

Financial Statements

Village Water Association

For the Year Ended October 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Village Water Association
Magnolia, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Village Water Association, which comprise the statement of financial position as of October 31, 2021, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Village Water Association as of October 31, 2021, 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 (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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 Village Water Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Village Water Association's ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS 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 GAAS, 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 Village Water Association'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 Village Water Association'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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2023 on our consideration of Village Water Association'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 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 Village Water Association's internal control over financial reporting and compliance


Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

January 5, 2023

**Village Water Association
Statement of Financial Position
October 31, 2021**

ASSETS

Current Assets

Cash and cash equivalents	\$ 148,092
Accounts receivable, net of allowance	<u>11,204</u>

Total Current Assets	<u>159,296</u>
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Property, Plant and Equipment, Net	<u>115,168</u>
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Other Assets

Cash reserve - meter deposits	12,088
Cash reserve - debt service	1,929
Cash reserve - other	<u>2,886</u>

Total Other Assets	<u>16,903</u>
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Total Assets	<u><u>\$ 291,367</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 59,658
Accrued liabilities	3,607
Customer deposits	9,200
Current portion of notes payable	<u>8,654</u>

Total Current Liabilities	<u>81,119</u>
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Noncurrent Liabilities

Non-current portion of long-term debt	<u>47,619</u>
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Total Liabilities	<u>128,738</u>
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Net Assets

Net Assets without Donor Restrictions	
Undesignated	145,726
Designated for specific purposes	<u>16,903</u>

Total Net Assets	<u>162,629</u>
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Total Liabilities and Net Assets	<u><u>\$ 291,367</u></u>
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The accompanying notes are an integral part of these financial statements.

**Village Water Association
Statement of Activities
For the Year Ended October 31, 2021**

Changes in Net Assets without Donor Restrictions

Revenue and Other Support

Water revenue	\$ 81,775
Late fees	611
Interest income	234
Debt forgiveness	<u>51,080</u>

Total Revenue and Other Support	<u>133,700</u>
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Functional Expenses

Program Services

Contract labor	5,980
Depreciation and amortization	21,614
Dues and subscriptions	2,095
Insurance	650
Interest expense	6,667
Payroll taxes	1,076
Repairs and maintenance	2,277
Salaries	13,117
Supplies	747
Utilities	4,545
Water purchases	<u>1,162</u>

Total Program Services	<u>59,930</u>
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Management and General

Advertising	577
Bad debt expense	15
Bank charges	58
Office and postage	840
Payroll taxes	890
Professional fees	6,165
Salaries	<u>10,845</u>

Total Management and General	<u>19,390</u>
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Total Functional Expenses	<u>79,320</u>
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Change in Net Assets	<u>54,380</u>
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Net Assets - Beginning, As Previously Stated	99,484
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Prior Period Adjustment	<u>8,765</u>
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Net Assets - Beginning, Restated	<u>108,249</u>
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Net Assets - Ending	<u><u>\$ 162,629</u></u>
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The accompanying notes are an integral part of these financial statements.

**Village Water Association
Statement of Cash Flows
For the Year Ended October 31, 2021**

Cash Flows from Operating Activities

Water service payments received	\$ 78,817
Interest received	234
Cash paid to vendors	(23,372)
Cash paid for payroll and related expenses	(25,928)
Cash paid for interest	(3,492)
	<u>(3,492)</u>

Net Cash Provided by Operating Activities

26,259

Cash Flows from Financing Activities

Principal payments on notes payable	(8,207)
Proceeds from issuance of bonds	58,580
	<u>58,580</u>

Net Cash Provided by Financing Activities

50,373

Net Increase in Cash and Cash Equivalents

76,632

Cash and Cash Equivalents - Beginning

88,363

Cash and Cash Equivalents - Ending

\$ 164,995

**Reconciliation of Change in Net Assets to Net Cash Provided
by Operating Activities**

Change in Net Assets	\$ 54,380
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>	
Depreciation	21,614
Amortization of bond issuance costs	3,175
Forgiveness of debt	(51,080)
Increase in allowance for doubtful accounts	15
Decrease (increase) in current assets:	
Accounts receivable	(4,218)
Increase (decrease) in current liabilities:	
Accounts payable	(442)
Accrued liabilities	2,165
Customer deposits	650
	<u>650</u>

Net Cash Provided by Operating Activities

\$ 26,259

Supplemental Disclosure of Non-cash Investing and Financing Activities

Accounts payable for property and equipment	\$ 43,580
Forgiveness of debt	\$ 51,080

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

Village Water Association
Notes to Financial Statements
October 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Village Water Association (the Association), is a not-for-profit corporation established under the laws of the State of Arkansas on June 8, 1977. The Association was formed to provide rural water service to its members in the rural areas of Village, Arkansas and has no other activities. The Association has not filed for tax exempt status with the federal government, and accordingly, is treated as a for-profit enterprise for income tax purposes at both the federal and state level.

