

INDIAN SWITCH WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2023

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
Indian Switch Water Association, Inc.

We have performed the procedures enumerated below for the Indian Switch Water Association, Inc., ("the Organization"), for the year ended December 31, 2023. The Organization's management is responsible for accounting records.

Indian Switch Water Association, Inc. has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of issuing a report on findings based on specific procedures performed on subject matter. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Cash and Investments

1. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
2. Confirm with depository institutions the cash on deposit and investments.
3. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

Findings: No findings identified.

Receipts

1. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
2. Agree 10 customer payments on the accounts receivable sub-ledger to deposit and billing documents.
3. For one deposit, agree the cash/check composition of the deposit with receipt information.

Findings: No findings identified.

Accounts Receivable

1. Agree 10 customer billings to the accounts receivable sub-ledger.
2. Determine that five (5) customer adjustments were properly authorized.

Findings: *No findings identified.*

Disbursements

1. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$ 500, whichever is greater.
2. Analyze all property, plant, and equipment disbursements.
3. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

Findings: *No findings identified.*

Property, Plant, and Equipment

1. Determine that additions and disposals were properly accounted for in the records. (Materiality level - 5% of total equipment or \$500, whichever is greater.)

Findings: *No findings identified.*

Long-Term Debt

2. Schedule long-term debt and verify changes in all balances for the year.
3. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
4. Determine that the appropriate debt service accounts have been established and maintained.

Findings: *No findings identified.*

General

1. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

Findings: *No findings identified.*

We were engaged by the Organization to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants.

We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Organization, Arkansas Legislative Joint Auditing Committee and is not intended to be and should not be used by anyone other than those specified parties.

Searcy & Associates LLC

Monticello, Arkansas
April 3, 2024

SEARCY & ASSOCIATES, LLC
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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Indian Switch Water Association, Inc.

Management is responsible for the accompanying financial statements of Indian Switch Water Association, Inc., which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

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

Monticello, Arkansas
April 3, 2024

INDIAN SWITCH WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
For the Year Ended December 31, 2023

	<u>2023</u>
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 118,123
Accounts receivable (net)	23,653
Other current assets	<u>7,427</u>
Total current assets	149,203
 <u>Fixed assets, net of accumulated depreciation</u>	 275,829
 <u>Other Assets</u>	
Cash reserve - meter deposits	17,945
Cash reserve - debt service	<u>44,085</u>
Total other assets	<u>62,030</u>
 Total assets	 <u><u>\$ 487,062</u></u>
 <u>Liabilities and Net Assets</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 7,723
Accrued interest	2,889
Current portion of notes payable	<u>29,888</u>
Total current liabilities	40,500
 <u>Long term liabilities</u>	
Notes payable, net of current amount	276,249
Customer deposits	<u>17,945</u>
Total long term liabilities	<u>294,194</u>
 Total liabilities	 334,694
 <u>Net assets</u>	
Net assets without restrictions	108,283
Net assets with restrictions	<u>44,085</u>
Total net assets	<u>152,368</u>
 Total liabilities and net assets	 <u><u>\$ 487,062</u></u>

INDIAN SWITCH WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2023

	<u>2023</u>
<u>Changes in net assets</u>	
Revenues	
Water services	\$ 277,842
Expenses	
Operating expenses	199,601
General and administrative	<u>11,219</u>
Total expenses	<u>210,820</u>
Income (loss) from operations	67,022
Non-operating income (expense)	
Interest income and net gain on investments	1,078
Interest expense	<u>(15,454)</u>
Total non-operating income (expense)	<u>(14,376)</u>
<u>Change in net assets</u>	52,646
<u>Net assets, beginning of year</u>	<u>99,722</u>
<u>Net assets, end of year</u>	<u>\$ 152,368</u>

