

NORTHEAST YELL COUNTY
WATER ASSOCIATION
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NORTHEAST YELL COUNTY WATER ASSOCIATION

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Northeast Yell County Water Association
Dardanelle, Arkansas

Opinion

We have audited the accompanying financial statements of Northeast Yell County Water Association, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, 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 of Northeast Yell County Water Association 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 Opinion

We conducted our audits 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 Northeast Yell County Water Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Northeast Yell County Water Association'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, including omissions, 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 Northeast Yell County Water Association'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 Northeast Yell County Water Association'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.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
November 22, 2022



NORTHEAST YELL COUNTY WATER ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted (Note 3)	\$ 5,729,708	\$ 5,365,218
Accounts Receivable (Note 2)	193,614	186,447
Inventories, at Cost	52,594	26,571
Prepaid Expenses	1,632	2,440
Accrued Interest Income	51	145
Total Current Assets	<u>5,977,599</u>	<u>5,580,821</u>
PROPERTY AND EQUIPMENT (Note 8)		
Land	50,035	50,035
Distribution System	11,733,941	11,521,247
Building	251,526	251,526
Transportation Equipment	220,733	220,733
Machinery and Equipment	390,261	382,921
Construction in Progress	0	500
	<u>12,646,496</u>	<u>12,426,962</u>
Less: Accumulated Depreciation	<u>8,248,359</u>	<u>7,899,041</u>
	<u>4,398,137</u>	<u>4,527,921</u>
OTHER ASSETS		
Cash and Cash Equivalents - Restricted (Note 3)	119,748	119,023
Deposits	675	675
Lease, Net of Amortization of \$2,328 (2021) and \$2,040 (2020)	4,807	5,095
	<u>125,230</u>	<u>124,793</u>
	<u>10,500,966</u>	<u>10,233,535</u>
<u>LIABILITIES</u>		
Accounts Payable	102,441	65,326
Accrued Taxes Payable	10,448	11,422
Customer Deposits	119,748	119,023
	<u>232,637</u>	<u>195,771</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	4,398,137	4,527,421
Unrestricted Net Assets	5,870,192	5,510,343
	<u>10,268,329</u>	<u>10,037,764</u>
	<u>\$ 10,500,966</u>	<u>\$ 10,233,535</u>

See Independent Auditors' Report and Notes to Financial Statements

NORTHEAST YELL COUNTY WATER ASSOCIATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Water Revenue	\$ 1,786,150	\$ 1,703,173
Connection Fees	46,210	29,480
Other Revenue	11,486	11,455
	<u>1,843,846</u>	<u>1,744,108</u>
EXPENSES		
Water Purchases	597,588	501,503
Salaries	352,503	323,001
Payroll Taxes	26,002	24,953
Insurance	87,744	85,009
Utilities and Telephone	72,902	60,573
Office Expense	43,915	40,531
Transportation	26,867	17,240
Repairs and Maintenance	48,317	69,756
Professional Fees	6,100	5,250
Operating Supplies	4,994	7,447
Miscellaneous	16,919	13,903
Depreciation and Amortization	349,606	350,345
	<u>1,633,457</u>	<u>1,499,511</u>
OPERATING INCOME	<u>210,389</u>	<u>244,597</u>
OTHER INCOME (EXPENSE)		
Interest Income	20,176	27,443
Interest Expense	0	(198)
Grant Income	0	62,862
	<u>20,176</u>	<u>90,107</u>
CHANGE IN NET ASSETS	230,565	334,704
NET ASSETS, BEGINNING OF YEAR	<u>10,037,764</u>	<u>9,703,060</u>
NET ASSETS, END OF YEAR	<u><u>\$ 10,268,329</u></u>	<u><u>\$ 10,037,764</u></u>

See Independent Auditors' Report and Notes to Financial Statements

NORTHEAST YELL COUNTY WATER ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 210,389	\$ 244,597
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	349,606	350,346
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(7,167)	(7,236)
Inventory of Supplies	(26,023)	(304)
Prepaid Expenses	808	(940)
Accrued Interest Income	94	533
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	37,115	8,673
Taxes Payable	(974)	223
Customer Deposits	725	2,870
Total Adjustments	<u>354,184</u>	<u>354,165</u>
Net Cash Provided by Operating Activities	<u>564,573</u>	<u>598,762</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expansion of Distribution System and Purchase of Fixed Assets	(219,034)	(123,109)
Proceeds from Capital Grant	0	62,862
Interest Income	20,176	27,443
Interest Expense	0	(198)
Net Cash Used by Investing Activities	<u>(198,858)</u>	<u>(33,002)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Reductions of Notes Payable	0	(20,670)
Net Cash Used by Financing Activities	<u>0</u>	<u>(20,670)</u>
NET CHANGE IN CASH & CASH EQUIVALENTS	365,715	545,090
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,484,241</u>	<u>4,939,151</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 5,849,956</u></u>	<u><u>\$ 5,484,241</u></u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Cash Paid During the Year for Interest	<u><u>\$ 0</u></u>	<u><u>\$ 198</u></u>
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 5,729,708	\$ 5,365,218
Restricted Cash	119,748	119,023
	<u><u>\$ 5,849,456</u></u>	<u><u>\$ 5,484,241</u></u>

See Independent Auditors' Report and Notes to Financial Statements

NORTHEAST YELL COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Northeast Yell County Water Association provides water services to rural users and water associations in Yell, Logan, Conway and Perry Counties in Arkansas.

