

**WATALULA WATER USERS
ASSOCIATION, INC.**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

December 31, 2022 and 2021

PREPARED BY

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WATALULA WATER USERS ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Watalula Water Users Association, Inc.
PO Box 1121
Ozark, Arkansas 72949

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Watalula Water Users Association, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Watalula Water Users Association, Inc. as of December 31, 2022 and 2021, 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 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. 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 Watalula Water Users Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Watalula Water Users Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

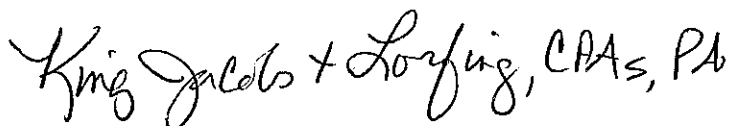
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Watalula Water Users Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Watalula Water Users Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2023, on our consideration of Watalula Water Users Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Watalula Water Users Association, 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 Watalula Water Users Association, Inc.'s internal control over financial reporting and compliance.



King Jacobs & Lorfing, CPAs, PA
Clarksville, Arkansas
August 17, 2023

WATALULA WATER USERS ASSOCIATION, INC.

Statements of Financial Position

December 31, 2022 and 2021

ASSETS

| | <u>2022</u> | <u>2021</u> |
|--|----------------------------|-----------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 114,169 | \$ 58,822 |
| Assets limited as to use-current | 24,450 | 19,868 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,106 and \$3,106 respectively | 77,452 | 82,155 |
| Other receivables | - | 54,774 |
| Unbilled receivables | 27,850 | 25,654 |
| Inventory | 48,747 | 47,304 |
| Prepaid Expenses | <u>17,655</u> | <u>11,685</u> |
| Total Current Assets | <u>310,324</u> | <u>300,262</u> |
| Assets Limited as to Use | | |
| Customer meter deposits | 84,483 | 80,617 |
| Short-lived asset funds | 78,440 | 88,574 |
| Debt reserve funds | 133,392 | 127,685 |
| Internally designated for loan payment | <u>24,450</u> | <u>19,868</u> |
| | 320,766 | 316,744 |
| Less amount required to meet current liabilities | <u>(24,450)</u> | <u>(19,868)</u> |
| Total Assets Limited as to Use, net | <u>296,315</u> | <u>296,876</u> |
| Property and Equipment, at cost | | |
| Land | 165,258 | 165,258 |
| Vehicle and equipment | 94,495 | 95,479 |
| Office furniture and equipment | 18,579 | 20,554 |
| Building | 219,379 | 255,670 |
| Water system | <u>13,827,930</u> | <u>13,703,569</u> |
| | 14,325,641 | 14,240,529 |
| Less accumulated depreciation | <u>(5,057,873)</u> | <u>(4,764,850)</u> |
| Total Property & Equipment, net | <u>9,267,768</u> | <u>9,475,679</u> |
| Other Assets | | |
| Investment - Arkansas Valley Electric Co-op certificates | <u>34,810</u> | <u>32,720</u> |
| Total Assets | <u><u>\$ 9,909,216</u></u> | <u><u>\$ 10,105,537</u></u> |

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

WATALULA WATER USERS ASSOCIATION, INC.

Statements of Financial Position

December 31, 2022 and 2021

LIABILITIES AND NET ASSETS

| | <u>2022</u> | <u>2021</u> |
|---|----------------------------|-----------------------------|
| Current Liabilities | | |
| Current due on long-term debt | \$ 102,339 | \$ 91,787 |
| Accounts payable | 24,702 | 18,485 |
| Accrued expenses | 38,740 | 40,084 |
| Accrued interest | <u>1,990</u> | <u>2,302</u> |
| Total Current Liabilities | <u>167,771</u> | <u>152,657</u> |
| Other Liabilities | | |
| Meter deposits | <u>85,129</u> | <u>81,272</u> |
| Long Term Liabilities | | |
| Long-term debt, net of current maturities | <u>2,577,937</u> | <u>2,760,107</u> |
| Total Long Term Liabilities | <u>2,577,937</u> | <u>2,760,107</u> |
| Total Liabilities | <u>2,830,838</u> | <u>2,994,036</u> |
| Net Assets | | |
| Without donor restrictions | <u>7,078,379</u> | <u>7,111,501</u> |
| Total Net Assets | <u>7,078,379</u> | <u>7,111,501</u> |
| Total Liabilities and Net Assets | <u><u>\$ 9,909,216</u></u> | <u><u>\$ 10,105,537</u></u> |