The accompanying notes are an integral part of the financial statements

INDIAN SWITCH WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

	<u>2023</u>
<u>Cash flows from operating activities</u>	
Income from operations	<u>\$ 67,022</u>
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	8,162
Changes in assets and liabilities:	
Accounts receivable	(2,432)
Other current assets	<u>(463)</u>
Total adjustments	<u>5,267</u>
Net cash provided by (used for) operating activities	<u>72,289</u>
<u>Cash flows from investing activities</u>	
Interest income and net gain on investments	<u>1,078</u>
Net cash provided by (used for) investing activities	<u>1,078</u>
<u>Cash flows from financing activities</u>	
Principal payments	(28,502)
Interest payments	(15,454)
Change in customer deposits	<u>(3,687)</u>
Net cash provided by (used for) financing activities	<u>(47,643)</u>
<u>Change in cash and cash equivalents</u>	25,724
<u>Cash and cash equivalents, beginning of year</u>	<u>154,429</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 180,153</u>
<u>Cash and cash equivalents</u>	\$ 118,123
<u>Restricted cash and cash equivalents</u>	<u>62,030</u>
	<u>\$ 180,153</u>

The accompanying notes are an integral part of the financial statements

INDIAN SWITCH WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2023

	2023		
	Program (Water) Services	Management & General	Total
Water purchases	\$ 146,854	\$ -	\$ 146,854
Repairs and maintenance	1,296	-	1,296
Depreciation	7,754	408	8,162
Professional services	-	7,250	7,250
Utilities	1,470	30	1,500
Insurance	7,349	816	8,165
Other expenses	78	77	155
Office supplies	-	2,638	2,638
Contract labor	34,800	-	34,800
Total expenses	<u>\$ 199,601</u>	<u>\$ 11,219</u>	<u>\$ 210,820</u>

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

INDIAN SWITCH WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Indian Switch 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 rural 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. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

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.

INDIAN SWITCH WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023

NOTE 1 (continued)

An allowance for doubtful accounts is maintained. The allowance for doubtful accounts for the year ended December 31, 2023 was \$2,977. 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.

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.

Federal Tax Status

No provision for federal income taxes is required since the Organization is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. The Organization files an exempt return in the U.S. federal jurisdiction.

Date of Management's Review

The Organization evaluated its December 31, 2023 financial statements for subsequent events through April 3, 2024, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

INDIAN SWITCH WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023

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 at December 31:

	2023
Cash and cash equivalents	\$ 180,153
Receivables	23,653
	<u>203,806</u>
Less: restricted cash for deposit accounts	(17,945)
Less: restricted cash for debt requirements	<u>(44,085)</u>
Available for general expenditure	<u><u>\$ 141,776</u></u>

Restricted cash consists of funds to be maintained to repay customers' deposits upon the closing of the customers' accounts. The total deposits held with the Organization required to be reserved at December 31, 2023 was \$17,945.

NOTE 3 – PROPERTY AND EQUIPMENT

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

	2023
Land	\$ 6,500
Distribution system	1,928,655
	<u>1,935,155</u>
Accumulated depreciation	<u>(1,659,326)</u>
	<u><u>\$ 275,829</u></u>

INDIAN SWITCH WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023

NOTE 4 – LONG-TERM DEBT

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

	<u>2023</u>
Note payable to the USDA for the purchase of property and equipment, payable in monthly installments of \$2,535, including principal and interest through 2033; interest at 5.00%, secured by property and equipment	227,076
Note payable to the ANRC for the purchase of property and equipment, payable in annual installments of \$7,512, including principal and interest through 2036; interest at 3.90%, secured by property and equipment	73,335
Note payable to the ANRC for the purchase of property and equipment, payable in annual installments of \$6,018, including principal and interest through 2024; interest at 5.00%, secured by property and equipment	5,726

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

Year Ending December 31,	Principal	Interest	Total
2024	\$ 29,888	\$ 13,771	\$ 43,659
2025	25,340	12,592	37,932
2026	26,578	11,354	37,932
2027	27,877	10,055	37,932
2028	29,240	8,692	37,932
Thereafter	167,214	22,086	189,300
	<u>\$ 306,137</u>	<u>\$ 78,550</u>	<u>\$ 384,687</u>

NOTE 5 – CONCENTRATIONS

The Organization has an agreement with the City of Eudora Water Department (the “Department”) whereby the Department operates the Organization’s water system. The Organization purchases its water from the Department. Total cost paid to the Department for the year ended December 31, 2023 was \$146,854.