

VANNDALE BIRDEYE
WATER ASSOCIATION, INC
FINANCIAL STATEMENTS (AUDITED)
OCTOBER 31, 2021

MEYER & WARD, P.A.
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VANNDALE BIRDEYE WATER ASSOCIATION, INC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vanndale Birdeye Water Association, Inc.
Cherry Valley, AR 72324

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We did not observe the taking of the physical inventories at October 31, 2021 (stated at \$22,920), since this date was prior to the time we were engaged as auditors for the association. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of October 31, 2021, the financial statements referred to above present fairly, in all material respects, the financial position of the Vanndale Birdeye Water Association, Inc. 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.

Other

As discussed in Note I to the financial statements, the Association has not filed tax returns as required for non-profit organizations. Failure to file such returns may result in substantial IRS penalties, which may be material to these financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2023, on our consideration of the Vanndale Birdeye 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 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 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 Vanndale Birdeye Water Association, Inc.'s internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
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Wynne, AR 72396

February 8, 2023

VANNDALE BIRDEYE WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2021

ASSETS

| | <u>2021</u> |
|-----------------------------------|---------------------|
| CURRENT ASSETS | |
| Cash on hand and in banks | \$ 531,938 |
| Accounts receivable | 46,027 |
| Supplies | 22,920 |
| Total Current Assets | <u>600,885</u> |
| RESTRICTED ASSETS | |
| Cash in banks | 293,148 |
| Certificates of deposit | 40,000 |
| Total Restricted Assets | <u>333,148</u> |
| PROPERTY, PLANT & EQUIPMENT | |
| Land | 3,000 |
| Buildings | 6,615 |
| Water Plant | 2,421,928 |
| Sewer System | 831,295 |
| Filtering Plant | 283,785 |
| Equipment | 446,215 |
| | <u>3,992,838</u> |
| Less: Accumulated Depreciation | <u>(2,264,772)</u> |
| Net Property, Plant and Equipment | <u>1,728,066</u> |
| TOTAL ASSETS | <u>\$ 2,662,099</u> |

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

VANNDALE BIRDEYE WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2021

LIABILITIES AND NET ASSETS

| | <u>2021</u> |
|---|---------------------|
| CURRENT LIABILITIES | |
| Current portion of long-term debt | \$ 20,143 |
| Accounts payable | 8,134 |
| Accrued Interest | 269 |
| Sales Tax payable | 3,886 |
| Accrued and withheld payroll liabilities | 4,719 |
| Customer Application fees | 7,600 |
| Total Current Liabilities | <u>44,751</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | |
| Customer meter deposits | <u>53,123</u> |
| | <u>53,123</u> |
| LONG-TERM DEBT, less current portion | <u>540,231</u> |
| NET ASSETS | |
| Net assets, without restrictions | 1,021,545 |
| Net assets, with restrictions | <u>1,002,449</u> |
| Total Net Assets | <u>2,023,994</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,662,099</u> |

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

VANNDALE BIRDEYE WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITY
OCTOBER 31, 2021

| | Without Restrictions | With Restrictions | 2021 Total |
|--|-------------------------|----------------------|---------------------|
| OPERATING REVENUES: | | | |
| Water sales | \$ 565,354 | | \$ 565,354 |
| Sewer sales | 28,155 | | 28,155.00 |
| Other Revenues | 5,405 | | 5,405.00 |
| Net Assets Relested from Restrictions | 13,703 | \$ (13,703) | |
| Transfers to or from Restricted Accounts | 53,689 | (53,689) | |
| | <u>666,306</u> | <u>(67,392)</u> | <u>598,914</u> |
| OPERATING EXPENSES: | | | |
| Depreciation | 107,572 | | 107,572 |
| Directors fees | 2,200 | | 2,200 |
| Dues and permits | 1,577 | | 1,577 |
| Fuel | 5,452 | | 5,452 |
| Insurance | 44,140 | | 44,140 |
| Labor | 1,925 | | 1,925 |
| Payroll taxes and fringe | 9,232 | | 9,232 |
| Professional fees | 12,127 | | 12,127 |
| Salaries | 196,634 | | 196,634 |
| Miscellaneous | 6,773 | | 6,773 |
| Mowing | 9,262 | | 9,262 |
| Office supplies and postage | 17,530 | | 17,530 |
| Operating supplies | 50,076 | | 50,076 |
| Repairs and maintenance | 55,658 | | 55,658 |
| Retirement | 6,382 | | 6,382 |
| Utilities | 47,078 | | 47,078 |
| Total Operating Expenses | <u>573,618</u> | <u>-</u> | <u>573,618</u> |
| Income from Operations | <u>92,688</u> | <u>(67,392)</u> | <u>25,296</u> |
| OTHER INCOME AND (EXPENSES) | | | |
| Interest expense | (29,513) | | (29,513) |
| Contract Income | 30,933 | | 30,933 |
| Interest income | 1,601 | | 1,601 |
| Net Other Income (and Expense) | <u>3,021</u> | <u>-</u> | <u>3,021</u> |
| Change in net assets | 95,709 | (67,392) | 28,317 |
| Net Assets at Beginning of Year | 925,836 | 1,069,841 | 1,995,677 |
| Net Assets at End of Year | <u>\$ 1,021,545</u> | <u>\$ 1,002,449</u> | <u>\$ 2,023,994</u> |