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

WATALULA WATER USERS ASSOCIATION, INC.
Statement of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Operating Revenue | | |
| Water Sales | \$ 824,938 | \$ 774,407 |
| Connection Fees | 34,947 | 30,774 |
| Interest Income | 477 | 762 |
| Maintenance Reserve | 26,063 | 25,296 |
| Other Operating Revenues | 33,551 | 44,278 |
| Total Operating Revenue | <u>919,976</u> | <u>875,516</u> |
| Direct Operating Expenses | | |
| Water Purchases | 160,979 | 150,945 |
| Utilities | 64,780 | 66,737 |
| Repairs and Maintenance | 45,545 | 77,092 |
| Insurance | 31,561 | 26,003 |
| Interest Expense | 99,745 | 106,463 |
| Fees and Permits | 9,121 | 10,343 |
| Wages | 51,833 | 49,810 |
| Payroll Taxes | 4,282 | 3,394 |
| Depreciation | 344,053 | 340,436 |
| Vehicle Expense | 15,202 | 13,807 |
| Total Direct Operating Expenses | <u>827,102</u> | <u>845,029</u> |
| Gross Profit (Loss) | <u>92,873</u> | <u>30,488</u> |
| General and Administrative Expenses | | |
| Bad Debt Expense | 3,687 | 596 |
| Depreciation | 9,994 | 7,391 |
| Simple IRA Match | 4,145 | 3,971 |
| Insurance | 16,962 | 19,558 |
| Miscellaneous | 4,452 | 6,375 |
| Office Supplies and Postage | 7,824 | 10,950 |
| Office Maintenance | 3,934 | 4,854 |
| Professional Fees | 9,260 | 9,484 |
| Wages | 113,392 | 117,406 |
| Payroll Taxes | 9,369 | 10,182 |
| Utilities | 15,312 | 14,900 |
| Vehicle | 5,067 | 4,602 |
| Total General and Administrative Expenses | <u>203,398</u> | <u>210,270</u> |
| Income (Loss) from Operations | <u>(110,524)</u> | <u>(179,782)</u> |
| Non-Operating Revenues (Expenses) | | |
| Gain/Loss on Sale of Asset | 77,402 | - |
| Total Non-Operating Revenues (Expenses) | <u>77,402</u> | <u>-</u> |
| Increase in Net Assets Without Donor Restrictions | <u>(33,122)</u> | <u>(179,782)</u> |
| Net Assets, Beginning of Year | 7,111,501 | 7,291,283 |
| Net Assets, End of Year | <u>\$ 7,078,379</u> | <u>\$ 7,111,501</u> |

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

WATALULA WATER USERS ASSOCIATION, INC.

Statements of Cash Flow

December 31, 2022 and 2021

| | 2022 | 2021 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers and users and interest income | \$ 973,783 | \$ 816,986 |
| Payments to suppliers and interest to creditors | (474,291) | (531,607) |
| Payments to employees | (201,539) | (202,771) |
| Net Cash from Operating Activities | <u>297,953</u> | <u>82,608</u> |
| Cash Flows from Investing Activities: | | |
| Increase in Arkansas Valley Electric Certificates | (2,090) | (2,966) |
| Fixed asset purchases | (146,796) | (116,319) |
| Sale of Assets | 78,885 | - |
| (Increase) Decrease in Assets Limited as to Use | (4,022) | 77,651 |
| Net Cash Used for Investing Activities | <u>(74,022)</u> | <u>(41,635)</u> |
| Cash Flows from the Non-Capital Financing Activities: | | |
| Customer Meter Deposits Increase | 3,858 | 4,604 |
| Net Cash From Non-Capital Financing Activities | <u>3,858</u> | <u>4,604</u> |
| Cash Flows from Financing Activities: | | |
| Payments on debt obligations | (172,442) | (88,051) |
| Net Cash Used For Financing Activities | <u>(172,442)</u> | <u>(88,051)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 55,347 | (42,473) |
| Cash and Cash Equivalents, Beginning of Year | <u>58,822</u> | <u>101,295</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 114,169</u> | <u>\$ 58,822</u> |
| Cash paid during the year for interest | <u>\$ 100,057</u> | <u>\$ 107,045</u> |
| Non-Cash Investing, Capital & Financing Activities | | |
| Acquisition of building | \$ - | \$ 38,600 |
| Building loan | \$ - | \$ (38,600) |

