

YORKTOWN WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2020 and 2019

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Yorktown Water Association, Inc.

We have audited the accompanying financial statements of the Yorktown Water Association, Inc. (the "Organization"), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

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 opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Organization'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 Organization'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization as of December 31, 2020 and 2019, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 14 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management 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, such information is fairly stated in all material respects in relation to the financial statements as a whole.

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
April 12, 2021

YORKTOWN WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2020 and 2019

	2020	2019
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 95,847	\$ 165,819
Accounts receivable (net)	82,680	78,785
Accrued interest receivable	12,235	12,235
Prepaid expenses	29,559	30,443
Total current assets	220,321	287,282
<u>Investments</u>	2,468,498	2,625,224
<u>Fixed assets, net of accumulated depreciation</u>	3,268,278	2,958,319
<u>Other Assets</u>		
Investment reserve - meter deposits	110,902	101,812
Investment reserve - debt service	193,990	-
Total other assets	304,892	101,812
 Total assets	 \$ 6,261,989	 \$ 5,972,637
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 22,334	\$ 22,334
Accrued interest	3,990	-
Accrued payroll	3,960	3,244
Other accrued expenses	6,287	6,474
Current portion of notes payable	190,000	-
Total current liabilities	226,571	32,052
<u>Long term liabilities</u>		
Customer deposits	110,902	101,812
Total liabilities	337,473	133,864
<u>Net assets</u>		
Net assets without donor restrictions	5,730,526	5,838,773
Net assets with donor restrictions	193,990	-
Total net assets	5,924,516	5,838,773
 Total liabilities and net assets	 \$ 6,261,989	 \$ 5,972,637

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

YORKTOWN WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 897,992	\$ 854,902
Water connection and meter set fees	15,905	14,337
Penalties and late fees	20,658	21,649
Membership dues	4,025	4,250
Other operating income	17,155	61,742
Total revenues	<u>955,735</u>	<u>956,880</u>
Expenses		
Operating expenses	796,253	791,125
General and administrative	231,505	223,014
Total expenses	<u>1,027,758</u>	<u>1,014,139</u>
Income (loss) from operations	(72,023)	(57,259)
Non-operating income (expense)		
Interest income	54,876	56,388
Insurance reimbursements	47,075	-
Gain (loss) on sale of asset	2,028	28,287
Unrealized gain (loss) on investments	57,777	-
Net asset restricted for debt service	(193,990)	-
Interest expense	(3,990)	-
Total non-operating income (expense)	<u>(36,224)</u>	<u>84,675</u>
Change in net assets without donor restrictions	(108,247)	27,416
<u>Changes in net assets with donor restrictions</u>		
Contributions for purpose of debt service	193,990	-
Net assets released from restrictions	-	-
Change in net assets with donor restrictions	<u>193,990</u>	<u>-</u>
<u>Change in net assets</u>	85,743	27,416
<u>Net assets, beginning of year</u>	<u>5,838,773</u>	<u>5,811,357</u>
<u>Net assets, end of year</u>	<u>\$ 5,924,516</u>	<u>\$ 5,838,773</u>

The accompanying notes are an integral part of the financial statements

YORKTOWN WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 85,743	\$ 27,416
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	286,556	274,591
Bad debts	12,000	-
Gain on disposal of asset	(2,028)	(28,287)
Unrealized (gain) loss on investments	(57,777)	861
Changes in assets and liabilities:		
Accounts receivable	(15,895)	(18,133)
Prepaid expenses	884	(6,962)
Accounts payable	-	5,159
Accrued interest expense	3,990	-
Accrued payroll	716	(24)
Other accrued expenses	(187)	1,619
Total adjustments	228,259	228,824
Net cash provided by (used for) operating activities	314,002	256,240
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(622,437)	(305,916)
Purchase of certificates of deposit	(500,000)	(545,914)
Maturities of certificates of deposit	550,895	526,368
Interest income reinvested	(39,472)	(8,116)
Proceeds from disposal of property, plant and equipment	27,950	57,000
Net cash provided by (used for) investing activities	(583,064)	(276,578)
<u>Cash flows from financing activities</u>		
Proceeds from note payable	190,000	-
Change in customer deposits	9,090	7,255
Net cash provided by (used for) financing activities	199,090	7,255
<u>Change in cash and cash equivalents</u>	(69,972)	(13,083)
<u>Cash and cash equivalents, beginning of year</u>	165,819	178,902
<u>Cash and cash equivalents, end of year</u>	\$ 95,847	\$ 165,819
<u>Supplemental Information</u>		
Cash paid for sales tax	\$ 76,133	\$ 75,899
Cash paid for interest	-	-