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

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
OCTOBER 31, 2021

| | <u>2021</u> |
|---|------------------|
| Cash flows from operating activities | |
| Change in net assets | <u>\$ 28,317</u> |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation | 107,572 |
| (Increase) decrease in accounts receivable | 9,098 |
| (Increase) decrease in unbilled accounts receivable | |
| (Increase) decrease in prepaid expenses | 709 |
| Increase (decrease) in accounts payable | (15,946) |
| Increase (decrease) in accrued liabilities | |
| Increase (decrease) in other current liabilities | 3,886 |
| Increase (decrease) in interest payable | (2,184) |
| Increase (decrease) in accrued and withheld payroll taxes | 4,719 |
| Increase (decrease) in customer deposits | (18,272) |
| Total adjustments | <u>89,582</u> |
| Net cash provided (used) by operating activities | <u>117,899</u> |
| Cash flows from investing activities: | |
| Cash payments for the purchase of equipment | (59,346) |
| Transfers to restricted assets | 53,689 |
| Maturities of Certificates of Deposit | 34,853 |
| Net cash provided (used) by investing activities | <u>29,196</u> |
| Cash flows from financing activities | |
| Principal payments on long-term debt | (140,714) |
| Net cash provided (used) by financing activities | <u>(140,714)</u> |
| Net increase (decrease) in cash and cash equivalents | 6,381 |
| Cash and cash equivalents, beginning of year | 525,557 |
| Cash and cash equivalents, end of year | <u>531,938</u> |
| Interest paid | <u>\$ 31,698</u> |

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

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION - Vanndale Birdeye Water Association, Inc. (the Association) is a non-profit corporation organized to provide water and sewer services to its members. The Association serves the communities of Vanndale and Birdeye in Eastern Arkansas.

BASIS OF ACCOUNTING - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

FINANCIAL STATEMENT PRESENTATION - The Association is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions or without donor restrictions.

ACCOUNTS RECEIVABLE - Accounts Receivable is presented at estimated net realizable value. The specific charge - off method is used to record bad debt expense. No material difference results from use of the specific charge off method instead of allowance method as required by generally accepted accounting principles. Accounts receivable results from water and sewer services provided to consumers. Accounts receivable is collateralized by customer deposits.

PROPERTY AND EQUIPMENT - Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized while minor replacements, maintenance, and repairs, which do not improve or extend the life of such assets, are charged to operations as incurred. Depreciation is provided by the straight - line method over the estimated useful lives of the assets. Estimated useful lives range are 5 - 7 years for office furniture, computer equipment and transportation equipment, 10 to 20 years for buildings and improvements, and 30 to 50 years for the water plant.

CASH AND CASH EQUIVALENTS -The Association considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

SALES TAX - The Association is subject to sales tax on water sales. Revenues are presented net of sales taxes.

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RISK MANAGEMENT - The Association minimizes risks through purchase of commercial insurance.

INCOME TAXES - The Association is exempt from federal income taxes under Section 501 (c) 12 of the Internal Revenue Service Code and did not conduct any business activities inconsistent with that exemption. However, the Association has not filed the appropriate information returns as required, and penalties may ultimately be imposed by the IRS.

CONTRIBUTIONS - Contributions are classified as with donor restrictions or without donor restrictions.

Contributions of long-lived assets are recorded at fair value.