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

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Business

The Watalula Water Users Association, Inc. is a not-for-profit association established as a provider of water to rural areas in Franklin County, Arkansas. The Association's primary funding source is water sales.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

(c) Capitalization of Interest Costs

The Association capitalizes interest costs as part of the total acquisition costs of construction related to the addition to and/or improvement of facilities. Interest costs capitalized include only the interest incurred during the construction period on debt used to finance the project. The interest capitalization period commences with the first expenditure for the project and continues until the constructed project is substantially completed and ready for its intended use, at which time interest capitalization ceases. Interest capitalized in 2022 was \$0 and in 2021 was \$0.

(d) Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Association considers cash and cash equivalents to be all checking accounts, savings accounts, certificates of deposits, and highly liquid debt instruments purchased with a maturity of three months or less that are not limited as to use.

e) Income Taxes

The Watalula Water Users Association, Inc is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (12) of the Internal Revenue Code. As a result, no provision for current or deferred income tax liability is recognized by the Association's books and records. The Association evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 740, *Income Taxes*. This standard requires certain disclosures about uncertain income tax positions. When tax returns are filed, it is probable that most tax positions would be sustained upon examination by taxing authorities. However, it is also possible that some positions might be subject to uncertainty. The Association evaluates any uncertain tax positions using the provisions of ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with the respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the Association would be presented in other expenses in the statement of activities. Management does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

positions currently exist and no loss contingency has been recognized in the accompanying financial statements. The Association has filed all applicable tax returns. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. The Association is subject to U.S. federal income tax examinations by tax authorities for income tax returns filed for years 2019, 2020, 2021 and 2022. Currently, the Association has no open examination with either the Internal Revenue Service or state taxing authorities.

(f) Concentration of Credit Risk

Financial instruments that potentially subject the Association to credit risk consist primarily of accounts receivable from customers. The Association provides water to customers within the rural outlying areas of Ozark, Arkansas. A security deposit is required to offset any credit risk. The maximum amount of loss due to credit risk that the Association would incur if parties failed to completely perform according to the terms of their contracts would be total receivables of \$105,302 less security deposits of \$85,129 for a net amount of \$20,173 on December 31, 2022. No collateral is required beyond the security deposit.

(g) Use of Estimates

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

(h) Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as "Net Assets Released from Restrictions".

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed services which increase non-financial assets such as property or inventory as well as services contributed by individuals with specialized skills which would have otherwise been purchased, are reported as unrestricted support. Other contributed services that enhance the Association's programs, but are not so essential that they would otherwise be purchased, are not recorded as support.

(i) Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off annually through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Accounts receivable are considered past due if the customers' bill is not fully satisfied by the 15th day of the month. After the 15th has passed, the customer is then charged a 10% penalty fee. If the bill is still not satisfied by the 25th, the customer is contacted by either phone or visit. If the customer is not able to pay within a reasonable time frame, usually the first week of the next month, the water will be shut off.

(j) Inventory

Material and supply inventory is stated at the lower of cost (computed on a first in, first out basis) or market.

(k) Property & Equipment

Property and equipment acquisitions in excess of \$1,000 are capitalized. Property and equipment are carried at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Rates used for computing depreciation are as follows:

| <u>Assets</u> | <u>Rate</u> |
|-----------------------------|--------------|
| Buildings | 4.00-6.67% |
| Distribution system | 2.50% |
| Pump stations and equipment | 2.50-20.00% |
| Automotive equipment | 20.00% |
| Furniture & fixtures | 14.29-33.33% |

(l) Operating Versus Non-Operating Revenue

Transactions deemed by management to be ongoing, major, or central to the provision of providing water are reported as operating revenue and expenses. Operating revenue consists primarily of water sales, connection fees, and part sales. Non-operating revenue consists primarily of revenue that results from grant income, gain or loss from the sale of assets, and other miscellaneous non-operating receipts.

