| | Principal Balance <u>12/31/2021</u> | Principal Balance <u>12/31/2020</u> |
|---|--|--|
| USDA - Rural Utilities Service | | |
| 5.25% Note payable, monthly payments of \$459, secured by equipment and real estate, maturing 2035 | \$ 53,623 | \$ 56,241 |
| USDA - Rural Utilities Service | | |
| 3.25% note payable, monthly payments of \$2,531, secured by revenues and assets of the Association, maturing 2025 | 101,896 | 128,487 |
| USDA - Rural Utilities Service | | |
| 3.25% note payable, monthly payments of \$1,388, secured by revenues and assets of the Association, maturing 2050 | 308,505 | 315,019 |
| ANRC & ADFA | | |
| .75% bond payable and 1% servicing fee, monthly payments of \$14,869 starting October 2022, secured by revenues and assets of the Association, maturing 2042 | - | 50,000 |
| ANRC & ADFA | | |
| 0% bond payable and 1% servicing fee, monthly payments of \$3,405 starting October 2022, secured by revenues and assets of the Association, maturing 2032 | 4,014 | 1,000 |
| Bank of England | | |
| 1% note payable, unsecured subject to PPP forgiveness by the SBA | - | 15,737 |
| ANRC & ADFA | | |
| 0% bond payable and 1% servicing fee, monthly payments of \$18,733 starting October 2022, secured by revenues and assets of the Association, maturing 2032 | <u>292,391</u> | <u>-</u> |

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 – Long-Term Debt (Cont.)

| | | |
|---|--------------------------|--------------------------|
| Total long-term debt | 760,429 | 566,484 |
| Less current portion | <u>(59,742)</u> | <u>(34,531)</u> |
| Total long-term debt, net of current portion | <u>\$ 700,687</u> | <u>\$ 499,748</u> |

Maturities of Long-Term Debt are as follows:

| <u>Year</u> | <u>Amount</u> |
|--------------------|--------------------------|
| 2022 | \$ 59,742 |
| 2023 | 56,632 |
| 2024 | 58,170 |
| 2025 | 46,000 |
| 2026 | 29,663 |
| Thereafter | <u>510,222</u> |
| Total | <u>\$ 760,429</u> |

These loans are secured by the property, plant and equipment and revenues of the Association.

The Association is required to fund debt service reserves in addition to an asset management reserve as part of compliance with USDA debt agreements. Below lists the reserve requirements for outstanding debt as of December 31, 2021.

During the year ended December 31, 2021, the Association received forgiveness on outstanding bond principal in the amount of \$500,000 based on agreements with ARNC & ADFA. In addition, the Association received loan forgiveness in the amount of \$15,737 on a Paycheck Protection Program received from Bank of England during the year ended December 31, 2021.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 – Long-Term Debt (Cont.)

USDA Rural Development:

| | <u>Debt Service Reserve</u> | <u>Debt Service Reserve</u> | <u>Debt Service Reserve</u> | <u>Asset Management Reserve</u> | |
|-----------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|--------------------|
| | <u>91-03</u> | <u>91-05</u> | <u>91-06</u> | <u>91-05 & 91-06</u> | <u>Total</u> |
| Maximum required | \$ 5,508 | \$ 16,680 | \$ 30,360 | \$ 15,000 | \$ 67,548 |
| 12/31/21 balance required | 5,508 | 16,680 | 30,360 | 15,000 | \$ 67,548 |
| 12/31/21 restricted balance | 5,508 | 16,680 | 11,332 | - | \$ 33,520 |
| Over (under) funded | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (19,028)</u> | <u>\$ (15,000)</u> | <u>\$ (34,028)</u> |

As of the year ended December 31, 2021, the Association's debt service reserve and asset management reserve were (under) funded.

Note 4 – Deposits

At December 31, 2021, Wright-Pastoria Water Association, Inc. had bank deposits with a carrying value of \$165,746 and a bank balance of \$173,108, all of which was insured by FDIC insurance. Due to higher cash flows at certain times during the year, the Association's risks for uninsured deposits could be higher or lower than at year end.

Note 5 – Significant Concentration of Credit Risk

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. The Association grants unsecured credit to its customers, subject to a meter deposit.

