

BEE BRANCH WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2021

1/11/2022
2021-2022
BEE BRANCH WATER ASSOCIATION, INC.

BEE BRANCH WATER ASSOCIATION, INC.

DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bee Branch Water Association, Inc.
Bee Branch, Arkansas

Opinion

We have audited the accompanying financial statements of Bee Branch Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, 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 Bee Branch Water Association as of December 31, 2021, and the changes in 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 Bee Branch 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 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 Bee Branch 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Bee Branch 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bee Branch 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.

Report on Summarized Comparative Information

We have previously audited the Bee Branch Water Association, Inc. 2020 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

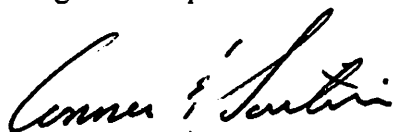
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying miscellaneous Supplemental Information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the

auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022, on our consideration of Bee Branch 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 Bee Branch Water Association, Inc.'s internal control over financial reporting and compliance.



Conway, Arkansas
November 21, 2022

FINANCIAL STATEMENTS

DECEMBER 31, 2021

BEE BRANCH WATER ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
<u>Current Liabilities:</u>		
Accounts payable and accruals	\$ 81,654	\$ 78,010
Accrued interest	1,172	1,239
Current portion long-term debt	<u>90,463</u>	<u>82,878</u>
Total Current Liabilities	<u>173,289</u>	<u>162,127</u>
<u>Long-Term Debt - Note 5:</u>		
Notes payable - RD - USDA loan	1,360,330	1,392,531
Notes payable - Arkansas Natural Resources Commission	29,580	33,722
Notes payable - other	<u>53,000</u>	<u>46,535</u>
	1,442,910	1,472,788
Less: current portion	<u>(90,463)</u>	<u>(82,878)</u>
Total Long-Term Debt	<u>1,352,447</u>	<u>1,389,910</u>
<u>Other Liabilities:</u>		
Meter deposits	<u>151,301</u>	<u>141,928</u>
Total Other Liabilities	<u>151,301</u>	<u>141,928</u>
Total Liabilities	<u>1,677,037</u>	<u>1,693,965</u>
<u>Net Assets:</u>		
Net Assets Without Donor Restrictions:		
Board designated - construction funds	13,104	5,405
Board designated - maintenance reserve	-	10,283
Board designated - debt service & depreciation reserve	67,742	88,002
Undesignated	<u>1,814,730</u>	<u>1,920,817</u>
Total Net Assets Without Donor Restrictions	<u>1,895,576</u>	<u>2,024,507</u>
Net Assets With Donor Restrictions	<u>-</u>	<u>-</u>
Total Net Assets	<u>1,895,576</u>	<u>2,024,507</u>
Total Liabilities & Net Assets	<u><u>\$ 3,572,613</u></u>	<u><u>\$ 3,718,472</u></u>

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

BEE BRANCH WATER ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenues:				
Water revenue	\$ 1,050,113	\$ -	\$ 1,050,113	\$ 947,159
Other water related income	116,747	-	116,747	121,008
Investment and other income	3,093	-	3,093	2,620
Total Revenues	1,169,953	-	1,169,953	1,070,787
Expenses:				
Program Services:				
Salary and fringe	101,047	-	101,047	99,632
Water purchases	691,581	-	691,581	607,655
Electricity	63,407	-	63,407	45,444
Repairs and maintenance	92,323	-	92,323	91,126
Depreciation	134,300	-	134,300	134,300
Total Program Services	1,082,658	-	1,082,658	978,157
Management and General:				
Salary and fringe	121,882	-	121,882	111,788
Administration and other general expenses	58,483	-	58,483	70,003
Interest expense	42,611	-	42,611	42,794
Total Management and General	222,976	-	222,976	224,585
Total Expenses	1,305,634	-	1,305,634	1,202,742
Change in Net Assets before Other Income/Expense	(135,681)	-	(135,681)	(131,955)
Restitution of funds previously misappropriated - Note 6	6,750	-	6,750	-
Change in Net Assets	(128,931)	-	(128,931)	(131,955)
Net Assets - Beginning of Year	2,024,507	-	2,024,507	2,156,462
Net Assets - End of Year	\$ 1,895,576	\$ -	\$ 1,895,576	\$ 2,024,507