The accompanying notes are an integral part of the financial statements

YORKTOWN WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2020 and 2019

	2020		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 242,852	\$ 104,079	\$ 346,931
Depreciation	272,228	14,328	286,556
Supplies	90,049	10,005	100,054
Utilities	79,732	8,859	88,591
Repairs and maintenance	48,943	2,576	51,519
Insurance	28,606	7,152	35,758
Office supplies	-	29,922	29,922
Payroll taxes	14,718	6,307	21,025
Dues, subscriptions, licenses	8,443	8,442	16,885
Board fees	-	13,408	13,408
Bad debt	-	12,000	12,000
Communication	8,405	2,801	11,206
Professional services	-	9,350	9,350
Other expenses	2,277	2,276	4,553
Total expenses	<u>\$ 796,253</u>	<u>\$ 231,505</u>	<u>\$ 1,027,758</u>

	2019		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 230,321	\$ 98,709	\$ 329,030
Depreciation	260,861	13,730	274,591
Supplies	102,689	11,410	114,099
Utilities	104,419	11,602	116,021
Repairs and maintenance	37,129	1,954	39,083
Insurance	23,252	5,813	29,065
Office supplies	-	36,400	36,400
Payroll taxes	14,300	6,128	20,428
Dues, subscriptions, licenses	7,856	7,856	15,712
Board fees	-	13,972	13,972
Bad debt	-	-	-
Communication	5,679	1,893	7,572
Professional services	-	9,450	9,450
Other expenses	3,054	3,054	6,108
Training	1,565	1,043	2,608
Total expenses	<u>\$ 791,125</u>	<u>\$ 223,014</u>	<u>\$ 1,014,139</u>

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

YORKTOWN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Yorktown Water Association, Inc. (the “Organization”) is a not-for-profit corporation established under the laws of the State of Arkansas and 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 the surrounding community.

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.

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.

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.

An allowance for doubtful accounts is maintained. The allowance for doubtful accounts for the years ended December 31, 2020 and 2019 were \$100,150 and \$88,150, respectively. Bad debts are charged to operations as they are deemed uncollectible.

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	20-40 years
Buildings & Improvements	20-25 years
Furniture & 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.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those 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. The income from these net assets may be used for specific purposes. 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net ass released from 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.

Income 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 and the applicable income tax regulations of the State of Arkansas on income other than income derived from activities unrelated to its exempt purpose. The Organization files an exempt return in the U.S. federal jurisdiction.

Date of Management's Review

The Organization evaluated its December 31, 2020 financial statements for subsequent events through April 12, 2021, the date the financial statements were available to be issued. As described in Note 8, the Organization has disclosed one subsequent event that the Organization has determined to be significant. The Organization determined that the event does not require recognition in the financial statements for the year ended December 31, 2020, but is significant enough to merit disclosure.

NOTE 2 – 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:

	2020	2019
Cash and cash equivalents	\$ 95,847	\$ 165,819
Investments (certificate of deposits)	2,773,390	2,727,036
Receivables	82,680	78,785
	<u>2,951,917</u>	<u>2,971,640</u>
Less: restricted cash for deposit accounts	(110,902)	(101,812)
Less: restricted cash for debt requirements	<u>(193,990)</u>	<u>-</u>
Available for general expenditure	<u>\$ 2,647,025</u>	<u>\$ 2,869,828</u>

Restricted cash consists of funds to be maintained to repay customers' deposits upon the closing of the customers' accounts.

The debt reserve cash requirements is for an assignment of the Organization's certificate of deposit account held with the lending institution to secure the outstanding principal and interest on the debt.

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$500,000). As part of its liquidity plan, excess funds are held in investments.

NOTE 3 – DETAIL ON CASH DEPOSITED IN COMMERCIAL BANKS

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, 2020.

