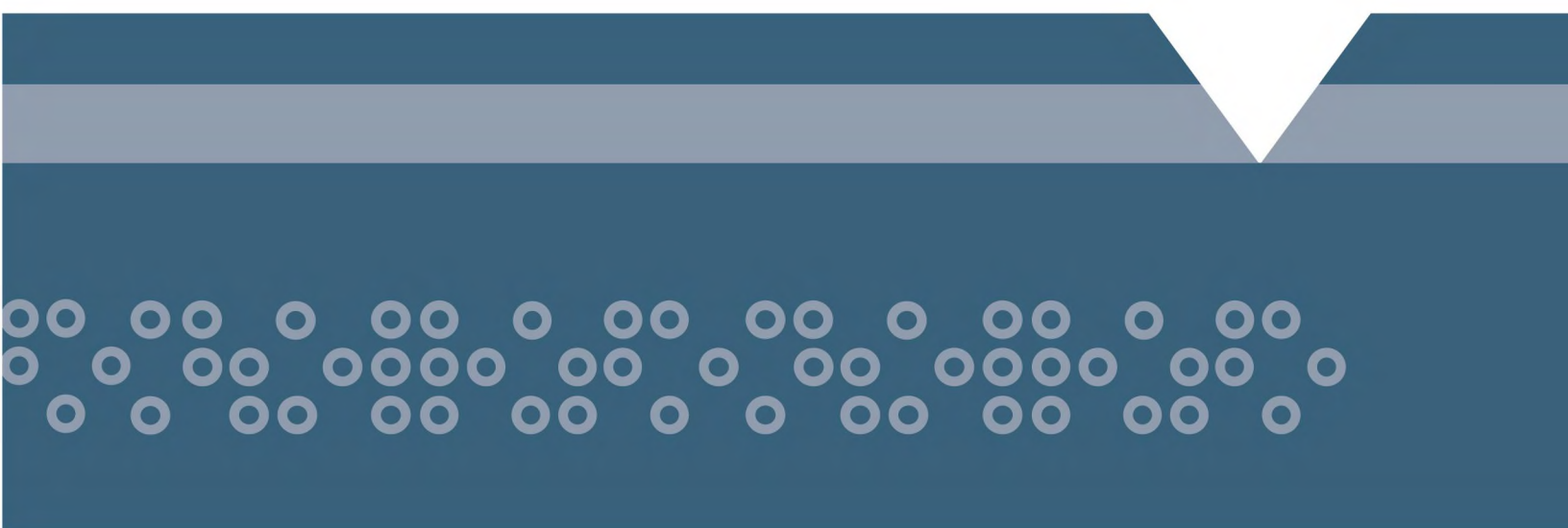


**D'Arbonne Water System, Inc.**  
Financial Report

December 31, 2022 and 2021



**D'ARBONNE WATER SYSTEM, INC.**

**FINANCIAL REPORT**

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The Board of Directors  
D'Arbonne Water System, Inc.  
Bernice, Louisiana

### **Independent Auditor's Report**

#### **Opinion**

We have audited the accompanying financial statements of D'Arbonne Water System, Inc. (a Louisiana corporation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, changes in membership equity, 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 D'Arbonne Water System, Inc. as of December 31, 2022 and 2021, and the change in membership equity 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 2022 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States. We conducted our 2021 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 D'Arbonne Water System, Inc. 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 D'Arbonne Water System, 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, 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 D'Arbonne Water System, 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 D'Arbonne Water System, 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.

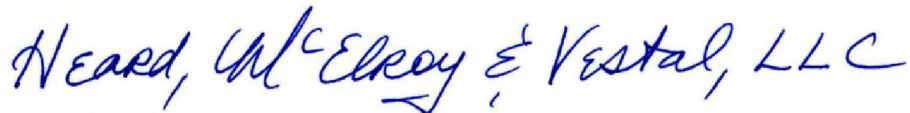
## **Other Matters**

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule presented on page 17 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 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 taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated June 1, 2023 on our consideration of D'Arbonne Water System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of D'Arbonne Water System, Inc.'s 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 D'Arbonne Water System, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Heard, McElroy & Vestal, LLC". The signature is written in a cursive, flowing style.