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

BEE BRANCH WATER ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

	<u>2021</u>	<u>2020</u>
<u>Cash Flows From Operating Activities:</u>		
Change in Net Assets	\$ (128,931)	\$ (131,955)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	134,299	134,300
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,477)	(3,429)
(Increase) decrease in inventories	-	(17,837)
Increase (decrease) in accounts payable	3,644	7,442
Increase (decrease) in accrued interest payable	<u>(67)</u>	<u>(45)</u>
Net Cash (Used) or Provided from Operating	<u>5,468</u>	<u>(11,524)</u>
<u>Cash Flows From Investing Activities:</u>		
Equipment purchases & plant extensions	-	-
(Increase) decrease in restricted cash	<u>12,955</u>	<u>(93,567)</u>
Net Cash (Used) or Provided from Investing	<u>12,955</u>	<u>(93,567)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds from long-term debt	15,413	(93,929)
Principal payment on long-term debt	(45,291)	-
Increase (decrease) in meter deposit	<u>9,373</u>	<u>6,676</u>
Net Cash (Used) or Provided from Financing	<u>(20,505)</u>	<u>(87,253)</u>
Net Increase (Decrease) in Cash	(2,082)	(5,210)
Cash, Beginning of year	<u>15,427</u>	<u>20,637</u>
Cash, End of year	<u><u>\$ 13,345</u></u>	<u><u>\$ 15,427</u></u>
<u>Supplemental Disclosures:</u>		
Cash paid for interest	<u><u>\$ 42,678</u></u>	<u><u>\$ 43,347</u></u>

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

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Bee Branch Water Association, Inc. ("the Association") provides water to a general area around Bee Branch, Arkansas. As a cooperative type entity, it is owned by its members and users. Revenues in excess of expenses and the amount required to be established as reasonable reserves for future losses and expenses shall belong to the members in proportion to their patronage or business done with the corporation.

Basis of Accounting

The accounting records of the Association are maintained on the accrual basis. Revenues are recognized when they are earned; expenses are recognized when they are incurred.

Cash and Equivalents

Cash and equivalents are made up of unrestricted general fund cash and temporary cash investments with a maturity date of less than one year.

Inventory Costing

Inventories are stated at cost on first in, first out (FIFO) basis.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management classifies accounts past due for 31 or more days in the allowance for doubtful accounts.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available, and are capitalized if over \$1,000. Donated assets are valued at their estimated fair value on the date donated. During construction, interest expenditures are capitalized. Subsequent to development, interest expenditures are recognized as incurred.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Water and Sewer Systems	50
Equipment	7 - 15

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Revenue Recognition

The accounts receivable and revenues recognized are based on meter readings. The meter readings are made at various times at the end of the month, and approximately two to seven days of water consumption during any month remain unbilled at the end of the month.

Income Taxes

The Association has been recognized as exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and a similar provision of state laws. As such, they are required to file IRS Form 990 on an annual basis. The Association is no longer subject to U.S. federal income tax examinations by taxing authorities for years before 2018.

The Association adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 740 dealing with uncertainty in income taxes. No amounts were recorded as a result of the adoption of Topic 740.

Estimates

The Association employs accounting policies that are in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires the Association's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statements. Ultimate results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Association places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Association's customer base. At December 31, 2021, the Association had no significant concentrations of credit risk.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stock, mutual funds and United States Treasury obligations. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Association did not hold any level 1 securities as of December 31, 2021.

Management estimates the fair value of (i) receivables, accounts payable, and accrued expenses and notes payable approximate carrying value due to the short maturity of these instruments; (ii) the borrowing under the Long-term Debt approximates carrying value because this borrowing accrues interest at a floating interest rate based on the market.

NOTE 3 - RESTRICTED CASH:

The following are the restricted cash balances:

	<u>2021</u>	<u>2020</u>
Meter deposits	\$ 119,441	\$ 109,552
Maintenance reserves	-	10,283
Construction funds	13,104	5,405
Debt service & asset reserve	<u>67,742</u>	<u>88,002</u>
Total	<u>\$ 200,287</u>	<u>\$ 213,242</u>

Investment income is composed of interest income of \$3,093 in 2021 and \$2,620 in 2020.