Note 6 – Liquidity and Availability of Financial Assets

The Association's working capital and cash flows have variations during the year attributable to the cash receipts from users. The following reflects the Association's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of creditor restrictions or internal designations.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2021 and 2020

Note 6 – Liquidity and Availability of Financial Assets (Cont.)

| | <u>2021</u> | <u>2020</u> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents and restricted cash | \$ - | \$ 1,450 |
| Accounts receivable, net of allowance | 41,085 | 44,549 |
| Assets limited as to use | 173,596 | 71,948 |
| Total financial assets | <u>214,681</u> | <u>117,947</u> |
| Creditor and internal restrictions: | | |
| Assets limited as to use | (173,596) | (71,948) |
| | <u>(173,596)</u> | <u>(71,948)</u> |
| Financial assets available to meet cash needs for expenditures within one year | <u>\$ 41,085</u> | <u>\$ 45,999</u> |

Note 7 – Related Party Transaction

The Association purchases insurance through insurance agents. The insurance agent used for the 2020 insurance policy was purchased from Dale Davis' son; Dale Davis was a 2020 board member. The insurance premiums for year ended December 31, 2020 was \$6,843.

Note 8 – Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through November 21, 2022, the date on which the financial statements were available to be issued.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedule of Users and Consumption

Years Ended December 31, 2021 and 2020

December 31, 2021

| <u>Month</u> | <u>Consumption</u> | <u>Active Users</u> |
|--------------------------|---------------------------------|--------------------------------|
| January | 1,156,150 | 412 |
| February | 3,502,730 | 429 |
| March | 4,661,210 | 388 |
| April | 1,531,740 | 388 |
| May | 1,215,258 | 388 |
| June | 1,922,551 | 391 |
| July | 1,691,977 | 390 |
| August | 1,247,791 | 392 |
| September | 828,937 | 394 |
| October | 1,101,750 | 391 |
| November | 999,935 | 391 |
| December | 914,906 | 392 |
| Total consumption | <u><u>20,774,935</u></u> | |
| Monthly averages | <u><u>1,731,245</u></u> | <u><u>396</u></u> |

December 31, 2020

| <u>Month</u> | <u>Consumption</u> | <u>Active Users</u> |
|--------------------------|---------------------------------|--------------------------------|
| January | 1,671,308 | 423 |
| February | 925,094 | 417 |
| March | 1,136,500 | 421 |
| April | 1,548,740 | 424 |
| May | 916,500 | 415 |
| June | 1,095,020 | 417 |
| July | 910,701 | 419 |
| August | 1,511,929 | 422 |
| September | 1,460,540 | 413 |
| October | 808,156 | 413 |
| November | 925,734 | 414 |
| December | 729,000 | 409 |
| Total consumption | <u><u>13,639,222</u></u> | |
| Monthly averages | <u><u>1,136,602</u></u> | <u><u>417</u></u> |

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedules of Insurance Coverage

Years Ended December 31, 2021 and 2020

| <u>Company</u> | <u>Description Of Policy</u> | <u>2021 Amount of Coverage</u> | <u>2020 Amount of Coverage</u> |
|----------------------------|--|--|--|
| EMC Insurance Co. | Workers' Compensation: | Statutory | Statutory |
| | | \$500,000 per accident | \$500,000 per accident |
| | | \$500,000 policy limit | \$500,000 policy limit |
| | | \$500,000 per employee | \$500,000 per employee |
| Glatfelter Public Practice | Commercial Property: | | |
| | Above ground piping, real and personal property blanket per occurrence limit | \$1,370,504 | \$1,370,504 |
| | Commercial Liability: | | |
| | General liability aggregate | \$3,000,000 | \$3,000,000 |
| | Products | \$3,000,000 | \$3,000,000 |
| | Personal injury | \$1,000,000 | \$1,000,000 |
| | Medical expense | \$10,000 | \$10,000 |
| | Hired and Non-Owned Automobile Liability | \$1,000,000 | \$1,000,000 |
| | Employee Dishonesty | \$50,000 | \$50,000 |
| | Directors & Officers Liability | \$1,000,000 | \$1,000,000 |

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedules of Water Rates

Years Ended December 31, 2021 and 2020

December 31, 2021

Water rates

| | |
|-----------------------|---------------------------|
| From 0 to 1,000 | \$37.20 per 1,000 gallons |
| From 1,001 to 999,999 | \$8.70 per 1,000 gallons |

Sewer rates

| | |
|-----------------------|---------------------------|
| From 0 to 1,000 | \$10.00 per 1,000 gallons |
| From 1,001 to 999,999 | \$2.00 per 1,000 gallons |

