

Financial Statements

West Saline Water Users Association, Inc

For the Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Saline Water Users Association, Inc
New Edinburg, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Saline Water Users Association, Inc, which comprise the statement of financial position as of December 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 West Saline Water Users Association, Inc as of December 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). 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 West Saline Water Users 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 West Saline Water Users Association, Inc'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

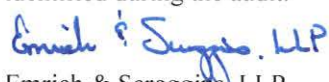
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance 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.

West Saline Water Users Association, Inc
Independent Auditor's Report (Continued)

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 West Saline Water Users 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 West Saline Water Users 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.



Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

February 2, 2023

West Saline Water Users Association, Inc
Statement of Financial Position
December 31, 2021

ASSETS

Current Assets

Cash and cash equivalents	\$ 749,092
Accounts receivable, net of allowance	41,125
Prepaid expense	11,241

Total Current Assets	801,458
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Property, Plant and Equipment, Net	553,256
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Other Assets

Cash reserve - meter deposits	41,168
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Total Other Assets	41,168
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Total Assets	\$ 1,395,882
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 5,272
Accrued liabilities	7,760

Total Current Liabilities	13,032
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Noncurrent Liabilities

Customer deposits	26,324
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Total Noncurrent Liabilities	26,324
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Total Liabilities	39,356
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Net Assets

Net Assets without Donor Restrictions

Undesignated	1,315,358
Designated for specific purposes	41,168

Total Net Assets	1,356,526
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Total Liabilities and Net Assets	\$ 1,395,882
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The accompanying notes are an integral part of these financial statements.

West Saline Water Users Association, Inc
Statement of Activities
For the Year Ended December 31, 2021

Changes in Net Assets without Donor Restrictions

Revenue and Other Support

Water revenue	\$ 313,987
Connect charges	5,390
Collection charges	702
Late fees	878
Interest income	2,387
Other income	2,373
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Total Revenue and Other Support	<hr/> 325,717 <hr/>
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Expenses

Program services	230,538
Management and general	76,959
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Total Expenses	<hr/> 307,497 <hr/>
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Change in Net Assets	<hr/> 18,220 <hr/>
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Net Assets - Beginning, As Previously Stated	1,324,450
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Prior Period Adjustment	<hr/> 13,856 <hr/>
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Net Assets - Beginning, Restated	<hr/> 1,338,306 <hr/>
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Net Assets - Ending	<hr/> \$ 1,356,526 <hr/>
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The accompanying notes are an integral part of these financial statements.

West Saline Water Users Association, Inc
Statement of Functional Expenses
For the Year Ended December 31, 2021

	<u>Program Services</u>	<u>Mgmt & General</u>	<u>Total Expenses</u>
Salaries	\$ 54,812	\$ 36,541	\$ 91,353
Employee benefits	4,885	3,256	8,141
Payroll taxes	4,352	2,902	7,254
	<hr/>	<hr/>	<hr/>
Total Salaries and Related Expenses	64,049	42,699	106,748
Bad debt	-	14,613	14,613
Insurance	10,943	1,931	12,874
Miscellaneous	1,567	1,567	3,134
Office supplies	-	2,125	2,125
Professional Fees	-	4,450	4,450
Repairs and maintenance	50,067	2,635	52,702
Supplies	8,762	974	9,736
Training	483	25	508
Travel	145	8	153
Utilities	16,359	1,818	18,177
	<hr/>	<hr/>	<hr/>
Total Expenses Before Depreciation	152,375	72,845	225,220
Depreciation	78,163	4,114	82,277
	<hr/>	<hr/>	<hr/>
Total Functional Expenses	<u>\$ 230,538</u>	<u>\$ 76,959</u>	<u>\$ 307,497</u>

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

West Saline Water Users Association, Inc
Statement of Cash Flows
For the Year Ended December 31, 2021

Cash Flows from Operating Activities	
Water service payments received	\$ 297,146
Connection fees received	5,390
Interest received	2,387
Other cash receipts	3,075
Cash paid to vendors	(108,306)
Cash paid for payroll and related expenses	(108,470)
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Net Cash Provided by Operating Activities	91,222
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Net Increase in Cash and Cash Equivalents	91,222
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Cash and Cash Equivalents - Beginning	699,038
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Cash and Cash Equivalents - Ending	\$ 790,260
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Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities	
Change in Net Assets	\$ 18,220
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>	
Depreciation	82,277
Increase in allowance for doubtful accounts	14,598
Decrease (increase) in current assets:	
Accounts receivable	(17,814)
Other current assets	(676)
Increase (decrease) in current liabilities:	
Accounts payable	(6,451)
Accrued liabilities	972
Customer deposits	96
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Net Cash Provided by Operating Activities	\$ 91,222
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Supplemental Disclosure of Non-cash Investing Activities	
Accounts payable for property and equipment	\$ 4,303
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The accompanying notes are an integral part of these financial statements.

