

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2023 and 2022

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.
CHARLES SEARCY, C.P.A.
TINA MARTIN, C.P.A.

POST OFFICE BOX 418
MONTICELLO, ARKANSAS 71657
(870) 367-3580 or (870) 367-3467
FAX (870) 367-2154
searcyco@searcy-cpa.com

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

To the Board of Directors of the
Cleveland County Rural Water Users Association, Inc.

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

Cleveland County Rural Water Users 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.

The accompanying 2022 financial statements were previously audited by us and we stated that we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in our report dated May 24, 2023, but we have not performed any procedures in connection with that audit engagement since that date.

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.

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

Monticello, Arkansas
August 22, 2024

SEARCY & ASSOCIATES, LLC
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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors of the
Cleveland County Rural Water Users Association, Inc.

We have compiled the accompanying Statement of Financial Position of Cleveland County Rural Water Users Association, Inc as of December 31, 2023, and the related statement of activities, cash flows, and functional expenses for the year then ended. We have not audited or reviewed the 2023 financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the accompanying financial statements of Cleveland County Rural Water Users 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.

Our responsibility is to conduct the compilations in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The accompanying 2022 financial statements were previously audited by us and we stated that we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in our report dated May 24, 2023, but we have not performed any procedures in connection with that audit engagement since that date.



Monticello, Arkansas
August 22, 2024

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION

For the Year Ended December 31, 2023 and 2022

	2023	2022
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 92,616	\$ 230,477
Certificates of deposit	157,769	155,626
Trade accounts receivable (net of allowance for doubtful accounts of \$1,073)	33,344	30,880
Interest receivable	1,897	1,705
Materials inventory	2,500	2,500
Total current assets	288,126	421,188
<u>Restricted Assets</u>		
Operations & maintenance-reserve	49,930	49,930
Meter deposits-reserve	41,045	40,110
Total restricted assets	90,975	90,040
<u>Fixed assets, net of accumulated depreciation (Note 4)</u>	2,476,499	2,422,857
<u>Other Assets</u>		
Capitalized interest (Net of amortization \$4,728 and \$4,374)	2,364	2,719
Total assets	\$ 2,857,964	\$ 2,936,804
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 14,111	\$ 12,450
Accrued expenses	10,224	10,474
Current portion of notes payable	23,466	20,808
Total current liabilities	47,801	43,732
<u>Long term liabilities</u>		
Notes payable, net of current amount	890,145	917,191
Customer deposits	41,045	40,110
Total long term liabilities	931,190	957,301
Total liabilities	978,991	1,001,033
<u>Net assets</u>		
Net assets without donor restrictions	1,829,043	1,885,841
Net assets with donor restrictions	49,930	49,930
Total net assets	1,878,973	1,935,771
Total liabilities and net assets	\$ 2,857,964	\$ 2,936,804

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2023 and 2022

	2023	2022
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 361,815	\$ 345,890
Total revenues	373,648	345,890
Expenses		
Operating expenses	342,395	327,632
General and administrative	64,303	60,284
Total expenses	406,698	387,916
Income (loss) from operations	(33,050)	(42,026)
Non-operating income (expense)		
Interest income	3,269	1,961
Interest expense	(27,017)	(26,403)
Total non-operating income (expense)	(23,748)	(24,442)
Change in net assets without donor restrictions	(56,798)	(66,468)
<u>Net assets, beginning of year</u>	1,935,771	2,002,239
<u>Net assets, end of year</u>	\$ 1,878,973	\$ 1,935,771

The accompanying notes are an integral part of the financial statements

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2023 and 2022

	2023	2022
<u>Cash flows from operating activities</u>		
Income from operations	\$ (33,050)	\$ (42,026)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	126,517	132,126
Changes in assets and liabilities:		
Accounts receivable	(2,464)	(1,868)
Other current assets	163	8,604
Accounts payable	1,661	2,158
Accrued expenses	(1,185)	1,087
Total adjustments	124,692	142,107
Net cash provided by (used for) operating activities	91,642	100,081
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(180,159)	(7,703)
Change in certificates of deposits	(2,143)	349,588
Interest income	3,269	1,961
Net cash provided by (used for) investing activities	(179,033)	343,846
<u>Cash flows from financing activities</u>		
Principal payments	(24,388)	(235,212)
Interest payments	(27,017)	(26,403)
Change in customer deposits	935	840
Net cash provided by (used for) financing activities	(50,470)	(260,775)
<u>Change in cash and cash equivalents</u>	(137,861)	183,152
<u>Cash and cash equivalents, beginning of year</u>	230,477	47,325
<u>Cash and cash equivalents, end of year</u>	\$ 92,616	\$ 230,477
<u>Cash and cash equivalents</u>	\$ 183,591	\$ 321,452
<u>Restricted cash and cash equivalents</u>	(90,975)	(90,975)
	\$ 92,616	\$ 230,477

The accompanying notes are an integral part of the financial statements

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2023 and 2022

	2023		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 120,646	\$ 37,786	\$ 158,432
Depreciation	123,878	2,639	126,517
Director fees	-	1,720	1,720
Supplies	19,825	-	19,825
Repairs and maintenance	7,879	-	7,879
Utilities	22,195	-	22,195
Insurance	23,865	-	23,865
Office supplies	-	11,056	11,056
Professional services	-	7,029	7,029
Dues, subscriptions, licenses	-	1,009	1,009
Travel/Truck expenses	10,874	-	10,874
Payroll taxes	9,668	3,064	12,732
Other expenses	3,490	-	3,490
Bad debt	75	-	75
Total expenses	<u>\$ 342,395</u>	<u>\$ 64,303</u>	<u>\$ 406,698</u>

	2022		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 115,400	\$ 36,143	\$ 151,543
Depreciation	129,370	2,756	132,126
Director fees	-	1,800	1,800
Supplies	16,393	-	16,393
Repairs and maintenance	4,878	-	4,878
Utilities	21,541	-	21,541
Insurance	18,330	-	18,330
Office supplies	-	9,571	9,571
Professional services	-	6,250	6,250
Dues, subscriptions, licenses	-	913	913
Travel/Truck expenses	10,724	-	10,724
Payroll taxes	8,994	2,851	11,845
Other expenses	706	-	706
Bad debt	1,296	-	1,296
Total expenses	<u>\$ 327,632</u>	<u>\$ 60,284</u>	<u>\$ 387,916</u>

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

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Cleveland County Rural Water Users 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 established on September 14, 1977 and provide rural water service to its constituents in areas west and south of the City of Rison, Cleveland County, Arkansas.

