

*Financial Statements*

**CALHOUN COUNTY WATER ASSOCIATION, INC.**

*For the Years Ended December 31, 2019 and 2018*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Calhoun County Water Association, Inc.  
Hampton, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Calhoun County Water Association, Inc. (the Association) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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 audit. We conducted our audit 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 audit 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Calhoun County Water Association, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020, on our consideration of Calhoun County 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

Calhoun County Water Association, Inc.  
Independent Auditor's Report (Continued)

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 Calhoun County Water Association, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Emrich & Scroggins, LLP", is written over the printed name of the firm.

Emrich & Scroggins, LLP  
El Dorado, Arkansas

October 7, 2020

**CALHOUN COUNTY WATER ASSOCIATION, INC.**

**Statements of Financial Position**

**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - operating	\$ 93,972	\$ 46,808
Accounts receivable, net of allowance	27,680	24,306
Prepaid expense	<u>4,065</u>	<u>3,805</u>
<b>Total Current Assets</b>	<u>125,717</u>	<u>74,919</u>
<b>Property, Plant and Equipment, Net</b>	<u>2,364,837</u>	<u>2,573,468</u>
<b>Other Assets</b>		
Cash reserve - meter deposits	35,461	34,900
Cash reserve - debt service	<u>142,643</u>	<u>128,833</u>
<b>Total Other Assets</b>	<u>178,104</u>	<u>163,733</u>
<b>Total Assets</b>	<u><u>\$ 2,668,658</u></u>	<u><u>\$ 2,812,120</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 8,737
Accrued liabilities	6,706	6,703
Current portion of notes payable	<u>37,632</u>	<u>36,044</u>
<b>Total Current Liabilities</b>	<u>44,338</u>	<u>51,484</u>
<b>Noncurrent Liabilities</b>		
Notes payable, net of current portion	1,546,016	1,583,769
Customer deposits	<u>35,155</u>	<u>35,555</u>
<b>Total Noncurrent Liabilities</b>	<u>1,581,171</u>	<u>1,619,324</u>
<b>Total Liabilities</b>	<u>1,625,509</u>	<u>1,670,808</u>
<b>Net Assets</b>		
Net Assets without Donor Restrictions		
Undesignated	865,045	977,579
Board designated	<u>178,104</u>	<u>163,733</u>
<b>Total Net Assets</b>	<u>1,043,149</u>	<u>1,141,312</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,668,658</u></u>	<u><u>\$ 2,812,120</u></u>

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

**CALHOUN COUNTY WATER ASSOCIATION, INC.**  
**Statements of Activities**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Changes in Net Assets without Donor Restrictions</b>		
<b>Revenue and Other Support</b>		
Water	\$ 242,419	\$ 247,477
New connections	9,715	20,325
Disconnect/reconnect fees	960	120
Late fees	6,414	6,177
Other income	77,926	4,344
	<u>337,434</u>	<u>278,443</u>
<b>Total Revenue and Other Support</b>	<u>337,434</u>	<u>278,443</u>
<b>Functional Expenses</b>		
<b>Program Services</b>		
Contract labor	71,411	70,426
Depreciation	208,631	208,631
Insurance	5,563	5,262
Interest expense	69,136	70,667
Repairs and maintenance	7,920	2,369
Supplies	11,522	21,188
Taxes and license	3,715	2,120
Telephone	2,840	2,683
Utilities	16,058	14,192
	<u>396,796</u>	<u>397,538</u>
<b>Total Program Services</b>	<u>396,796</u>	<u>397,538</u>
<b>Management and General</b>		
Bad debt expense	-	1,628
Director fees	4,500	4,150
Office expense	1,622	1,463
Professional fees	32,286	25,114
Miscellaneous expense	393	23
	<u>38,801</u>	<u>32,378</u>
<b>Total Management and General</b>	<u>38,801</u>	<u>32,378</u>
<b>Total Functional Expenses</b>	<u>435,597</u>	<u>429,916</u>
<b>Change in Net Assets</b>	<u>(98,163)</u>	<u>(151,473)</u>
<b>Net Assets without Donor Restrictions - Beginning of Year</b>	<u>1,141,312</u>	<u>1,292,785</u>
<b>Net Assets without Donor Restrictions - End of Year</b>	<u>\$ 1,043,149</u>	<u>\$ 1,141,312</u>

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



**CALHOUN COUNTY WATER ASSOCIATION, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Water service payments received	\$ 245,059	\$ 246,061
Membership and connection fees received	10,675	20,445
Interest received	1,405	1,144
Other cash receipts	76,521	3,199
Cash paid to vendors	(166,824)	(156,617)
Cash paid for interest	(69,136)	(70,667)
<b>Net Cash Provided by Operating Activities</b>	<u>97,700</u>	<u>43,565</u>
<b>Cash Flows from Investing Activities</b>		
Payments for property and equipment	-	(167,529)
<b>Net Cash (Used in) Investing Activities</b>	<u>-</u>	<u>(167,529)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on note payable	(36,165)	(34,639)
Proceeds from capital grant	-	167,529
<b>Net Cash (Used in) Provided by Financing Activities</b>	<u>(36,165)</u>	<u>132,890</u>
<b>Net Increase in Cash and Cash Equivalents</b>	61,535	8,926
<b>Cash and Cash Equivalents - Beginning</b>	<u>210,541</u>	<u>201,615</u>
<b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 272,076</u></u>	<u><u>\$ 210,541</u></u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities</b>		
Change in Net Assets	\$ (98,163)	\$ (151,473)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	208,631	208,631
Increase in allowance for doubtful accounts	-	1,628
Decrease (increase) in current assets:		
Accounts receivable	(3,374)	159,036
Other current assets	(260)	(314)
Increase (decrease) in current liabilities:		
Accounts payable	(8,737)	(174,789)
Accrued liabilities	3	(54)
Customer deposits	(400)	900
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 97,700</u></u>	<u><u>\$ 43,565</u></u>