Monroe, Louisiana  
June 1, 2023

**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 203,184	\$ 206,759
Certificates of deposit - current	51,001	40,224
Receivables		
Trade, less allowance for doubtful accounts of \$4,798 and \$2,739, respectively	102,735	98,254
Grant funds receivable	167,476	-
Contract assets	28,604	42,535
Investments	146,811	142,723
Accrued interest receivable	2,076	2,076
Prepaid insurance	21,153	14,662
	723,040	547,233
<b>OTHER ASSETS</b>		
Investment in CoBank	8,513	6,813
Deposits	44	44
	8,557	6,857
<b>RESTRICTED ASSETS</b>		
Cash	45,987	46,037
	45,987	46,037
PROPERTY AND EQUIPMENT, net	3,299,214	3,018,484
<b>TOTAL ASSETS</b>	<b>\$ 4,076,798</b>	<b>\$ 3,618,611</b>

(Continued)

**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>LIABILITIES AND MEMBERSHIP EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable-trade	\$ 32,753	\$ 30,747
Line of credit - Origin Bank	-	24,240
Current portion of long-term debt	166,267	252,699
Current portion of capital lease	1,755	1,620
Accrued expenses	4,484	4,903
Customer deposits	9,387	10,037
	214,646	324,246
<b>OTHER LIABILITIES</b>		
Long-term debt	678,065	429,932
Long-term capital lease	-	1,620
	892,711	755,798
<b>TOTAL LIABILITIES</b>		
<b>MEMBERSHIP EQUITY</b>		
Without donor restrictions	3,184,087	2,862,813
<b>TOTAL MEMBERSHIP EQUITY</b>		
	3,184,087	2,862,813
<b>TOTAL LIABILITIES AND MEMBERSHIP EQUITY</b>		
	\$ 4,076,798	\$ 3,618,611

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

**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	YEAR ENDED DECEMBER 31	
	2022	2021
<b>OPERATING REVENUES</b>		
Water revenue, net of adjustments	\$ 1,097,003	\$ 1,159,053
Water service	40,627	23,065
Total Operating Revenues	1,137,630	1,182,118
<b>OPERATING EXPENSES</b>		
Advertising - legal notices	541	450
Bad debts	2,887	1,044
Computer billings	24,625	21,628
Contract labor	888	690
Depreciation	382,192	357,935
Directors' fees	43,800	43,800
Fuel	17,266	20,057
Group health insurance	355	5,360
Insurance	51,278	42,118
Miscellaneous	23,031	10,389
Office expense	12,076	14,368
Professional fees	88,919	61,253
Repairs and maintenance	168,549	63,134
Retirement plan contribution	7,398	8,101
Salaries	305,686	287,887
Supplies	75,006	77,538
Taxes - payroll	24,521	23,371
Telephone	8,942	11,219
Utilities	126,249	109,650
Water service costs	9,817	12,017
Total Operating Expenses	1,374,026	1,172,009
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(236,396)</b>	<b>10,109</b>
<b>OTHER INCOME (EXPENSE)</b>		
Investment return	11,373	6,818
Interest expense	(40,138)	(32,364)
Customer penalties	20,695	21,825
Gain on sale of equipment	-	22,840
Grant income	551,063	-
CoBank patronage allocation	6,638	8,942
Other income	8,039	28,419
Total Other Income (Expense)	557,670	56,480
<b>CHANGE IN MEMBERSHIP EQUITY</b>	<b>\$ 321,274</b>	<b>\$ 66,589</b>

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



**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF CHANGES IN MEMBERSHIP EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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	UNRESTRICTED	TOTAL
<b>MEMBERSHIP EQUITY, DECEMBER 31, 2020</b>	\$ 2,796,224	\$ 2,796,224
Change in membership equity	66,589	66,589
<b>MEMBERSHIP EQUITY, DECEMBER 31, 2021</b>	2,862,813	2,862,813
Change in membership equity	321,274	321,274
<b>MEMBERSHIP EQUITY, DECEMBER 31, 2022</b>	\$ 3,184,087	\$ 3,184,087