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.

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.

The Organization has an allowance for doubtful accounts of \$1,073 as of December 31, 2023 and 2022.

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 1 (continued)

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 & Distribution System	15-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and value greater than \$1,000. Maintenance and repairs are charged to expense as incurred.

Net Asset Classifications

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. Accordingly, net assets and changes in net assets are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The income from these net assets may be used for specific purposes. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net ass released from restrictions.

Functional Allocation of Expenses

The costs of providing the water services and other program services of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the program and supporting services. The statement of functional expenses presents the natural classification detail of expenses by function.

The Organization classifies as program service expense those items which are directly attributable to the specific water service program. Those expenses which are not directly attributable to the program service are included in management and general expenses.

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.

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 1 (continued)

Reclassification

Certain accounts in prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current period financial statements.

Date of Management's Review

The Organization evaluated its December 31, 2023 and 2022 financial statements for subsequent events through August 22, 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.

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:

	2023	2022
Cash and cash equivalents - unrestricted	\$ 94,980	\$ 233,196
Investments in certificates of deposits	248,744	245,666
Total available cash and cash equivalents	343,724	478,862
Less: restricted cash for operation and maintenance requirements	49,930	49,930
Less: restricted cash for meter deposits	41,045	40,110
Total restricted cash	90,975	90,040
Available for general expenditure	\$ 252,749	\$ 388,822

Restricted cash consists of funds held in reserve by the Organization as required by the U.S. Department of Agriculture – Rural Development (“USDA”). In accordance with loan covenants, requires the Organization to maintain a separate cash account for the repairs and replacements of short-lived assets of \$49,930. It is the Organization’s policy to use other available cash for equipment replacement or repairs rather than the restricted amounts. Total cash deposits temporarily restricted are \$49,930 at December 31, 2023 and 2022.

An additional reserve is required 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 and 2022 are \$41,045 and \$40,110, respectively.

The Organization’s goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$200,000). As part of its liquidity plan, excess cash is held in timed deposits.

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 3 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2023 and 2022.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust department in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust department or agent in the Organization's name or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 219,729	\$ 219,729	\$ -	\$ -
Bank B	126,115	126,115	\$ -	-
Total	<u>\$ 345,844</u>	<u>\$ 345,844</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2023	2022
Land	\$ 3,250	\$ 3,250
Distribution system	2,814,933	2,699,519
Furniture & equipment	296,491	232,056
Water plant facility	754,506	754,196
Office building	83,026	83,026
	<u>3,952,206</u>	<u>3,772,047</u>
Accumulated depreciation	<u>(1,475,707)</u>	<u>(1,349,190)</u>
	<u>\$ 2,476,499</u>	<u>\$ 2,422,857</u>

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 5 – LONG-TERM DEBT

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

Notes payable consist of the following:	2023	2022
Note payable to the USDA, original amount of \$308,000, due in monthly installments of \$1,186, beginning January 11, 2021 through 2049, with an interest rate of 3.375%, secured by property, plant and equipment, the pledge of future revenues, and personal property.	\$ 245,355	\$ 251,199
Note payable to the SBA, original amount of \$686,800, due in monthly installments of \$2,965, beginning August 2022 through 2050, with an interest rate of 2.75%, secured by all tangible and intangible personal property including inventory, equipment, financial instruments, deposit accounts commercial tort claims that the Association now owns or shall acquire or create immediately upon creation thereof.	668,256	686,800
Total debt	\$ 913,611	\$ 937,999

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

	Principal	Interest	Total
2024	\$ 23,466	\$ 26,346	\$ 49,812
2025	24,158	25,654	49,812
2026	24,871	24,941	49,812
2027	25,605	24,207	49,812
2028	26,361	23,451	49,812
Thereafter	789,150	271,272	1,060,422
	\$ 913,611	\$ 395,871	\$ 1,309,482

NOTE 6 – COMMITMENTS

The Organization has covenanted with the USDA that so long as there are any obligations outstanding, that it will collect at a minimum, the rates for the sale of water as follows:

First 1,000 gallons	\$ 12.50
All over 1,000 gallons	\$ 4.75 per 1,000 gallons

CLEVELAND COUNTY RURAL WATER USERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 6 (continued)

The current rates for the sale of water are as follows:

First 1,000 gallons	\$ 15.52
2 inch meter	\$ 50.00
All over 1,000 gallons	\$ 4.75 per 1,000 gallons
Deer clubs	\$ 26.52 on first 3,000 gallons

NOTE 7 – RELATED PARTY TRANSACTIONS

Board members and employees purchase water from the Organization on the same basis as all other members. The total sales and amounts receivable from these related parties are not materially significant.

NOTE 8 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through August 22, 2024, the date the financial statements were available to be issued.

The Organization held a special meeting for the public on May 13, 2024, to vote on the conversion to a Public Water Authority. The vote resulted in the Organization electing to become a public water authority, which was made effective on June 4, 2024.