Organization

The Northeast Yell County Water Association is a municipally operated system and is governed by the Northeast Yell County Water Association Public Facilities Board. The Association is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The Association applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Income Tax

Northeast Yell County Water Association is a public facilities board created under the State of Arkansas Public Facilities Board Act, Act No. 146 of the Acts of Arkansas of 1975 and as such is exempt from federal and state income tax.

Use of Estimates

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

Utility Plant and Equipment

Utility plant and equipment is recorded at cost and includes interest on funds borrowed to finance the construction of major capital additions. Depreciation on utility plant and equipment is calculated using the straight-line method over the following estimated useful lives:

Distribution System	25-50 years
Office Building	10-20 years
Transportation Equipment	5 years
Machinery and Equipment	3-10 years

Maintenance and repairs are charged to expense as incurred.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Association considers cash to be cash on hand and in banks, including time deposits.

Accounts Receivables

All receivables are reported at their gross value and where appropriate are reduced by the estimated portion that is expected to be uncollectible.

NORTHEAST YELL COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Supply inventories are recorded at cost using first-in, first-out method of inventory valuation.

NOTE 2: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Amounts Billed to Customers	\$ 163,451	\$ 151,959
Accrued Revenues	<u>40,163</u>	<u>44,488</u>
	203,614	196,447
Less Allowance for Doubtful Accounts	<u>(10,000)</u>	<u>(10,000)</u>
	<u>\$ 193,614</u>	<u>\$ 186,447</u>

NOTE 3: CASH AND CASH EQUIVALENTS

At December 31, 2021 and 2020, the Association had restricted cash shown as follows:

	<u>2021</u>	<u>2020</u>
Unrestricted		
Water System Operating Fund	\$ 5,729,708	\$ 5,365,218
Restricted		
Customer Deposits	<u>119,748</u>	<u>119,023</u>
	<u>\$ 5,849,456</u>	<u>\$ 5,484,241</u>

NOTE 4: WATER PURCHASE CONTRACT

The Association entered into a 40 year water purchase agreement with the Dardanelle Water System in 1992, and the Danville Water System in 1998. These contracts allow the Association to purchase treated water. The Association purchased water costing \$597,588 in 2021 and \$501,503 in 2020, under these contracts.

NOTE 5: RETIREMENT PLAN

The Association has a Savings Incentive Match Plan for Employees (SIMPLE) individual retirement account, which covers all employees. Contributions are made by the employees through payroll deductions throughout the year. At the discretion of the Association, additional contributions may be made to the employees' accounts. The Association contributed \$9,745 in 2021 and \$9,528 in 2020 to the plan and has been included in miscellaneous expense in the accompanying Statements of Activities.

NORTHEAST YELL COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 6: BANK DEPOSIT ACCOUNTS

The Association maintains cash balances with several banks located in Arkansas. The balances at these banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Association has obtained pledged securities for all funds that exceed this Federal Deposit Insurance limit. The following is a summary of the insured and pledged coverage as of December 31, 2021.

Funds insured by the Federal Deposit Insurance Corporation	\$ 250,000
Funds collateralized by securities held by the financial institution's trust department or agent	<u>5,599,456</u>
	<u>\$ 5,849,456</u>

NOTE 7: UTILITY PLANT AND EQUIPMENT

Activity of the Utility Plant and Equipment consists of the following:

	<u>Balance at</u> <u>1-1-2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12-31-2021</u>
Land	\$ 50,035	\$		\$ 50,035
Distribution System	11,521,247	212,694		11,733,941
Building	251,526			251,526
Transportation Equipment	220,733			220,733
Machinery and Equipment	382,921	7,340		390,261
Construction in Progress	<u>500</u>	<u>500</u>	<u>500</u>	<u>0</u>
	<u>\$ 12,426,962</u>	<u>\$ 220,034</u>	<u>\$ 500</u>	<u>\$ 12,646,496</u>

NOTE 8: SCHEDULE OF MONTHLY WATER RATES

Regular Customers	
First 1,000 gallons	\$ 22.85
Next 4,000	4.50
Next 5,000	3.50
Over 10,000	3.00
(All customers incur a \$3.00 monthly surcharge)	
(At 50,000 gallons, there is a \$50.00 surcharge)	

