

HOT SPRING COUNTY WATER ASSOCIATION
FINANCIAL STATEMENTS
December 31, 2023 and 2022

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Hot Spring County Water Association

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Hot Spring County Water Association, (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, 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 the Organization as of December 31, 2023 and 2022 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 Opinions

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 the Organization 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 the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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.

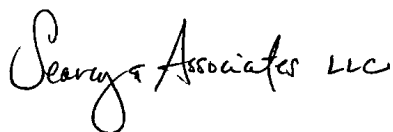
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 the Organization'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 the Organization'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 July 9, 2024 on our consideration of the Organization'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 the Organization'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 Organization's internal control over financial reporting and compliance.



Monticello, Arkansas
July 9, 2024

**HOT SPRING COUNTY WATER ASSOCIATION
STATEMENT OF FINANCIAL POSITION**

December 31, 2023 and 2022

	2023	2022
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 337,968	\$ 343,281
Accounts receivable (allowance for uncollectible accounts \$6,004 - 2023, \$5,901 - 2022)	76,814	78,397
Accrued interest receivable	843	438
Prepaid insurance	2,690	2,967
Inventory - materials and supplies	17,394	17,535
Total current assets	435,709	442,618
<u>Investments</u>	715,597	660,260
<u>Fixed assets, net of accumulated depreciation</u>	980,124	1,048,184
 Total assets	 \$ 2,131,430	 \$ 2,151,062
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 53,071	\$ 43,118
Accrued interest	464	480
Accrued payroll and sales tax payable	10,947	10,172
Current portion of notes payable	21,441	19,453
Total current liabilities	85,923	73,223
<u>Long term liabilities</u>		
Notes payable, net of current amount	557,721	580,133
Customer deposits	88,228	85,818
Total long term liabilities	645,949	665,951
Total liabilities	731,872	739,174
<u>Net assets</u>		
Net assets without donor restrictions		
Board designated	629,272	610,881
USDA debt reserve, subject to the passage of time	50,016	50,016
Undesignated	720,270	750,991
Total net assets	1,399,558	1,411,888
Total liabilities and net assets	\$ 2,131,430	\$ 2,151,062

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

HOT SPRING COUNTY WATER ASSOCIATION
STATEMENT OF ACTIVITIES
For the Years Ended December 31, 2023 and 2022

	2023	2022
<u>Changes in net assets without donor restrictions</u>		
Support / Revenues		
Water services	\$ 772,907	\$ 745,315
Water connection fees	9,441	16,482
Penalties and late fees	17,361	17,933
Gain on sale of equipment	1,890	-
Interest income	10,119	2,532
Total support / revenues	<u>811,718</u>	<u>782,262</u>
Expenses		
Production and distribution expenses	642,078	616,262
General and administrative	181,970	197,934
Total expenses	<u>824,048</u>	<u>814,196</u>
Income (loss) from operations	(12,330)	(31,934)
Change in net assets without donor restrictions	(12,330)	(31,934)
Change in net assets with donor restrictions	-	-
<u>Change in net assets</u>	(12,330)	(31,934)
<u>Net assets, beginning of year</u>	<u>1,411,888</u>	<u>1,443,822</u>
<u>Net assets, end of year</u>	<u>\$ 1,399,558</u>	<u>\$ 1,411,888</u>

The accompanying notes are an integral part of the financial statements

HOT SPRING COUNTY WATER ASSOCIATION
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Cash flows from operating activities</u>		
Collections from customers	\$ 798,877	\$ 781,582
Interest received	9,714	2,497
Payments to suppliers	(371,584)	(358,361)
Payments for salaries and other expenses	(342,083)	(345,474)
Interest paid	<u>(28,776)</u>	<u>(29,745)</u>
Net cash provided by (used for) operating activities	66,148	50,499
<u>Cash flows from investing activities</u>		
Maturities of investments	421,735	391,235
Proceeds from sale of equipment	1,890	-
Purchase of investments	(477,073)	(441,235)
Purchase of property and equipment	<u>-</u>	<u>-</u>
Net cash provided by (used for) investing activities	(53,448)	(50,000)
<u>Cash flows from financing activities</u>		
Meter deposits received	9,950	9,750
Meter deposits refunded	(7,540)	(6,259)
Principal paid on note payable	<u>(20,423)</u>	<u>(19,455)</u>
Net cash provided by (used for) financing activities	<u>(18,013)</u>	<u>(15,964)</u>
<u>Change in cash and cash equivalents</u>	(5,313)	(15,465)
<u>Cash and cash equivalents, beginning of year</u>	<u>343,281</u>	<u>358,746</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 337,968</u>	<u>\$ 343,281</u>

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

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Hot Spring County Water Association is a non-profit organization providing a water system for rural areas of Hot Spring County, Clark County, and Dallas County, Arkansas, and as such, is exempt from federal income taxes under Sec. 501(c)(12) of the Internal Revenue Code.

Method of Accounting

The financial records of the association are maintained on a full-accrual basis. Revenue is recorded as rendered 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the association considers all highly liquid investments with a maturity of three months or less when purchased to cash equivalents.

Accounts Receivable

Accounts receivable include amounts due from sales to customers. The allowance for uncollectible accounts is calculated based on an estimate of the accounts receivable that will not be collected.

Inventory

The inventory of materials and supplies is valued at costs on a first-in, first-out method of valuation.

Investments

Investments consist of certificates of deposit at financial institutions and are stated at cost. All investments are classified as held-to-maturity.

Income Taxes

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2023 and 2022 are subject to examination by the IRS, generally for three years after they were filed.

Property and Equipment

Property and equipment are stated at cost and depreciation is calculated using the straight-line method over the estimated useful lives of the property and equipment. The Organization capitalizes expenditures in excess of \$500 or more for property and equipment.