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
Relyance Bank	\$ 579,887	\$ 250,000	\$ 329,887	\$ -
Union Bank	567,121	250,000	317,121	-
Connect Bank	552,202	250,000	302,202	-
Simmons First Sweep Account	75,274	75,274	-	-
Brokered Certificates	1,046,000	1,046,000	-	-
Total	<u>\$ 2,820,484</u>	<u>\$ 1,871,274</u>	<u>\$ 949,210</u>	<u>\$ -</u>

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

NOTE 4 – INVESTMENTS

The cost and market value of investments are as follows at December 31, 2020:

Investments	Cost	Fair Market Value	Unrealized Gain / (Loss)
Money market	\$ -	\$ -	\$ -
Certificate of deposits	2,715,613	2,773,654	58,041
Annuities	-	-	-
Municipal bonds	-	-	-
Total	<u>\$ 2,715,613</u>	<u>\$ 2,773,654</u>	<u>\$ 58,041</u>

The investment maturities are as follows at December 31, 2020:

Investments	Investment Maturity (in Years)			
	Less than 1	1 through 5	6 through 10	More than 10
Money market	\$ -	\$ -	\$ -	\$ -
Certificate of deposits	-	2,773,654	-	-
Annuities	-	-	-	-
Municipal bonds	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 2,773,654</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments				
Money market	\$ -	\$ -	\$ -	\$ -
Certificate of deposits	-	2,773,654	-	2,773,654
Annuities	-	-	-	-
Municipal bonds	-	-	-	-
Total	\$ -	\$ 2,773,654	\$ -	\$ 2,773,654

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020.

Money market: Valued at amortized cost, which approximates fair value.

Municipal bonds, Certificate of deposits, and Annuities: The Organization uses third party pricing services to determine the fair value of its investments. The third-party pricing services use industry-standard models to price the investments that consider various assumptions including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following balances at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 120,381	\$ 120,381
Building	284,967	272,517
Plant and equipment	7,617,074	7,015,640
Construction in progress	-	18,263
	<u>8,022,422</u>	<u>7,426,801</u>
Accumulated depreciation	<u>(4,754,144)</u>	<u>(4,468,482)</u>
	<u>\$ 3,268,278</u>	<u>\$ 2,958,319</u>

NOTE 7 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2020:

	<u>2020</u>
Note payable to Relyance Bank for the purpose of working capital, payable in one lump some of principal and accrued interest on July 2021, interest at 3.65%, secured by a certificate of deposit held at Relyance Bank	190,000

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31, 2020:

2021	\$ 190,000
2022	-
2023	-
2024	-
2025	-
Thereafter	-
	<u>\$ 190,000</u>

NOTE 8 – SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings across a range of industries. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees, governmental agencies, and vendors all of which are uncertain and cannot be predicted in the following year. The Organization has not experienced significant changes in operations since the onset of the outbreak, however, it is uncertain if the Organization's financial condition or operations will continue to be unaffected in the following fiscal year due to the external factors listed previously.

SUPPLEMENTAL INFORMATION

YORKTOWN WATER ASSOCIATION, INC.
SCHEDULE OF INSURANCE IN FORCE
For the Year Ended December 31, 2020

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Coverage Date</u>	<u>Policy Amount</u>
Workers' Compensation	2a5-45-86-21	10/1/2020 - 10/1/2021	Statutory
Automobile Liability	2d5-45-86-21	10/1/2020 - 10/1/2021	\$ 1,000,000
Comprehensive General Liability	2j5-45-86-21	10/1/2020 - 10/1/2021	\$ 2,000,000
Commercial Property	2k5-45-86-21	10/1/2020 - 10/1/2021	\$ 2,741,677
Fidelity Bond	2q5-45-86-21	10/1/2020 - 10/1/2021	\$ 250,000
Director's and Officer's Liability	2c5-45-86-21	10/1/2020 - 10/1/2021	\$ 1,000,000
Umbrella	2e5-45-86-21	10/1/2020 - 10/1/2021	\$ 5,000,000
CyberSolutions	2f5-45-86-21	10/1/2020 - 10/1/2021	\$ 50,000
Inland Marine	2h5-45-86-21	10/1/2020 - 10/1/2021	\$ 186,500

See Independent Auditor's Report.

YORKTOWN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2020

SIGNIFICANT DEFICIENCIES

2020-001 - Segregation of Duties

Condition: The Organization did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

Criteria: Proper segregation of controls should be in place to provide reasonable assurance that fraud or error does not occur.

Cause: The Organization has limited financial resources which prevent it from properly segregating financial accounting duties.

Effect: Without proper segregation of duties, opportunity for fraud or error exists.

Recommendation: The Organization should evaluate its internal controls and segregate financial duties to the extent possible with the current staffing levels. The Organization should consider additional oversight where segregation is not possible.

Management's Response: The Organization will segregate financial duties to the extent possible with the current staffing levels. Management considers that the costs of the remedy for the deficiency exceeds the risk.