Mt. Nebo Customers	
First 1,000 gallons	31.25
Next 4,000	4.50
Next 5,000	3.50
Over 10,000	3.00
(All customers incur a \$3.00 monthly surcharge)	
(At 50,000 gallons, there is a \$50.00 surcharge)	

NORTHEAST YELL COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 9: PUBLIC FACILITIES BOARD OF DIRECTORS

The following is a list of the Public Facilities Board of Directors and their applicable 5-year terms:

<u>Board Member</u>	<u>Title</u>	<u>Term Expires</u>
J. L. Martin	Chairman	January 2024
Dave Evans	Vice-Chairman	January 2027
Jim George	Secretary/Treasurer	January 2025
Tommy May	Member	January 2023
Sonny Breashears	Member	January 2026

NOTE 10: INSURANCE COVERAGE

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2F84046
Expiration: June 1, 2022
Coverage: Government Crime / Fidelity ISO Package - \$100,000

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2D84046
Expiration: June 1, 2022
Coverage: General Liability – \$2,000,000

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2A84046
Expiration: June 1, 2022
Coverage: Commercial Property - \$4,640,049

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2E84046
Expiration: June 1, 2022
Coverage: Business Auto - \$1,000,000

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2H84046
Expiration: June 1, 2022
Coverage: Workers Compensation - \$500,000

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2J84046
Expiration: June 1, 2022
Coverage: Commercial Umbrella - \$1,000,000

Company: Employers Mutual Casualty Insurance Company
Policy No.: 2C84046
Expiration: June 1, 2022
Coverage: Commercial Inland Marine - \$213,000

NORTHEAST YELL COUNTY WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 10: INSURANCE COVERAGE (continued)

Company:	Employers Mutual Casualty Insurance Company
Policy No.:	2Q84046
Expiration:	June 1, 2022
Coverage:	Cyber Solutions - \$25,000

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2022, the date the financial statements were available to be issued.

NORTHEAST YELL COUNTY WATER ASSOCIATION
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

The Northeast Yell County Water Association's management discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Association's financial activity, (c) identify changes in the Association's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Association report information about the association using accounting methods similar to those used by the private-sector companies. These statements provide both long-term and short-term information about the Association's overall financial status. The basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements.

The Statements of Financial Position presents information on all of the Association's assets and liabilities with the difference between the two reported as net assets. These statements provide one way to measure the financial health of the Association by providing the basis for evaluating the capital structure of the association and assessing the liquidity and financial flexibility of the association.

The Statements of Activities presents information showing how the Association's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operations, investing, and financing activities. These statements provide answers to questions such as from where did cash come and for what was cash used.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

The assets of the Association exceeded its liabilities at the close of the most recent fiscal year by \$10,268,329 (net assets). Of this amount \$5,870,192 (unrestricted net assets) may be used to meet the Association's ongoing obligations to customers and creditors.

The largest portion of the Association's net assets representing 41.88% reflects its investment in capital assets, net of the related debt used to acquire the assets. The Association uses these capital assets to provide services to its customers.

Total assets amounted to \$10,500,966 consisting of capital assets in the amount of \$4,398,137 and other assets in the amount of \$6,102,829. Total assets at December 31, 2021, increased by 2.61% over total assets at December 31, 2020. This increase is primarily the result of an increase in cash flow from operations.

Total liabilities amounted to \$232,637, consisting of long-term liabilities in the amount of \$119,748 and other liabilities in the amount of \$112,889. The Association's total debt increased by \$36,866.

The Association experienced an increase in total cash in the amount of \$365,215 in 2021. This increase consisted of an increase in unrestricted cash in the amount of \$364,490 and an increase in restricted cash in the amount of \$725. The total restricted cash amounted to \$119,748 in 2021 and consisted of customer meter deposits.

NORTHEAST YELL COUNTY WATER ASSOCIATION
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
DECEMBER 31, 2021

BUDGET ANALYSIS AND VARIANCES

The Association is not required to provide budget figures for the future years of the Association. Therefore, no budget analysis and variances is provided in this management discussion and analysis.

ECONOMIC FACTORS

The service area of the Association is best described as an area of slow growth. The Association has an ongoing rehabilitation improvement program that includes repair and replacement of main lines and upgrades to the pumping stations in order to comply with the increasing regulatory requirements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Association's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Northeast Yell County Water Association office at 2443 State Highway 22 West, Suite A, Dardanelle, AR 72834.

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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*

Board of Directors and Management
Northeast Yell County Water Association
Dardanelle, 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 Northeast Yell County Water Association, which comprise the statements of financial position as of and for the years ended December 31, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2022.

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) to determine 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 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 over financial reporting 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 weakness 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 the Association'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
November 22, 2022