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

**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>OPERATING ACTIVITIES</b>		
Change in membership equity	\$ 321,274	\$ 66,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	382,192	357,935
Bad debt expense	2,887	1,044
Unrealized (gain) loss on investments	(4,088)	3,383
(Gain) on sale of equipment	-	(22,840)
Patronage allocation received	(1,700)	(2,469)
(Increase) Decrease in:		
Accounts receivable, trade, net	(7,367)	4,476
Contract assets	13,931	(13,938)
Grant funds receivable	(167,476)	-
Prepays and other	(6,492)	(4,699)
Increase (Decrease) in:		
Accounts payable - trade	2,006	(1,862)
Accrued expenses	(419)	(1,209)
Customer deposits	(650)	161
Net cash provided by operating activities	534,098	386,571
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(412,041)	(63,257)
Proceeds from sale of equipment	-	25,288
Purchases of construction in progress	(250,881)	-
Proceeds from redemption of certificates of deposit	-	20,000
Purchases of certificates of deposit	(10,777)	(40,224)
Net cash provided by (used in) investing activities	(673,699)	(58,193)
<b>FINANCING ACTIVITIES</b>		
Net change in line of credit	(24,240)	(57,500)
Payments on capital lease	(1,485)	(2,004)
Proceeds of long-term debt	501,400	-
Payments of long-term debt	(339,699)	(268,651)
Net cash provided by (used in) financing activities	135,976	(328,155)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(3,625)	223
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	252,796	252,573
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 249,171	\$ 252,796

(Continued)

**D'ARBONNE WATER SYSTEM, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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	<u>2022</u>	<u>2021</u>
<b>CASH AND CASH EQUIVALENTS AS PRESENTED IN THE BALANCE SHEET</b>		
Unrestricted Cash	\$ 203,184	\$ 206,759
Restricted Cash	<u>45,987</u>	<u>46,037</u>
	<u>\$ 249,171</u>	<u>\$ 252,796</u>

**SUPPLEMENTAL DISCLOSURES OF  
CASH FLOW INFORMATION**

Cash paid during the year for:

Interest, net of amount capitalized	\$ 40,541	\$ 31,055
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**NON-CASH INVESTING ACTIVITIES**

Purchase of property and equipment by capital lease	\$ -	4,860
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**DISCLOSURE OF ACCOUNTING POLICY**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchase with a maturity of three months or less to be cash equivalents.

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

**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**1. Summary of Significant Accounting Policies**

***Nature of Operations*** - D'Arbonne Water System, Inc. (the Company) was incorporated under the laws of Louisiana on April 5, 1977, for the purpose of providing water services primarily to individuals and businesses in certain rural areas of North Louisiana and South Arkansas.

***Basis of Accounting*** - The financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

***Use of Estimates*** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Trade Accounts Receivable and the Allowance for Doubtful Accounts*** - Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides an allowance for doubtful accounts equal to the estimated losses that could be incurred based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to trade accounts receivable.

Accounts receivable charged against the allowance net of recoveries were \$1,044 and \$699 for the years ended December 31, 2022 and 2021, respectively.

***Investment Securities*** – Investments in marketable debt securities with readily determinable fair values are reported at approximate fair value in the statements of financial position. Realized gains and losses on the sale of securities are determined using the specific identification method. Net investment return is reported in the statement of activities and consists of interest income and realized and unrealized gains and losses net of external investment expenses.

***Property and Equipment*** - Property and equipment are recorded at cost. Property and equipment additions and improvements are charged to asset accounts, while maintenance and repairs, which do not improve or extend the useful life of the assets, are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range as follows:

	<u>Years</u>
Wells, tanks and distribution lines	40
Pumps, chlorinators and motors	5-7
Well site improvements, structures and line extensions	10
Office building	40
Equipment and vehicles	5
Capitalized interest	40

***Membership Fees and Customer Deposits*** - Membership fees are nonrefundable and are recognized as revenue when received by the Company. Customer deposits received from individuals, who lease the property for which water services are provided, are refundable to the customer and are recorded as a liability. All other customer deposits are nonrefundable and are recognized as revenue when received by the Company.

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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**Compensated Absences** - Employees of the Company are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. The Company does not accumulate vacation or sick time. The estimate for the amount of compensation for future absences was immaterial and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when paid to employees.

**Income Taxes** - The Company is a not-for-profit membership organization exempt from income tax under Section 501(c)(12) of the Internal Revenue Code but must file an annual return with the Internal Revenue Service that contains information on its financial operations. The Company is required to review various tax positions it has taken with respect to its exempt status and determine whether in fact it continues to qualify as a tax-exempt entity. It must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax-exempt entity, the Company must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Company does not expect any of these tax positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Company's accounting records. Its federal income tax returns for the tax years 2018 and beyond remain subject to examination by the Internal Revenue Service.