(m) Compensated Absences

Accumulated vacation and sick leave for employees are recorded as an expense and a liability as the benefits are earned.

(2) CONTINGENCIES

The Association has been the recipient of various federal grants. These grant programs are subject to audit by the Federal or State government or their representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the program representatives cannot be determined at this time, although the Association expects such amounts, if any, to be immaterial.

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

The Association's water system was funded, in part, by grants passed through USDA Rural Development. The grant agreements state that the USDA Rural Development or its successor retains an interest in the property. The Association may retain the property for other uses provided that approval is obtained by USDA Rural Development or its successor. When the Association no longer has a need for the property and the property has further use value, the Association is required to request disposition instructions from USDA Rural Development or its successor.

(3) LONG-TERM DEBT

Under the terms of a USDA Rural Development loan agreement dated April 4, 1995, the Association is required to transfer \$140 monthly to a reserve account until a combined balance of \$16,728 is accumulated. The balance was accumulated prior to the year ended December 31, 2004, and the monthly transfers ceased.

Under the terms of a USDA Rural Development loan agreement dated January 25, 1996, the Association is required to transfer \$188 monthly to a reserve account until a balance of \$22,548 is accumulated. The balance was accumulated prior to the year ended December 31, 2005, and the monthly transfers ceased.

Under the terms of a USDA Rural Development loan agreement dated March 12, 2003, the Association is required to transfer \$53 monthly to a reserve account until a balance of \$6,420 is accumulated. The balance was accumulated prior to the year ended December 31, 2014, and the transfers ceased.

Under the terms of a USDA Rural Development loan agreement dated December 20, 2005, the Association is required to transfer \$502 monthly to a reserve account until a balance of \$60,240 is accumulated. The balance was accumulated prior to the year ended December 31, 2020, and the transfers ceased.

Under the terms of a USDA Rural Development loan agreement dated December 27, 2017, the Association is required to transfer \$460 monthly to a reserve account until a balance of \$55,152 is accumulated. Transfers for this account began in 2020. On December 31, 2022 and 2021, the Association met the requirement to have \$5,527 and \$5,513 accumulated in the reserve account.

Under the terms of a USDA Rural Development loan agreement dated December 27, 2017, the Association is required to transfer a total of \$4,094 monthly to a short-lived asset account to be used to replace those short-lived asset items identified by our consulting engineer in the Preliminary Engineering Report that was developed for this project. As of December 31, 2022, \$49,180 had been transferred to the short-lived asset account and \$59,314 was transferred out to pay for Telemetry Systems. The beginning balance was \$88,574 and ending balance was \$78,440.

Under the terms of an Arkansas Natural Resource Commission loan agreement dated May 1, 2019, the Association is required to transfer 3% to a depreciation reserve fund. Arkansas Natural Resources Commission has approved that the short-lived asset account required by the USDA Rural Development loan agreement dated December 27, 2017 is adequate to satisfy the depreciation reserve requirement for their loan.

WATALULA WATER USERS ASSOCIATION, INC.
Notes to Financial Statements
December 31, 2022 and 2021

Long-term debt maturities for each of the next five years and in the aggregate are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|-----------|---------------------|---------------------|
| 2023 | 102,339 | 95,646 |
| 2024 | 106,074 | 91,911 |
| 2025 | 110,427 | 87,865 |
| 2026 | 88,160 | 83,289 |
| 2027 | 91,444 | 80,005 |
| 2028-2032 | 481,945 | 346,067 |
| 2033-2037 | 423,708 | 252,740 |
| 2038-2042 | 416,513 | 176,007 |
| 2043-2047 | 427,137 | 96,497 |
| 2048-2052 | 209,151 | 45,918 |
| 2053-2057 | 223,378 | 14,978 |
| | <u>\$ 2,680,276</u> | <u>\$ 1,370,923</u> |