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 4 – LAND AND PLANT IN SERVICE:

A summary of changes in capital assets for the year ended December 31, 2021, is presented below:

	<u>Balance December 31, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2021</u>
Capital assets, not being depreciated:				
Land	\$ 17,734	\$ -	\$ -	\$ 17,734
Capital assets, being depreciated:				
Lines 30 years	4,648,412	-	-	4,648,412
Tanks 20 years	964,614	-	-	964,614
Pumps 20 years	89,427	-	-	89,427
General 7 - 10 years	208,244	-	-	208,244
Total Capital Assets, being depreciated	5,910,697	-	-	5,910,697
Less accumulated depreciation for:				
Lines 30 years	(1,804,673)	(101,411)	-	(1,906,084)
Tanks 20 years	(479,189)	(29,156)	-	(508,345)
Pumps 20 years	(77,033)	(1,032)	-	(78,065)
General 7 - 10 years	(196,955)	(2,700)	-	(199,655)
Total accumulated depreciation	(2,557,850)	(134,299)	-	(2,692,149)
Total Capital Assets, being depreciated, Net	\$ 3,352,847	\$ (134,299)	\$ -	\$ 3,218,548
Total Capital Assets, Net	\$ 3,370,581	\$ (134,299)	\$ -	\$ 3,236,282

Depreciation expense was \$134,299 for the year ended December 31, 2021. For the year ended December 31, 2021, the Association had no plant additions nor retirements.

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 5 - LONG-TERM DEBT:

The Association has executed a security instrument pledging all assets and revenues to pay the following debt. The bank loans are secured by the equipment purchased by those credit agreements:

	<u>Balance December 31, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2021</u>	<u>Due Within One Year</u>
USDA-Rural Development; original debt of \$355,000 dated December 28, 2010; monthly payments of \$1,289 for 40 years; interest rate of 3.0%.	\$ 305,288	\$ -	\$ 6,397	\$ 298,891	\$ 6,591
USDA-Rural Development; original debt of \$285,700 dated August 19, 2014; monthly payments of \$1,320 for 25 years; interest rate of 2.75%.	221,156	-	9,882	211,274	10,157
USDA-Rural Development; construction loan approved for \$944,000 dated August 19, 2014; monthly payments estimated to be \$3,295 for 40 years; interest rate of 2.75%.	866,087	-	15,922	850,165	16,366
Arkansas Natural Resources Commission; original debt of \$100,000 dated December 1977; annual payments of \$5,828 for 40 years; interest rate of 5.0%.	33,722	-	4,142	29,580	4,349
HomeBank; line of credit up to \$53,000; interest rate of 3.2%.	37,587	15,413	-	53,000	53,000
Simmons Bank; original debt of \$185,270.00 dated July 26, 2017; monthly payments starting on October 10, 2017 in the amount of \$4,831.18; interest rate of 4.750%.	8,948	-	8,948	-	-
Total Long-Term Debt	\$ 1,472,788	\$ 15,413	\$ 45,291	\$ 1,442,910	\$ 90,463

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 5- LONG-TERM DEBT (CONTINUED):

Maturities of long-term debt of years subsequent to December 31, 2021, are: 2022 - \$90,463; 2023 - \$38,620; 2024 - \$39,814; 2025 - \$41,047; 2026 - \$42,320; Thereafter - \$1,190,646.

Debt Reserve Requirements

The Association pays Rural Development debt monthly. The 2010 debt instrument requires a monthly amount set aside of \$129 until the balance reaches \$15,468 for Debt Service Reserve. The 2014 debt instruments require a monthly amount set aside of \$132 and \$330 until the balances reach \$15,840 and \$39,540 for Debt Service Reserve; and \$3,143 per month beginning September 19, 2015, for a Short Lived Asset Replacement Reserve. The Asset Replacement Reserve also has a balance requirement, but the funds are available for use at management's discretion as long as those funds are later replenished. The following are the reserve requirements and cash balances for the end of the period:

	<u>Debt Service Reserve</u>	<u>Asset Reserve</u>
Beginning Balance	\$ 15,802	\$ 72,200
Additions – deposits	5,000	9,000
Additions – interest income	32	438
Withdrawals	(14,200)	(20,300)
Withdrawals – bank charges	<u>(120)</u>	<u>(110)</u>
Ending Balance at 12/31/2021	<u>\$ 6,514</u>	<u>\$ 61,228</u>
Required Reserve at 12/31/2021	<u>\$ 52,047</u>	<u>\$ 238,868</u>

Due to withdrawing funds during the current year, the Association did not meet the debt service reserve deposit requirements for the year ended December 31, 2021. This non-compliance is reported on in the Schedule of Findings and Questioned Costs. Also, the required asset reserve exceeds the cash balance; however, the Association is permitted to replenish this deficit when fiscally able.