Service

| | | | |
|-----------------|---------|------------------|---------|
| Repair reserve | \$3.00 | Tax rate | 7.75% |
| Safe water act | \$0.40 | Penalty | 10.00% |
| Trash | \$26.72 | Due date | 15th |
| Fire protection | \$2.92 | Shut off date | 31st |
| | | Reconnection fee | \$35.00 |

December 31, 2020

Water rates

| | |
|-----------------------|---------------------------|
| From 0 to 1,000 | \$37.20 per 1,000 gallons |
| From 1,001 to 999,999 | \$8.70 per 1,000 gallons |

Sewer rates

| | |
|-----------------------|---------------------------|
| From 0 to 1,000 | \$10.00 per 1,000 gallons |
| From 1,001 to 999,999 | \$2.00 per 1,000 gallons |

Service

| | | | |
|-----------------|---------|------------------|---------|
| Repair reserve | \$3.00 | Tax rate | 7.75% |
| Safe water act | \$0.40 | Penalty | 10.00% |
| Trash | \$26.72 | Due date | 15th |
| Fire protection | \$2.92 | Shut off date | 31st |
| | | Reconnection fee | \$35.00 |

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Board of Directors

December 31, 2021

| <u>Officer's Name</u> | <u>Three-Year Term Expires</u> |
|---|---|
| Dianne Aiken - President 7816 Ar Hwy 256 England, AR 72046 | 2023 |
| Jake McNulty - Member 4201 S McKinney Rd Sherrill, AR 72152 | 2021 |
| Martin Carty - Member P.O. Box 29 Wright, AR 72182 | 2021 |
| Patty Reed - Secretary 7811 Ar Hwy 256 England, AR 72046 | 2022 |
| James Bost - Member P.O. Box 10 Wright, AR 72168 | 2022 |
| Dean Callahan - Vice President 9200 Trulock Bay Sherrill, AR 72152 | 2023 |

See independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Wright-Pastoria Water Association, Inc.
Wright, Arkansas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wright-Pastoria Water Association, Inc., as of and for the year ended December 31, 2021, and the related notes to financial statements, and have issued our report thereon dated November 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wright-Pastoria Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as item #2021-01, that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wright-Pastoria Water Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and management responses as item #2021-02.

Wright-Pastoria Water Association, Inc.'s Response to Findings

Wright-Pastoria Water Association, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and management responses. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
November 21, 2022

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedule of Findings and Management's Response

Year Ended December 31, 2021

Significant Deficiencies

#2021-01 – Segregation of Duties

Condition: During our review of internal controls, we noted inadequate segregation of duties over customer billings and cash receipts.

Criteria: Management is responsible for internal controls to provide adequate safekeeping of company funds and financial reporting.

Cause: For cost and benefit considerations, the Association has chosen to accept certain limitations in the system of internal controls.

Effect: Inadequate segregation of duties over customer billings and cash receipts could allow errors or irregularities to go undetected for extended periods of time.

Recommendation: We recommend that the Board implement internal controls over the establishment of customer accounts, adjustments of customer balances and write off of accounts receivable. The operation of those controls should be documented in the Association's books and records. In addition, we recommend that a system to receive and monitor customer complaints be established that is independent of the accounting functions.

Response: Management concurs with the finding and will draft policies and procedures to be followed in regards to customer billings and cash receipts and provide greater oversight.

Noncompliance

#2021-02 – Noncompliance with Loan Covenants

Condition: During our review of loan agreements, we noted that required reserves as referenced in USDA debt agreements were not in compliance

Criteria: Loan covenants should be monitored on an ongoing basis as a means of avoiding possible violations and resolving any violation on a timely basis. Required cash reserves are to be maintained by the Association, to be used for payments due on notes if other funds are not available and with written approval from USDA reserves may be used for repairing, replacing, improving the system

Cause: As described in Note 3 of the financial statements, required USDA reserves were (under)funded by \$34,028.

Effect: Although the lender did not take any action over the particular items, we believe that it is in the best interest of the Association to adhere to all loan covenants in order to maintain a favorable standing with creditors.

Recommendation: We recommend that a procedure be developed that encompasses a review of loan covenants monthly. Furthermore, it is strongly advised to increase billing rates in order to meet the required reserve amounts.

Response: Management agrees with the finding and will draft procedures to be followed to review loan covenants and will discuss with board members the need to increase rates.