

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
(A Nonprofit Organization)
Dumas, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2022
and
INDEPENDENT AUDITOR'S REPORT

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
(A Nonprofit Organization)
Dumas, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2022

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**To the Board of Directors of the
Pendleton Pea Ridge Water Association, Inc.**

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of the Pendleton Pea Ridge Water Association, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022, and the related statements of activities 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 the Association as of December 31, 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 Pendleton Pea Ridge 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 these 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 Pendleton Pea Ridge 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 Responsibility 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

**Board of Directors
Pendleton Pea Ridge Water Association, Inc.**

Auditor's Responsibility 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

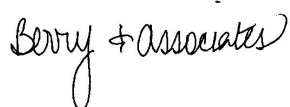
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 including 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 the Pendleton Pea Ridge 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pendleton Pea Ridge 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023 on our consideration of the Pendleton Pea Ridge Water & Sewer 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 the Pendleton Pea Ridge Water & Sewer 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 the Pendleton Pea Ridge Water & Sewer Association, Inc.'s internal control over financial reporting and compliance.



BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
December 20, 2023

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2022

ASSETS

ASSETS

Cash and cash equivalents	\$ 271,893
Accounts receivable	20,005
Capital assets, net of accumulated depreciation	<u>237,483</u>
TOTAL ASSETS	\$ <u>529,381</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 1,844
Meter deposits payable	<u>27,247</u>
TOTAL LIABILITIES	<u>29,091</u>

NET ASSETS

Without donor restrictions	<u>500,290</u>
TOTAL NET ASSETS	<u>500,290</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>529,381</u>

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

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2022

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

UNRESTRICTED REVENUES AND GAINS

Water program service fees	\$ 240,969
Investment return, net	1,294
Total revenues and gains without donor restrictions	<u>242,263</u>

EXPENSES

Water program:	
Water purchases	78,661
Contract labor	30,226
Repairs & maintenance	8,501
Depreciation expense	20,008
Supporting services:	
Meals and entertainment	273
Insurance	8,270
Office expense	8,174
Professional fees	4,460
Utilities	9,144
Interest expense	257
Payroll expense	21,535
Miscellaneous expense	3,187
Total Expenses	<u>192,696</u>

INCREASE IN NET ASSETS

WITHOUT DONOR RESTRICTIONS	<u>49,567</u>
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INCREASE IN NET ASSETS	49,567
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NET ASSETS - AT BEGINNING OF YEAR	<u>450,723</u>
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NET ASSETS - AT END OF YEAR	<u><u>\$ 500,290</u></u>
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The accompanying notes to financial statements are an integral part of these statements

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2022

Cash flows from operating activities:

Cash received from customers	\$ 222,258
Cash payments to supplies	(140,618)
Cash payments to contract laborers	(30,226)
Net cash provided by operating activities	<u>51,414</u>

Cash flows from investing activities:

Increase in meter deposits payable	(1,375)
Net cash used by investing activities	<u>(1,375)</u>

Cash flows from capital and related financing activities:

Principal payments on long-term debt	(11,401)
Net cash used by capital and related financing activities	<u>(11,401)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 38,638

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 233,255

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 271,893

**Reconciliation of increase in net assets to net cash
provided by operating activities:**

Increase in Net Assets	\$ 49,567
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	20,008
(Increase) decrease in-	
Accounts receivable	(20,005)
Increase (decrease) in-	
Accounts payable	1,844
Total Adjustments	<u>1,847</u>
Net cash provided by operating activities:	<u><u>\$ 51,414</u></u>

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

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Pendleton Pea Ridge Water Association, Inc., (the “Association”) was formed in 1997 as a nonprofit organization, under the laws of the State of Arkansas. The purpose of the Association is to fund public water suppliers in their goal to establish a long-term water supply system. The Association is not included in any other governmental reporting entity, as defined by *Governmental Accounting and Financial Reporting Standards*.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

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

Use of Estimates

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

Cash Equivalents

For the purpose of the Statement of Cash Flows, the Pendleton Pea Ridge Water Association, Inc., considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Income Taxes

The Association is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in these financial statements.

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Association. Operating revenues consist primarily of membership fees. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both net assets without donor restrictions and net assets with donor restrictions available, it is the Association’s policy to apply those expenses to net assets without donor restrictions to the extent such are available and then to net assets with donor restrictions.

Equity Classifications

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following two components:

With donor restrictions- This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Without donor restrictions - This component of net assets consists of net assets not subject to donor -imposed restrictions.

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES con't:

Restricted Assets

Certain proceeds of the Association's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements, are classified as restricted assets on the Statement of Financial Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted assets set aside for the refund of meter deposits at December 31, 2022 totaled \$32,613.

Allowance for Bad Debts

Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Association defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	10-40 years
Water system	5-50 years
Equipment	5-15 years

Date of Management's Review

Subsequent events have been evaluated through December 20, 2023, which is the date the financial statements were available to be issued.

Adoption of GASB 87

Effective January 1, 2022, the Association adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Association's results of operations or cash flows.

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Association's name. As of December 31, 2022, deposited funds were adequately insured.

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 3 –CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2022 was as follows:

	Balance at December 31, 2021	Additions	Deletions/ Transfers	Balance at December 31, 2022
Building	\$ 35,288	\$ -	\$ -	\$ 35,288
Office Equipment	5,411	-	-	5,411
Equipment	23,453	-	-	23,453
Vehicles	22,500	-	-	22,500
Water System	888,061	-	-	888,061
	974,713	-	-	974,713
Accumulated depreciation	(717,222)	(20,008)	-	(737,230)
Total capital assets, net of accumulated depreciation	\$ 257,491	\$ (20,008)	\$ -	\$ 237,483

NOTE 4 –LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following reflects the Association's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year end	\$ 291,898
Less those unavailable for general expenditures within one year, due to:	
Donor-restricted to refund of meter deposits	32,613
Financial assets available to meet cash needs for general expenditure within one year	\$ 259,285

As part of the Association's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically certificates of deposit and savings accounts.



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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 of the
Pendleton Pea Ridge Water Association, Inc.**

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 the Pendleton Pea Ridge Water Association, Inc. (the "Association") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022, 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 December 20, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected in 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 the 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2022-01, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Board of Directors
Pendleton Pea Ridge Water Association, Inc.
Dumas, Arkansas**

Association's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying Schedule of Findings and 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 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.

A handwritten signature in cursive script that reads "Berry & Associates".

Berry & Associates, P.A.
Little Rock, Arkansas
December 20, 2023

PENDLETON PEA RIDGE WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2022

2022-01 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual who is responsible for service billing and adjustment, receives customer payments, and posts payments to subsidiary accounts receivable ledger. The same individual that is responsible for the general ledger activity, also reconciles the bank accounts, writes the checks and is one of the authorized check signers. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The Association's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duty segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight. For example, the entity might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

Responsible Official's Response: The Association concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Association has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as applicable.