WATALULA WATER USERS ASSOCIATION, INC.
Schedule of Long-Term Debt
December 31, 2022 and 2021

| | <u>2021</u> | <u>Due in One Year</u> | <u>2022</u> | <u>Due in One Year</u> |
|---|-------------|----------------------------|-------------|----------------------------|
| 4.5% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; due in monthly installments of \$1,394, including interest, maturing in 2035. | \$ 148,972 | \$ 10,234 | \$ 138,738 | \$ 10,689 |
| 5.0% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; interest only due January 25, 1998 and 1997; thereafter, due in monthly installments of \$1,720, including interest, maturing in 2036. | 202,748 | 10,747 | 192,001 | 11,272 |
| 5.0% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; due in monthly installments of \$159, including interest, maturing in 2036. | 18,502 | 1,006 | 17,496 | 1,055 |
| 4.375% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; due in monthly installments of \$535, including interest, maturing in 2043. | 88,061 | 2,620 | 85,441 | 2,750 |
| 5.0% note payable to Arkansas Natural Resources Commission; uncollateralized; due in annual installments of \$9,505, including interest, maturing in 2035. | 33,703 | 7,820 | 25,884 | 8,211 |
| 4.25% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; due in monthly installments of \$5,020, including interest, maturing in 2047. | 937,380 | 20,805 | 916,575 | 21,810 |
| 5.0% note payable to Arkansas Natural Resources Commission; collateralized by property and equipment in the Highway 23 extension; due in annual installments of \$4,794 beginning December 1, 2019, maturing in 2038. | 54,044 | 2,092 | 51,952 | 2,196 |

WATALULA WATER USERS ASSOCIATION, INC.
Schedule of Long-Term Debt
December 31, 2022 and 2021

| | <u>2021</u> | <u>Due in One Year</u> | <u>2022</u> | <u>Due in One Year</u> |
|---|---------------------|----------------------------|---------------------|----------------------------|
| 2.75% note payable to USDA Rural Development; collateralized by real and personal property and assignment and pledge of revenues; interest only due December 28, 2019; thereafter due in monthly installments of \$4,596 on January 27, 2020 and \$4,248 monthly thereafter. | 1,157,692 | 19,383 | 1,138,309 | 19,911 |
| .5% note payable to Arkansas Natural Resources Commission; collateralized by property and equipment in the project; due in annual installments of \$9,743 beginning June 1, 2020, maturing in 2029. | 76,216 | 9,362 | 66,854 | 9,409 |
| 4.99% note payable to First National Bank of Paris; collateralized by office building and improvements; only interest is due in 2021; beginning on January 8, 2022, monthly payments of \$1,119; balloon payment due December 8, 2024. | 135,399 | 8,483 | 47,026 | 15,037 |
| | <u>\$ 2,851,894</u> | <u>\$ 91,787</u> | <u>\$ 2,680,276</u> | <u>\$ 102,339</u> |
| Current portion of long-term debt | 91,787 | | 102,339 | |
| Long-term debt, net of current maturities | <u>\$ 2,760,107</u> | | <u>\$ 2,577,937</u> | |

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

(4) CONCENTRATIONS

Concentrations that could affect the operations of the system are the small geographic area of the system's customers and that the Ozark Water Department is the sole supplier of all the water purchased.

(5) CASH

The Association maintained cash balances at two banks on December 31, 2022. Cash accounts at banks are insured by the FDIC up to \$250,000. Amounts in excess of insured limits are generally collateralized by assets pledged by the banks. Details of cash insured and uninsured are as follows:

| | Book Balance | Bank Balance |
|---|-------------------|-------------------|
| FDIC Insured Deposits | \$ 305,395 | \$ 305,395 |
| Collateral Pledged by Financial Institution | 129,540 | 139,853 |
| Total | <u>\$ 434,935</u> | <u>\$ 445,248</u> |

Even though both banks are located in the same general area, the credit risk is minimized by the fact that all monies are insured by the FDIC and pledged collateral.

(6) ASSETS LIMITED AS TO USE

Board Designated Funds

A board designated account was established to transfer monthly amounts of \$1,131 for the purpose of making annual payments in the amount of \$13,574 to the Arkansas Natural Resources Commission in October and December of each year. The balance in the account on December 31, 2022 and 2021 was \$8,217 and \$8,211. Another account was designated by the board in 2017 to transfer monthly amounts of \$1,427 to be used to pay off loans. The balance in the account at the end of 2022 and 2021 was \$16,564 and \$11,657.