Basis of Accounting – The financial statements have been prepared using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

Basis of Presentation – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes there in are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate amounts from net assets without donor restrictions for specific purposes.

Net Assets with Donor Restrictions – Net assets subject to donor – (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Association considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. All certificates of deposits are considered cash equivalents.

Receivables and Credit Policies – Accounts receivable consists primarily of customer receivables from water service and are stated at unpaid balances, less an allowance for doubtful accounts. The Association determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. The allowance was \$164 at October 31, 2021.

Property and Equipment – The Association records property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 7 to 40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Association reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended October 31, 2021.

Income Tax Status – When the corporation was formed, tax-exempt status was not applied for with the Internal Revenue Service. Therefore, when the net operating loss carryover is utilized or expires, the corporation will owe corporate income taxes.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Village Water Association
Notes to Financial Statements
October 31, 2021**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition – The Association recognizes revenue as water services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include revenues billed to customers on a cyclical basis as well as unbilled revenues at the end of the period. Management estimates unbilled revenues based on average daily water usage for the billing cycle following the accounting period. Unbilled revenues of \$3,477 are included in accounts receivable at October 31, 2021.

Generally, payment is due within 30 days once a bill is issued to a customer. A late fee of \$20 is assessed on or after the 18th of the following month for each past-due account. Sales tax and other taxes that are collected on behalf of government authorities, concurrent with revenue-producing activities, are primarily excluded from revenue.

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs – Advertising costs are expensed as incurred and program-specific advertising costs are included in program costs while general advertising costs are reported separately. Advertising expense for the year ended October 31, 2021 was \$577.

Subsequent Events - Management has evaluated events through January 5, 2023, the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash balances are maintained in a local financial institution in either demand accounts or certificates of deposit. The Association has designated separate cash accounts for customer meter deposits and debt service reserve to comply with certain loan covenants. Designated cash balances totaled \$16,903 at October 31, 2021. Cash balances are reported in the statement of financial position as follows:

Cash and cash equivalents	\$ 148,092
Designated cash balances	
Cash reserve - meter deposits	12,088
Cash reserve - debt service	1,929
Cash reserve - other	2,886
	<hr/>
Total Cash and Cash Equivalents	<u><u>\$ 164,995</u></u>

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 148,092
Accounts receivable	11,204
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	<u><u>\$ 159,296</u></u>

As part of our liquidity management plan, the Association invests cash in excess of daily requirements in certificates of deposit.

NOTE 4 – FINANCIAL INSTRUMENTS AND CREDIT RISK

The Association manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed federally insured limits. To date, the Association has not experienced losses in any of these accounts. At October 31, 2021, the Association's cash balances were fully insured. Credit risk associated with accounts receivable is not considered significant due to historical collection rates.

Village Water Association
Notes to Financial Statements
October 31, 2021

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at October 31, 2021:

Non-depreciable Assets

Land	\$ 1,000
Construction in progress	43,580
Non-depreciable Assets	<u>44,580</u>

Depreciable Assets

Water plant	685,471
Storage buildings	4,138
Machinery and equipment	5,616
Depreciable Assets	<u>695,225</u>
Less accumulated depreciation	624,637
Depreciable Assets, Net	<u>70,588</u>

Property and Equipment, Net	<u><u>\$ 115,168</u></u>
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NOTE 6 – LONG-TERM DEBT

Water Revenue Bond, Series 2021A (2021A Bond)

The 2021A Bond was obtained for the purpose of financing a portion of the costs of betterments and improvements to the Association's water system. The original amount of the 2021A Bond was \$281,528; however, the Association only drew \$7,500 on the bond at October 31, 2021. The bond is secured by a lien on and security interest in water revenues derived from the water system. The 2021A Bond has an annual service fee of 1.0% of the outstanding principal amount and interest rate 0.75%. Principal and interest payments are due semiannually on April 15 and October 15 beginning on October 15, 2023.