NOTE B - ACCUMULATED DEPRECIATION:

The following is a summary of accumulated depreciation by class of assets:

| | <u>2021</u> |
|-----------------|---------------------|
| Building | \$ 6,615 |
| Water Plant | 1,307,735 |
| Sewer System | 304,692 |
| Filtering Plant | 257,947 |
| Equipment | 387,783 |
| | <u>\$ 2,264,772</u> |

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2021

NOTE C - RESTRICTED ASSETS:

Restricted funds consist of the following amounts:

| | |
|----------------------------|-------------------|
| Cash: | <u>2021</u> |
| Customer's deposit reserve | \$ 56,797 |
| Depreciaton | 95,956 |
| Debt Service | <u>140,395</u> |
| | <u>\$ 293,148</u> |
| Certificates of Deposit: | |
| Depreciation | \$ 40,000 |
| | <u>\$ 40,000</u> |

The customer's deposit reserve is established to cover the Association's liability for customer deposits of \$ 53,123 at October 31, 2021.

NOTE D - LONG -TERM DEBT:

Notes Payable at October 31, consists of the following :

| | |
|---|-------------------|
| | <u>2021</u> |
| 4.75 % Note Payable to USDA, due in monthly installments of \$ 3,243 through 2039, secured by pledge of future revenues | \$ 466,674 |
| 4.25% Note Payable to USDA, due in monthly installments of \$ 579 through 2044, secured by pledge of future revenues | <u>93,700</u> |
| | 560,374 |
| Less current maturities | <u>(20,143)</u> |
| Long-term debt, net of current maturities | <u>\$ 540,231</u> |

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2021

NOTE D - LONG -TERM DEBT (CONT'D) :

A schedule of the future payments required is as follows:

| For years ending October 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-------------------|-------------------|-------------------|
| 2022 \$ | 20,143 | \$ 25,721 | \$ 45,864 |
| 2023 | 21,105 | 24,759 | 45,864 |
| 2024 | 22,113 | 23,751 | 45,864 |
| 2025 | 23,170 | 22,694 | 45,864 |
| 2026 | 24,277 | 21,587 | 45,864 |
| Thereafter | 449,566 | 152,610 | 602,176 |
| | <u>\$ 560,374</u> | <u>\$ 271,122</u> | <u>\$ 831,496</u> |

NOTE E - DEPOSITS WITH FINANCIAL INSTITUTIONS

The Association's investment policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation Insurance. The Association's deposits are categorized to give an indication of the level of risk assumed by the entity at October 31, 2021. The categories are described as follows :

Category 1 - Insured or collateralized by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging institution's trust department or by its agent in the Association's name.

Category 3 - Uncollateralized.

At October 31, 2021 Cash deposits categorized by level of risk are:

| Carrying Amount | <u>1</u> | Category <u>2</u> | <u>3</u> |
|-------------------|-------------------|----------------------|--------------|
| <u>\$ 865,086</u> | <u>\$ 500,000</u> | <u>\$ 365,048</u> | <u>\$ 38</u> |

VANDALLE BIRDEYE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2021

NOTE F - NUMBER OF CUSTOMERS

Active customers at year-end October 31, 2021 were 890.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report. No events were noted as requiring disclosure.

NOTE H - RETIREMENT PLAN

The Association maintains a Simple-IRA plan for the benefit of employees who have more than one year of service. Total retirement expense for the years ending October 31, 2021 were \$ 6,382.

NOTE I - CONTINGENCIES

As discussed in Note A - the Association has not filed tax returns and may be subject to IRS penalties, which may be material to the financial statements. A reasonable estimate of the possible range of loss cannot be determined.

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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
Vanndale Birdeye Water Association, Inc.
Cherry Valley, AR 72324

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 the Vanndale Birdeye Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vanndale Birdeye 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vanndale Birdeye Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See finding #21-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vanndale Birdeye Water Association, Inc.'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*.

Vanndale Birdeye Water Association Inc.'s - Response to Findings

Vanndale Birdeye Water Association Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. This 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, AR 72396
February 8, 2023

VANNDALE BIRDEYE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS
OCTOBER 31, 2021

#21-01 Segregation of Duties

CONDITION: Vanndale Birdeye Water Association, Inc. does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

EFFECT: Inadequate segregation of duties reduces Vanndale Birdeye Water Association, Inc.'s internal control over financial reporting, processing of transactions, and safeguarding of assets. Potential effects of inadequate segregation of duties are errors and fraudulent activity occurring without detection.

RECOMMENDATION: Vanndale Birdeye Water Association, Inc.'s board of directors and management should continue to review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees.

RESPONSE: The Board and Management will review existing job descriptions and segregate responsibilities to the extent practical given the number of employees.