Customer Deposits

The Association requires a security deposit of \$100 per homeowner and \$150 per renter to insure collection of its water charges. These deposits are kept in a separate bank account. The balance in the accounts on December 31, 2022 and 2021 was \$84,476 and \$80,617.

Debt Reserve Funds & Short-Lived Asset Funds

The Association has loans outstanding with the USDA Rural Development and Arkansas Natural Resources Commission. In accordance with the covenants of the loan agreements, the Association is required to maintain debt service, short-lived asset, and depreciation reserve balances. The Association added \$1.89 charge to customer bills to maintain its liquid resources for general expenditures and its required reserve balances. The reserve balances on December 31, 2022 and 2021 were \$211,832 and \$216,259.

WATALULA WATER USERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

(7) RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Association carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years. On June 18, 2021, The Business Protection Policy was changed from EMC to Glatfelter Public Practice Insurance. The current coverage is listed below.

| Expiration Dates | Company | Amount of Coverage (Aggregate Limit) | Description of Coverage |
|---------------------|------------|--|-------------------------------|
| June 18, 2023 | Glatfelter | \$ 1,000,000 | Automobile Liability |
| June 18, 2023 | Glatfelter | 3,000,000 | Public Officials & Management |
| June 18, 2023 | Glatfelter | 4,455,271 | Property |
| June 18, 2023 | Glatfelter | 250,000 | Government Crime |
| June 18, 2023 | Glatfelter | 104,000 | Inland Marine |
| June 18, 2023 | Glatfelter | 3,000,000 | General Liability Aggregate |
| June 18, 2023 | Glatfelter | 1,000,000 | Commercial Excess Liability |

(8) PROPERTY & EQUIPMENT

Changes in property and equipment are as follows:

| | Beginning Balance 12/31/2021 | Additions | Deletions | Ending Balance 12/31/2022 |
|--------------------------------|------------------------------------|---------------------|-----------------|---------------------------------|
| Land | \$ 165,258 | \$ - | \$ - | \$ 165,258 |
| Vehicles and Equipment | 95,479 | - | 983 | 94,496 |
| Office Furniture and Equipment | 20,554 | - | 1,974 | 18,579 |
| Building | 255,670 | 23,258 | 59,549 | 219,379 |
| Water System | 13,703,569 | 124,361 | - | 13,827,930 |
| Construction in Progress | - | - | - | - |
| | <u>14,240,529</u> | <u>147,619</u> | <u>62,507</u> | <u>14,325,641</u> |
| Accumulated Depreciation | <u>(4,764,850)</u> | <u>(354,048)</u> | <u>(61,024)</u> | <u>(5,057,873)</u> |
| Total | <u>\$ 9,475,679</u> | <u>\$ (206,429)</u> | <u>\$ 1,482</u> | <u>\$ 9,267,768</u> |

Depreciation expense was \$354,048 in 2022 and \$347,827 in 2021.

WATALULA WATER USERS ASSOCIATION, INC.
Notes to Financial Statements
December 31, 2022 and 2021

(9) SIMPLE IRA

Watalula Water Users Association maintains a SIMPLE IRA plan and will match an employee's salary reduction contributions up to 3% of the employee's annual compensation. The employee must be employed for one year to be eligible. The cost of this plan was \$4,145 in 2022 and \$3,971 in 2021.

(10) SUBSEQUENT EVENTS

Subsequent events were evaluated through August 17, 2023, which is the date that the financial statements were available to be issued. There were no material events to be disclosed.

King & Jacobs & Lorfing

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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*

To the Board of Directors of
Watalula Water Users Association, Inc.
Ozark, 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 Watalula Water Users Association, Inc. (a nonprofit association), which comprise the statement of financial position as of December 31, 2022, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watalula Water Users Association, 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 Watalula Water Users 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 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 weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watalula Water Users Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement. 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 association'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 association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



King Jacobs & Lorfing, CPAs, PA

Clarksville, Arkansas

August 17, 2023