Water Revenue Bond, Series 2021 B (2021B Bond)

The 2021B Bond was obtained for the purpose of financing a portion of the costs of betterment and improvements to the Association's water system. The original amount of the 2021B Bond was \$120,655; however, section 12 of the bond purchase agreement states that the Authority will forgive the principal of the bond to the extent of each disbursement. During the year ended October 31, 2021, the Association received proceeds of \$51,080 from the bond which is reported in the statement of activities as debt forgiveness income.

During the year ended October 31, 2021, the Association incurred issuance costs of \$15,000 related to the new bonds; these costs will be amortized over the life of the bonds and recorded as interest expense as the debt is paid or forgiven. Bonds payable are reported net of unamortized bond issuance costs.

Bonds and notes payable consist of the following at October 31, 2021:

	<u>Series 2021A</u>	<u>Series 2021B</u>	<u>Total Bonds</u>
Bonds Payable			
Principal Amount	\$ 7,500	\$ -	\$ 7,500
Less: unamortized issuance costs	(7,500)	(4,325)	(11,825)
Bonds Payable, Net	<u><u>\$ -</u></u>	<u><u>\$ (4,325)</u></u>	<u><u>(4,325)</u></u>

Notes Payable

Note payable to the USDA due in monthly installments of \$410 including interest at 5.75% through 2028; secured by sufficient amounts of system revenues pledged to pay principal and interest of the outstanding note payable.

21,144

Village Water Association
Notes to Financial Statements
October 31, 2021

NOTE 6 – LONG-TERM DEBT (Continued)

Note payable to the ARNC due in annual installments of \$6,819 including interest at 5% through September 2028; secured by property and equipment included in the project.

	39,454
Notes Payable	<u>60,598</u>
Total Long-term Debt	<u><u>\$ 56,273</u></u>

Future maturities of the bonds and notes payable are as follows:

For the years ending December 31,

2022	\$ 8,654
2023	15,022
2024	11,197
2025	10,126
2026	10,421
Thereafter	<u>12,678</u>
Total Maturities	<u><u>\$ 68,098</u></u>

NOTE 7 – INCOME TAXES

The Association has not applied for tax exempt status for federal tax reporting purposes, and accordingly, is not exempt from federal and state income tax. The following summary presents unexpired federal and state net operating loss carryforwards as of October 31, 2021.

Federal net operating loss carryforward may be used to offset income until such losses have been utilized. As of October 31, 2021, federal net operating loss carryforwards totaled \$97,722. State of Arkansas net operating loss carryforward may be used to offset income for a period of five years. As of October 31, 2021, the Association had state net operating loss carryforwards totaling \$16,858 which expire as follows:

	<u>October 31, 2022</u>	<u>October 31, 2024</u>	<u>Total</u>
State net operating loss carryforwards	<u>\$ 2,797</u>	<u>\$ 14,061</u>	<u>\$ 16,858</u>

The Association's federal and state income tax returns for the years ended 2019, 2020, and 2021 are subject to examination by federal and state tax authorities, generally three years after they are filed.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

During the year ended October 31, 2021, the Association determined that accounts receivable was understated by \$4,065 and the customer deposit liability was overstated by \$4,700 in the prior year. Accordingly, the Association has recorded a prior period adjustment of \$8,765 to properly state beginning balances.

The Association also determined that it had incorrectly reported net assets of \$1,022 as net assets with donor restrictions. Accordingly, the Association recorded a prior period adjustment reclassifying this amount from net assets with donor restrictions to net assets without donor restrictions. This reclassification had no effect on beginning balances.

NOTE 9 – RISKS AND UNCERTAINTIES

The United States and global markets experienced significant economic turmoil resulting from uncertainty caused by the world-wide coronavirus pandemic. The impact on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Association's customers, employees, and vendors, all of which at present, cannot be determined. The accompanying financial statements do not include adjustments relating to the effects of the pandemic.

**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
Village Water Association
Magnolia, Arkansas

We have audited, in accordance with the 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 Village Water Association (a nonprofit organization), which comprise the statement of financial position as of October 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, and have issued our report thereon dated January 5, 2023.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village Water Association's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of Village Water 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

January 5, 2023

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