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
 December 31, 2023 and 2022

NOTE 1 (continued)

Net Asset Classifications

The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards No. 117, Financial Statements for Not-for-Profit Organizations). Accordingly, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. In addition, the association is required to present a statement of cash flows.

The association also adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), "Accounting for Contributions Received and Contributions Made," in 1997.

NOTE 2 – CAPITALIZED INTEREST

The following is an analysis of interest costs capitalized during the construction of the water system for the year ended December 31:

1976	\$	7,212
1979		31,434
1983		422
1984		429
2001		4,535
2003		39,458
	\$	<u>83,490</u>

NOTE 3 – NOTE PAYABLE

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

	2023	2022
Note payable to the USDA rural development:		
Original date September 25, 2001 (original balance \$848,800 with 4.875% interest rate, interest only payments September 25, 2003 and September 25, 2004 and then monthly payments of \$4,100; maturity 40 years; secured by assignment of water system and equipment)	\$ 579,162	\$ 599,585

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 3 (continued)

Approximate maturities on note payable are as follows:

2024	\$	21,441
2025		22,509
2026		23,632
2027		24,810
2028		26,047
Thereafter		460,723
		<u>\$ 579,162</u>

NOTE 4 – ACCRUED INTEREST PAYABLE

This account consists of interest accrued on note payable to USDA, Rural Development as follows:

	2023	2022
Note payable to the USDA rural development: Original date September 25, 2001	\$ 464	\$ 480

NOTE 5 – DEPRECIATION

Depreciation is charged to operations using the straight-line method over estimated useful lives as follows:

Estimated Lives in Years	2023	2022
40	\$ 2,796,595	\$ 2,796,595
20	213,380	213,380
10	12,350	12,350
5	243,118	267,515
Total cost of depreciable assets	<u>3,265,443</u>	<u>3,289,840</u>
Land	<u>17,901</u>	<u>17,901</u>
	<u>\$ 3,283,344</u>	<u>\$ 3,307,741</u>

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 6 – CASH FLOW INFORMATION

Reconciliation of Net Cash Provided by Operating Activities:

	2023	2022
<u>Cash flows from operating activities</u>		
Change in unrestricted net assets	\$ (12,330)	\$ (31,934)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	68,060	68,060
Gain on sale of equipment	(1,890)	-
Changes in assets and liabilities:		
Accounts receivable	1,583	6,915
Accrued interest receivable	(405)	(36)
Inventory	141	1,327
Prepaid insurance	277	(1,177)
Accounts payable	9,953	7,902
Payroll and sales taxes payable	775	(542)
Accrued interest payable	(16)	(16)
Total adjustments	78,478	82,433
Net cash provided by (used for) operating activities	\$ 66,148	\$ 50,499

NOTE 7 – RETIREMENT PLAN

The association adopted a Savings Incentive Match Plan for Employees (SIMPLE) IRA January 1, 2001. Employees with \$5,000 or more of compensation during the year are eligible to participate. Each participant elects to defer a portion of their salary, up to a maximum of \$14,000 (\$17,000 if age 50 or older). The association matches the deferral up to 3% of salary. The cost to the association was \$5,118 for the year ended December 31, 2023 and \$5,348 for the year ended December 31, 2022.

NOTE 8 – METER DEPOSIT FUND AND RESTRICTED CASH

Meter deposits of the patrons must be accounted for separately from revenue and operation and maintenance funds. As of December 31, 2023, \$88,228 and December 31, 2022, \$85,819 has been deposited into a separate account and restricted for meter deposits.

The Association is also required by certain loan covenants to maintain a debt service reserve fund equal to at least one annual loan installment. The Association is required to contribute \$417 per month to the fund until a balance of \$50,016 is accumulated. The balance in the fund was \$161,918 and \$156,804 as of December 31, 2023 and 2022, respectively.

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

NOTE 9 – FUNCTIONAL EXPENSES

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages, and employee benefits, which are allocated on the basis of estimates of time and effort.

	<u>2023</u>	<u>2022</u>
Production and Distribution		
Salaries, wages, and benefits	\$ 125,548	\$ 121,376
Supplies	50,930	42,495
Utilities	10,786	11,391
Insurance	16,822	14,253
Depreciation	68,060	68,060
Moveable equipment expense	34,284	29,717
Repairs and maintenance	2,058	-
Bad debt expense	2,640	3,823
Water purchase	330,950	325,147
Total production and distribution	<u>\$ 642,078</u>	<u>\$ 616,262</u>
General and Administrative		
Salaries, wages, and benefits	\$ 99,751	\$ 116,276
Legal and accounting	17,223	16,449
Office expense	25,804	25,771
Interest expense	28,760	29,730
Public water system fees	7,823	6,763
Miscellaneous	2,609	2,945
Total general and administrative	<u>\$ 181,970</u>	<u>\$ 197,934</u>

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following represents the Association's financial assets at December 31, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 337,968	\$ 343,281
Certificates of deposits	715,597	660,260
Accounts receivable	76,814	78,397
Total financial assets	<u>1,130,379</u>	<u>1,081,938</u>
Less amounts not available to used		
USDA reserves	(50,016)	(50,016)
Meter deposits	(88,228)	(88,228)
	<u>(138,244)</u>	<u>(138,244)</u>
Available for general expenditure	<u>\$ 992,135</u>	<u>\$ 943,694</u>

HOT SPRING COUNTY WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 11 – SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2023 financial statements for subsequent events through July 9, 2024, the date the financial statements were available to be issued.

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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 the
Hot Spring County Water Association

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 Hot Spring County Water Association, (the "Organization") (a nonprofit organization), which comprise the statement of financial position for the year ended December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Searcy & Associates, LLC
Monticello, Arkansas
July 9, 2024