**Sales Taxes** - The State of Louisiana imposed a sales tax on the Company's sales to non-residential customers. The Company collects that sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to exclude the tax collected and remitted to the State from revenues and expenses.

**Leased Equipment Capitalized** - The imputed cost of leased equipment is capitalized and charged to earnings using the straight-line method of amortization over estimated useful lives of five years for financial reporting purposes. Generally, when items of leased property are retired or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in income. Amortization of assets under capital leases is included in depreciation expense for 2022 and 2021.

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. Management evaluated the effects of Topic 842 and determined them to be immaterial to the financial statements. Management did not implement Topic 842.

**Functional Allocation of Expenses** – The water system's only activity is to provide water service to its members. All costs incurred by the water system are incurred for the purpose of providing water service; therefore, it is not feasible to allocate expenses between program services and support services.

**Reclassifications** - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

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**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**2. Certificates of Deposit**

Certificates of deposit are recorded at cost. At December 31, 2022, the Company had two certificates of deposit maturing in 2023, bearing interest at 3.05% to 3.95%.

**3. Property, Equipment and Depreciation**

Property and equipment at December 31, is summarized as follows:

	<u>2022</u>	<u>2021</u>
Wells, tanks and distribution and extension lines	\$ 8,591,284	\$ 8,235,621
Pumps, chlorinators, motors and equipment	469,125	433,797
Booster station – Charles Road	52,723	52,723
Well site improvements and structures	44,039	34,289
Office building and land improvements	101,208	91,708
Office equipment	41,663	41,663
Vehicles	231,988	231,988
Capitalized interest	99,343	99,343
Land	<u>69,859</u>	<u>68,059</u>
	9,701,232	9,289,191
Construction in progress	250,881	-
Less-accumulated depreciation	<u>(6,652,899)</u>	<u>(6,270,707)</u>
Property and equipment, net	<u>\$ 3,299,214</u>	<u>\$ 3,018,484</u>

Depreciation expense for the years ended December 31, 2022 and 2021, totaled \$382,192 and \$357,935, respectively. As discussed in Note 5, certain property and equipment serves as collateral for notes payable.

**4. Leases**

During the year ended December 31, 2022, the Company had one capital lease for office equipment. The economic substance of this lease is that the Company was financing the acquisition of the equipment through the lease. The equipment is recorded as an asset and the lease is recorded as a liability.

The following is an analysis of the leased assets included in furniture and equipment at December 31:

	<u>2022</u>
Equipment Under Capital Lease	\$ 4,860
Less: Accumulated Depreciation	<u>932</u>
Total	<u>\$ 3,928</u>

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2022 are as follows:

Total minimum lease payment	\$ 1,755
Amount representing interest	<u>-</u>
Present value of net minimum lease payments	1,755
Current portion	<u>1,755</u>
Long-term capital lease obligation	<u>\$ -</u>

**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**5. Long-Term Debt and Line of Credit**

Long-term debt as of December 31, is summarized as follows:

	<u>2022</u>	<u>2021</u>
CoBank	\$ -	\$ 194,804
CoBank	405,790	455,665
Ford Motor Credit	24,142	32,162
Origin Bank	<u>414,400</u>	<u>-</u>
Total	844,332	682,631
Less current installments of long-term debt	<u>166,267</u>	<u>252,699</u>
Long-term debt	<u>\$ 678,065</u>	<u>\$ 429,932</u>

The first CoBank note payable is due in 36 monthly installments of approximately \$16,572 including interest at 3.45%. The note matured December 20, 2022 and was collateralized by all personal property of the Company.

The second CoBank note payable is due in 84 monthly installments of approximately \$5,500 including interest at 3.65%. The note matures December 20, 2029 and is collateralized by all personal property and revenues of the Company.

The Ford Motor Credit note payable is due in 60 monthly installments of \$782, including interest at 4.79% and is collateralized by a vehicle.

