

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2021 and 2020

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Lake Chicot Water Supply Association, Inc.

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lake Chicot Water Supply Association, Inc., (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 the Organization as of December 31, 2021 and 2020 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.

Basis for Opinions

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 the Organization 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 opinions.

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 the Organization'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 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 opinions. 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 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 the Organization'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 the Organization'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.

A handwritten signature in black ink that reads "Searcy & Associates LLC". The signature is written in a cursive, flowing style.

Searcy & Associates, LLC
Monticello, Arkansas
March 4, 2022

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2021 and 2020

	2021	2020
<u>Assets</u>		
<u>Current assets</u>		
Cash, short term investments and cash equivalents	\$ 418,500	\$ 368,216
Accounts receivable (net of allowance for doubtful accounts)	39,728	34,604
Other current assets	500	500
Total current assets	458,728	403,320
<u>Fixed assets, net of accumulated depreciation</u>	192,290	211,340
<u>Restricted Assets</u>		
Cash reserve - meter deposits	48,180	45,270
Total assets	\$ 699,198	\$ 659,930
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 8,520	\$ 13,269
Other accrued expenses	2,442	1,703
Total current liabilities	10,962	14,972
<u>Long term liabilities</u>		
Customer deposits	48,180	45,270
Total liabilities	59,142	60,242
<u>Net assets</u>		
Net assets without donor restrictions	640,056	599,688
Total liabilities and net assets	\$ 699,198	\$ 659,930

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

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2021 and 2020

	2021	2020
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 320,231	\$ 308,346
Water connection fees	-	630
Penalties and late fees	7,335	4,240
Other operating income	3,834	4,403
Total revenues	331,400	317,619
Expenses		
Operating expenses	245,856	229,011
General and administrative	45,782	43,754
Total expenses	291,638	272,765
Income (loss) from operations	39,762	44,854
Non-operating income (expense)		
Interest income	606	1,734
Change in net assets without donor restrictions	40,368	46,588
Change in net assets with donor restrictions	-	-
<u>Change in net assets</u>	40,368	46,588
<u>Net assets, beginning of year</u>	599,688	553,100
<u>Net assets, end of year</u>	\$ 640,056	\$ 599,688

The accompanying notes are an integral part of the financial statements

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from operating activities</u>		
Income from operations	\$ 39,762	\$ 44,854
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	19,050	18,743
Changes in assets and liabilities:		
Accounts receivable	(5,124)	1,653
Accounts payable	(4,749)	(369)
Accrued expenses	739	(2,443)
Total adjustments	<u>9,916</u>	<u>17,584</u>
Net cash provided by (used for) operating activities	49,678	62,438
<u>Cash flows from investing activities</u>		
Interest income	606	1,734
<u>Cash flows from financing activities</u>		
Change in customer deposits	<u>2,910</u>	<u>3,520</u>
<u>Change in cash and cash equivalents</u>	53,194	67,692
<u>Cash and cash equivalents, beginning of year</u>	<u>413,487</u>	<u>345,795</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 466,681</u>	<u>\$ 413,487</u>
<u>Cash and cash equivalents</u>	\$ 418,501	\$ 368,217
<u>Restricted cash and cash equivalents</u>	<u>48,180</u>	<u>45,270</u>
	<u>\$ 466,681</u>	<u>\$ 413,487</u>

The accompanying notes are an integral part of the financial statements

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2021 and 2020

	2021		
	Program (Water) Services	Management & General	Total
Water purchases	\$ 134,846	\$ -	\$ 134,846
Meter services	43,700	-	43,700
Accounting and bookkeeping	-	30,000	30,000
Repairs and maintenance	31,363	-	31,363
Depreciation	18,098	952	19,050
Utilities	6,843	1,207	8,050
Professional services	-	6,550	6,550
Dues, subscriptions, licenses	3,706	926	4,632
Insurance	4,191	-	4,191
Office supplies	-	3,731	3,731
Supplies	931	49	980
Other expenses	2,178	2,178	4,356
Bad debt	-	189	189
Total expenses	\$ 245,856	\$ 45,782	\$ 291,638

	2020		
	Program (Water) Services	Management & General	Total
Water purchases	\$ 129,211	\$ -	\$ 129,211
Meter services	43,524	-	43,524
Accounting and bookkeeping	-	30,750	30,750
Repairs and maintenance	19,014	-	19,014
Depreciation	17,806	937	18,743
Utilities	7,575	1,337	8,912
Professional services	-	4,800	4,800
Dues, subscriptions, licenses	3,601	900	4,501
Insurance	3,584	-	3,584
Office supplies	-	3,552	3,552
Supplies	3,194	168	3,362
Other expenses	1,502	1,501	3,003
Bad debt	-	(191)	(191)
Total expenses	\$ 229,011	\$ 43,754	\$ 272,765

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

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Lake Chicot Water Supply Association, Inc. (the “Organization”) is a not-for-profit corporation established on August 19, 1977 under the laws of the State of Arkansas. The Organization is nontaxable for Federal and State income tax purposes under the Internal Revenue Code Section 501(c)12. The Organization was formed to provide rural water service to its constituents in Chicot County, primarily around Lake Chicot in Southeast Arkansas.