West Saline Water Users Association, Inc
Notes to Financial Statements
December 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – West Saline Water Users Association, Inc (the Association), is a not-for-profit corporation established under the laws of the State of Arkansas. The Association was formed to provide rural water service to its members in the rural areas of Bradley, Calhoun, and Cleveland County, Arkansas. The Association has no other activities.

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 \$17,633 at December 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 5 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 December 31, 2021.

Income Tax Status – The Association was organized as an Arkansas nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501 (c)(12). The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

In addition, the Association is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Association has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. Accordingly, no provision for income taxes has been made in the accompanying statement of activities.

West Saline Water Users Association, Inc
Notes to Financial Statements
December 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 amounts billed to customers on a cycle basis. Management estimates unbilled revenues based on average daily water usage for the billing cycle following the accounting period. Unbilled revenues of \$7,206 are included in accounts receivable at December 31, 2021.

Generally, payment is due within 21 days once a bill is issued to a customer. 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 reported on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events - Management has evaluated events through February 2, 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 totaling \$41,168 at December 31, 2021. Cash balances are reported in the statements of financial position as follows:

Cash and cash equivalents	\$ 749,092
Designated cash balances	
Cash reserve - meter deposits	<u>41,168</u>
Total Cash and Cash Equivalents	<u>\$ 790,260</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	\$ 749,092
Accounts receivable	<u>41,125</u>
	<u>\$ 790,217</u>

The Association's liquidity policy is to maintain approximately 180 days of operating expenses, or \$160,000, in financial assets available for general expenditure. The Association generally invests cash in excess of this amount 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. The Association's cash balances exceeded federally insured limits by \$93,831 at December 31, 2021. Credit risk associated with accounts receivable is not considered significant due to historical collection rates.

West Saline Water Users Association, Inc
Notes to Financial Statements
December 31, 2021

NOTE 5 – RELATED PARTY TRANSACTIONS

The Association compensates their board members based on the number of board meetings attended. The Association made payments of \$2,125 to board members during the year ended December 31, 2021. There were no other related party transactions during the year ended December 31, 2021.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2021:

Non-depreciable Assets

Land	\$ 15,240
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Depreciable Assets

Water plant	2,481,842
Buildings	52,175
Machinery and equipment	407,461
Depreciable Assets	<u>2,941,478</u>
Less accumulated depreciation	<u>2,403,462</u>
Depreciable Assets, Net	<u>538,016</u>

Property and Equipment, Net	<u><u>\$ 553,256</u></u>
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NOTE 7 – DEFINED CONTRIBUTION PLAN

The Association offers a simplified employee pension plan (SEP) for its employees. Employees do not make contributions to the plan; however, the Association contributes 25% of each participating employee's salary to the plan. The defined contribution plan expense for the year is \$7,127.

NOTE 8 – COLLABORATIVE AGREEMENT

The Association entered into an agreement with the Town of Tinsman, Arkansas (the "Town") on May 16, 1996, to assume operation and management of the Town's water system. The Association operates and maintains the system but does not have the right to expand the system.

In 2016, both parties reviewed the arrangement and agreed to continue the arrangement. As of December 31, 2021, the arrangement was still in place, and the Association was still operating and managing the Town's water system.

NOTE 9 – ACCOUNTING FOR UNCERTAIN TAX POSITIONS

Accounting Standards Codification (ASC) Topic 740, Income Taxes, requires an entity to recognize a liability for taxes to the extent of any unrelated business income as defined by IRS regulations. The Association is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Association believes that it has not engaged in any unrelated business income activities as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of December 31, 2021.

If a tax position does not meet the minimum statutory threshold to avoid payment of penalties and interest, the Association recognizes an expense of the amount of statutory penalty in the period in which it claims or expects to claim the position in the return. Any penalties and interest accrued are recognized as expenses. For the years ended December 31, 2021, no penalties and interest were recorded in the financial statements.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2021, the Association determined that accounts receivable was understated by \$8,306, the customer deposit liability was overstated by \$2,512, and accrued expenses were overstated by \$3,038 in the prior year. Accordingly, the Association has recorded a prior period adjustment of \$13,856 to properly state beginning balances.

West Saline Water Users Association, Inc
Notes to Financial Statements
December 31, 2021

NOTE 11 – RISKS AND UNCERTAINTIES

The United States and global markets has experienced significant economic turmoil resulting from uncertainty caused by the world-wide coronavirus pandemic in 2020. 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.