The Origin Bank note at December 31, 2022, consisted of two short-term notes of \$260,500 bearing interest at 7.5% due April 26, 2023 and \$158,900 bearing interest at 5.17% due January 26, 2023, both of which were refinanced in January 2023 with a \$75,000 principal reduction and the remainder converted to a fixed rate loan bearing interest at 7.97% payable in 60 monthly installments of approximately \$5,300 with a balloon payment due January 24, 2028.

As of November 2018, the Company also has a \$350,650 line of credit with Origin Bank. The balance on the line of credit was \$24,240 at December 31, 2021 and was repaid in 2022.

The Company has agreed to certain financial covenants with CoBank, the more significant being as follows:

- Debt service coverage ratio will be no less than 1.25 times tested annually based on year-end financial statements.
- Maintenance of a reserve account with a balance of \$36,000.

The Company was in compliance with these covenants as of December 31, 2022.

**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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The combined aggregate amounts of maturities for long-term debt are presented as follows:

<u>Year Ending December 31</u>	
2023	\$ 166,267
2024	102,781
2025	106,367
2026	105,227
2027	111,380
Later years	<u>252,310</u>
	<u>\$ 844,332</u>

For the year ended December 31, 2022, interest costs totaled \$40,138, all of which was expensed.

**6. Restricted Assets**

Under FASB ASU 2016-14 only net assets restricted by donors are grouped as restricted in equity. However, cash set aside for customer deposits and reserve balances as required by lenders as described in Note 5, are presented as restricted assets. These monies are released from restriction when the loan is repaid, or a customer leaves the system.

Restricted assets are described as follows:

The Company maintains a noninterest-bearing bank account for refundable customer deposits. The balance in this account was \$9,987 and \$10,037 at December 31, 2022 and 2021, respectively.

CoBank requires that the Company maintain a reserve account of at least \$36,000. The Company is utilizing \$36,000 of its bank account designated as a reserve account to satisfy this requirement. This restriction ends when all debt is paid in full.

**7. Simple IRA**

Effective January 1, 2003, the Company established a SIMPLE IRA plan (the Plan). The Plan covers substantially all employees and allows participants to make pre-tax contributions (salary reductions with a limit of \$13,500) with the Company making matching contributions of up to 3% of employee compensation. The Company's matching contributions for 2022 and 2021 were \$7,398 and \$8,101, respectively.

**8. Revenue Recognition**

The Company derives its revenues primarily from the sales of water to residential, agricultural and commercial customers. Revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the company expects to be entitled to in exchange for those services. Sales and other taxes the Company collects concurrent with revenue producing activities are excluded from revenue. The Company does not have significant financing components as payment is normally received in the month following sale. The Company does not incur costs to obtain customer contracts.



**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**Disaggregation of Revenue from Contracts with Customers**

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Performance obligations satisfied at a point in time	\$ <u>-</u>	\$ <u>-</u>
Performance obligations satisfied over time	\$ <u>1,137,630</u>	\$ <u>1,182,118</u>
Total Operating Revenue	\$ <u>1,137,630</u>	\$ <u>1,182,118</u>

Revenue from performance obligations satisfied over time consists of the sale of water. These services are sold to residential and commercial customers. The Company has different rate structures for each type of customer, so that the relative volume of water sold to the various customer classifications could impact total revenue.

**Performance Obligations**

For performance obligations related to sales of water, control transfers to the customer over time. The water sold is received and consumed by the customer as the Company provides the service. Customers are billed near the end of each month based on usage at stated rates, with payment due by the 10<sup>th</sup> of the following month. Service is disconnected if payment is not received by the 20<sup>th</sup> of the following month. Management has made payment arrangements with certain customers due to the effects of the COVID-19 pandemic.

**Variable Consideration**

The nature of the Company's business generally does not give rise to variable consideration, including rebates, allowances, and returns.

**Contract Assets and Liabilities**

Contract assets include the estimated unbilled amount resulting from sales from the last billing date through the last day of the year, approximately 8 days of usage. Contract assets were \$28,604 and \$42,535 for the year ended December 31, 2022 and 2021, respectively.

**9. Financial Instruments**

***Concentrations of Credit Risk***

The Company extends credit to its water customers in rural North Louisiana and South Arkansas.

The Company maintains its cash balances at two financial institutions located in North Louisiana.

Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2022, the Company had no cash balances that exceeded federal depository insurance.