Method of Accounting

The financial states of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

The Organization derives its revenues primarily from water services provided to its customers. Revenues are recognized when control of these services are provided to / transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. Sales and other taxes the Organization collects concurrent with revenue producing activities are excluded from revenue. Other fees charged to customers are reported within revenue. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale.

Concentrations and Credit Risks

The Organization’s credit risks primarily relate to cash and cash equivalents. The Organization maintains several cash accounts at a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000.

The Organization’s water supply was purchased 100% from one vendor for the years ending December 31, 2021 and 2020.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021 and 2020

NOTE 1 (continued)

Accounts Receivable

Accounts receivable relate to water service billings and are recorded at estimated net realizable value. Accounts are written off as they are deemed uncollectible by management based on the length of time outstanding and historical experience. Credit extended to customers are generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit and deposits can be offset against the receivable for delinquent billings or returned to the customer when the account is closed.

The Organization uses the direct write off method for past due accounts that the Organization does not believe will be collected. This is a departure from GAAP, however, the difference between the reserve method and the direct write off method is not materially different to the financial statements.

Property and Equipment

Property and Equipment are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant & Lines	20-50 years
System Improvements	20-40 years
Tools & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and value greater than \$1,000. Maintenance and repairs are charged to expense as incurred.

Net Asset Classifications

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. Accordingly, net assets and changes in net assets are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Functional Allocation of Expenses

The costs of providing the water services and other program services of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the program and supporting services. The statement of functional expenses presents the natural classification detail of expenses by function.

The Organization classifies as program service expense those items which are directly attributable to the specific water service program. Those expenses which are not directly attributable to the program service are included in management and general expenses.

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021 and 2020

NOTE 1 (continued)

Federal Tax Status

No provision for federal income taxes is required since the Organization is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

Date of Management's Review

The Organization evaluated its December 31, 2021 and 2020 financial statements for subsequent events through March 4, 2022, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2021.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust department in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust department or agent in the Organization's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 243,978	\$ 250,000	\$ -	\$ -
Bank B	222,662	222,662	-	-
Total	<u>\$ 466,640</u>	<u>\$ 472,662</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts shown are bank ledger balances of the referenced banks' deposits and may differ from the Organization's general ledger balances.

LAKE CHICOT WATER SUPPLY ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2021 and 2020

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 466,680	\$ 413,486
Receivables	39,728	34,604
	506,408	448,090
Less: restricted cash for deposit accounts	(48,180)	(45,270)
Available for general expenditure	\$ 458,228	\$ 402,820

Restricted cash consists of funds held in reserve by the Organization that is required to be maintained to repay customers' deposits upon the closing of the customers' accounts. The total deposits held with the Organization required to be reserved at December 31, 2021 and 2020 are \$45,270 and \$41,750, respectively.

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$115,000). As part of its liquidity plan, excess cash is held in timed deposits.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following balances at December 31, 2021 and 2020:

	2021	2020
Water plant system	\$ 523,455	\$ 523,455
Water lines	62,684	62,684
Tools & equipment	20,754	20,754
Booster station	88,355	88,355
Elevated tank	128,275	128,275
	823,523	823,523
Accumulated depreciation	(631,233)	(612,183)
	\$ 192,290	\$ 211,340

NOTE 5 – RELATED PARTY TRANSACTIONS

Board members and contracted professionals purchase water from the association on the same basis as all other members. The total sales and amounts receivable from these related parties are not materially significant to the financial statements.

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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Communication of Internal Control-Related Matters

To the Board of Directors
Lake Chicot Water Supply Association, Inc.

In planning and performing our audit of the consolidated financial statements of Lake Chicot Water Supply Association, Inc. (the "Organization") as of and for the years ended December 31, 2021 and 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 4, 2022, on the financial statements of the Organization.

Segregation of Duties

During the audit, we noted several financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording of cash transactions are performed by one or two individuals. Without proper segregation of duties of these accounting duties, there is an increased risk of fraud or errors to occur that will not be prevented or detected in a timely manner. We are aware of the limitations of the Organization with regards to financial resources to employ additional personnel for these tasks. However, we believe it is important for the board to be aware of the risks and limitations of the current internal control procedures.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing any changes.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.



Monticello, Arkansas
March 4, 2022