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

**CALHOUN COUNTY WATER ASSOCIATION, INC.**

**Notes to Financial Statements**

**December 31, 2019 and 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations – Calhoun County Water 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 Calhoun 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.

Revenue and Revenue Recognition – Revenue is recognized when earned. Water service fees are recorded in the period in which the related services are performed.

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 \$8,449 at December 31, 2019 and 2018.

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 25 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. 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 years ended December 31, 2019 and 2018.

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.



**CALHOUN COUNTY WATER ASSOCIATION, INC.**

**Notes to Financial Statements**

**December 31, 2019 and 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

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

**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 \$178,104 and \$163,733 at December 31, 2019 and 2018, respectively. Cash balances are reported in the statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Cash - operating	\$ 93,972	\$ 46,808
Designated Cash Balances		
Cash reserve - meter deposits	35,461	34,900
Cash reserve - debt service	<u>142,643</u>	<u>128,833</u>
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 272,076</u></u>	<u><u>\$ 210,541</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:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 93,972	\$ 46,808
Accounts receivable	<u>27,680</u>	<u>24,306</u>
	<u><u>\$ 121,652</u></u>	<u><u>\$ 71,114</u></u>

As part of our liquidity management plan, the Association invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

**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 December 31, 2019, the Association's cash balances exceeded federally insured amounts by \$21,503; the Association's cash balances were fully insured at December 31, 2018. Credit risk associated with accounts receivable is not considered significant due to historical collection rates.

**CALHOUN COUNTY WATER ASSOCIATION, INC.**

**Notes to Financial Statements**

**December 31, 2019 and 2018**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<b>Non-depreciable Assets</b>		
Land	\$ 9,400	\$ 9,400
<b>Depreciable Assets</b>		
Water tanks and well	609,183	609,183
Lines	4,072,903	4,072,903
Meters	29,519	29,519
167 Project	490,972	490,972
Office Equipment	10,997	10,997
<b>Depreciable Assets</b>	<u>5,213,574</u>	<u>5,213,574</u>
Less accumulated depreciation	<u>2,858,137</u>	<u>2,649,506</u>
<b>Depreciable Assets, Net</b>	<u>2,355,437</u>	<u>2,564,068</u>
<b>Property and Equipment, Net</b>	<u><u>\$ 2,364,837</u></u>	<u><u>\$ 2,573,468</u></u>

**NOTE 6 – NOTES PAYABLE**

A schedule of notes payable at December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Note payable to the USDA due in monthly installments of \$6,891 including interest at 4.375% through May 2044; secured by all present and future contract rights, accounts receivable and general intangibles arising in connection with the facility	\$ 1,227,275	\$ 1,255,600
Note payable to the USDA due in monthly installments of \$1,893 including interest at 4.125% through May 2045; secured by all present and future contract rights, accounts receivable and general intangibles arising in connection with the facility	<u>356,373</u>	<u>364,213</u>
<b>Total Notes Payable</b>	<u><u>\$ 1,583,648</u></u>	<u><u>\$ 1,619,813</u></u>

Future maturities of notes payable are as follows:

For the years ending December 31,	
2020	\$ 37,632
2021	39,291
2022	41,023
2023	42,831
2024	44,719
Thereafter	<u>1,378,152</u>
<b>Total Maturities</b>	<u><u>\$ 1,583,648</u></u>

**CALHOUN COUNTY WATER ASSOCIATION, INC.**

**Notes to Financial Statements**

**December 31, 2019 and 2018**

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Association compensates their board members on a monthly basis. Director's expense for the years ended December 31, 2019 and 2018 amounted to \$4,500 and \$4,150, respectively. There were no related party accounts receivable or accounts payable at December 31, 2019 and 2018.

**NOTE 8 – 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 Organization is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Organization 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, 2019.

If a tax position does not meet the minimum statutory threshold to avoid payment of penalties and interest, the Company 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, 2019 and 2018, no penalties and interest were recorded in the financial statements.

**NOTE 9 – SUBSEQUENT EVENTS**

Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Subsequent Events – Management has evaluated subsequent events through October 7, 2020 the date the financial statements were available to be issued.



**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  
Calhoun County Water Association, Inc.  
Hampton, 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 Calhoun County Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, 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 October 7, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Calhoun County 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 the Calhoun County Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Calhoun County Water Association, Inc.'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 Calhoun County 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*.

**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 Calhoun County Water Association, Inc.'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 blue ink that reads "Emrich & Scroggins, LLP".

Emrich & Scroggins, LLP  
Certified Public Accountants

El Dorado, Arkansas

October 7, 2020