***Collateralization Policy***

Unless otherwise disclosed, the Company does not obtain collateral or other security to support financial instruments subject to credit risk.

**D'ARBONNE WATER SYSTEM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**10. Grant Funds Received**

In 2022, the Company was awarded two American Rescue Plan Act grants through the Union Parish Police Jury. The first grant is for \$379,500 to repair and recoat the interior of three water wells on the North system. The second grant is for \$204,785 for the South system to purchase 3 generators required by the state. The funds are available on a reimbursement basis so that the Company must first expend the funds. The Company obtained an additional loan from Origin Bank to fund these expenditures with the expectation of repaying the loan once grant funds are received. During 2022, \$383,587 in grant funds were received with an additional \$167,476 receivable for reimbursements received in 2023 for 2022 expenditures.

**11. Liquidity and Availability**

The Company regularly monitors the availability of resources required to meet its operating needs, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Company considers all expenditures related to its going activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without contractual restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash - unrestricted	\$ 203,184
Certificates of deposit	51,001
Receivables - Trade	102,735
Contract assets	28,604
Grant funds receivable	167,476
Investments	<u>146,811</u>
	<u>\$ 699,811</u>

**12. Other**

In 2011, the Company signed a lease for 99 years for a booster station site at a cost of \$30 per year.

The Company is currently under two Administrative Orders from the Louisiana Department of Health citing issues of non-compliance with state primary drinking water regulations. The Company is currently working to resolve the issues and has incurred significant costs to bring its operations into compliance. The additional financial effect of resolving these issues cannot be determined at this time.

**13. Subsequent Events**

Management evaluates events and transactions that occur after the balance sheet date but before the financial statements are made available. Management evaluated such events and transactions through June 1, 2023, the date for which financial statements were made available for distribution, and other than what is referenced below, noted no significant subsequent events as of this date.

The Company is in the process of applying for additional American Rescue Plan funds from the State of Louisiana under the Water Sector Program. Initial approval for grant funds of \$573,276 for the South System has been received pending the state's approval of documentation submitted. Approval for an additional grant of \$4,533,777 for the North System has been received which will require a matching contribution of \$600,000 by the Company.

**SUPPLEMENTARY INFORMATION**

**D'ARBONNE WATER SYSTEM, INC.**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD**  
**DECEMBER 31, 2022**

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No public funds were utilized to pay compensation or benefits to the agency head for the year ended December 31, 2022.



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318.388.3108 (P) | 318.429.2124 (F)

The Board of Directors  
D'Arbonne Water System, Inc.  
Bernice Louisiana

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

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 D'Arbonne Water System, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, changes in equities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2023.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

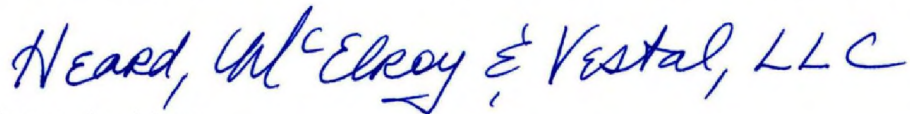
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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 D'Arbonne Water System, 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 financial statements. 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 one instance of noncompliance that is 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 purpose.

A handwritten signature in blue ink that reads "Heard, McElroy & Vestal, LLC". The signature is written in a cursive style with a large initial 'H' and 'M'.

Monroe, Louisiana  
June 1, 2023

**D'ARBONNE WATER SYSTEM, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

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**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of D'Arbonne Water System, Inc.
2. One instance of noncompliance material to the financial statements of D'Arbonne Water System, Inc. was disclosed during the audit.
3. No material weaknesses or significant deficiencies in internal control, relating to the audit of the financial statements are reported.
4. D'Arbonne Water System, Inc. was not subject to a federal single audit for the year ended December 31, 2022.

**B. Findings - Financial Statement Audit**

2022-01 – Noncompliance with Community Drinking Water Infrastructure Sustainability Act

D'Arbonne Water System received a grade of D on the North section of the Water System from the Louisiana Department of Health, indicating it was out of compliance with the standards established by the Louisiana Department of Health.

**D'ARBONNE WATER SYSTEM, INC.**  
**MANAGEMENT'S CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

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2022-01

D'Arbonne Water System is currently working on a comprehensive multi-year improvement plan to bring the entire system into compliance with the accountability standards.