BEE BRANCH WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 6 – ACCOUNTS RECEIVABLE:

Accounts receivable are recorded at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. As of December 31, 2021 and 2020, accounts receivables were:

	<u>2021</u>	<u>2020</u>
Current – due within 30 days	\$ 94,213	\$ 90,204
Past due	30,704	34,350
Allowance for doubtful accounts	(29,555)	(32,669)
Total	<u>\$ 95,362</u>	<u>\$ 91,885</u>

The Association incurred a theft loss in previous years from a former bookkeeper. On March 10, 2021, the defendant in the theft proceeding pled guilty to the charge and was ordered to pay restitution to the Association in the amount of \$147,935, at a rate of \$750 per month. The defendant has paid \$32,350 of the amount due as of December 31, 2021. Due to the uncertainty of collection, the outstanding receivable balance has not been recorded, and any collection of the receivable is reported as current year earnings when received.

NOTE 7 - EMPLOYEE ANNUITY PLAN:

The Association has adopted an employee annuity plan which provides future benefits to employees and incurred costs related to the plan of \$7,521 and \$7,735 for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES:

The Association has received loans from the Department of Agriculture of The United States of America and is subject to compliance with loan covenants and agreements and review by this agency. Lack of compliance with loan covenants and agreements, if any, may result in loan default, and the government at its option may declare all or part of any such indebtedness immediately due and payable.

NOTE 9 - WATER SUPPLIER:

The Association purchases water supply from the City of Clinton, Arkansas on a year to year contract basis. Total water purchases for the year ended December 31, 2021 and 2020 was \$691,581 and \$607,655, respectively.

NOTE 10 - SUBSEQUENT EVENTS:

No events occurring subsequent to year end, having a direct and material effect on the financial statements for the year ended December 31, 2021, have been determined as of the date of the audit report.

SUPPLEMENTARY INFORMATION

BEE BRANCH WATER ASSOCIATION, INC.

WATER USAGE DETAILS AND ANALYTICS

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

GROSS REVENUE RECEIVED:

	<u>2021</u>	<u>2020</u>
Gross Water Revenue	\$ <u>1,166,860</u>	\$ <u>1,068,167</u>
Number of Connections	<u>1,417</u>	<u>1,389</u>
Number of Gallons Bought	<u>194,388,955</u>	<u>179,142,400</u>
Number of Gallons Sold	<u>72,043,610</u>	<u>64,838,940</u>
Water Loss Percentage*	<u>62.9%</u>	<u>63.8%</u>

* The line loss includes amounts used by county road department, volunteer fire organizations and line flushing.

See Accountants' Report on Supplemental Information.

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INDEPENDENT AUDITORS' 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
Bee Branch Water Association, Inc.
Bee Branch, 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 Bee Branch Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 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 November 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bee Branch Water Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Bee Branch 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.

Compliance and Other Matters

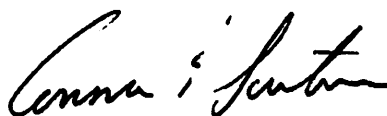
As part of obtaining reasonable assurance about whether Bee Branch Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-001.

Bee Branch Water Association, Inc.'s Response to Findings

Bee Branch Water Association, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Bee Branch Water Association, Inc.'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.



Conway, Arkansas
November 21, 2022

BEE BRANCH WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

NON COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS:

Current Year Findings

2021-001 - Deficiency in Required USDA - Rural Development Required Debt Service and Depreciation Reserves

Criteria: Bee Branch Water Association, Inc. has three loans outstanding with USDA - Rural Development with various required deposits to debt service or depreciation reserve accounts.

Condition: Bee Branch Water Association, Inc. is underfunded in these respective reserve accounts at December 31, 2021 in the amount of \$45,532.

Effect: Insufficient amounts needed to meet current debt service requirements or insufficient amounts needed for future infrastructure replacement may not be available as needed.

Cause: Insufficient cash flow from operation necessary to fund the debt service and depreciation reserves on a consistent basis.

Recommendation: Bee Branch Water Association, Inc. should increase their revenue stream and reduce costs, primarily water loss, to allow for sufficient cash flow to fund the required reserve funds on a consistent basis and, in addition, reduce the underfunded amount of the reserves as cash flow is available

Views of responsible officials and planned corrective action: Bee Branch Water Association, Inc. is taking steps to acquire equipment to help locate water losses to reduce water consumption costs. The Association recently added a monthly maintenance fee to all customers to provide additional funding for the costs associated with finding and reducing the amount of water losses. The Association is hopeful that with these actions taken that additional cash flow will be available in the future to fund the underfunded portion of their reserve accounts.

Prior Year Findings

2020-001 - Deficiency in Required USDA - Rural Development Required Debt Service and Depreciation Reserves

Status: Not Corrected

Reason for Findings Recurrence: More time is needed to implement steps proposed by management to mitigate the water loss.