

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Highway 63 Water Users' Association, Inc.

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Highway 63 Water Users' Association, Inc., (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021 and 2020, 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, 2021 and 2020 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. 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 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 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 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, 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.

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

Monticello, Arkansas
May 6, 2022

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 103,882	\$ 143,617
Accounts receivable	74,552	93,808
Parts and supply inventory	14,384	14,384
Prepaid expenses	14,414	12,568
Total current assets	<u>207,232</u>	<u>264,377</u>
<u>Investments</u>		
Certificate of Deposits	947,070	1,833,144
Annuities	2,519,835	1,594,595
Total investments	<u>3,466,905</u>	<u>3,427,739</u>
<u>Fixed assets, net of accumulated depreciation</u>	2,213,836	2,259,988
<u>Other Assets</u>		
Investment reserve - meter deposits	<u>402,975</u>	<u>404,695</u>
Total assets	<u><u>\$ 6,290,948</u></u>	<u><u>\$ 6,356,799</u></u>
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 14,522	\$ 14,522
Fire and garbage department fee payable	8,356	28,618
Accrued payroll	846	1,500
Other accrued expenses	4,692	4,579
Total current liabilities	<u>28,416</u>	<u>49,219</u>
<u>Long term liabilities</u>		
Customer deposits	<u>402,975</u>	<u>404,695</u>
Total liabilities	431,391	453,914
<u>Net assets</u>		
Net assets without donor restrictions	5,859,557	5,902,885
Net assets with donor restrictions	-	-
Total net assets	<u>5,859,557</u>	<u>5,902,885</u>
Total liabilities and net assets	<u><u>\$ 6,290,948</u></u>	<u><u>\$ 6,356,799</u></u>

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

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2021 and 2020

	2021	2020
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 666,102	\$ 653,944
Water connection and meter set fees	11,685	10,400
Penalties and late fees	14,101	15,492
Meter reading charges	83,160	71,780
Construction charges	47,623	18,090
Other operating revenues	12,393	22,886
Total revenues	835,064	792,592
Expenses		
Operating expenses	782,742	725,353
General and administrative	259,817	246,195
Total expenses	1,042,559	971,548
Income (loss) from operations	(207,495)	(178,956)
Non-operating income (expense)		
Interest income	85,624	99,815
PPP loan forgiveness	78,543	-
Total non-operating income (expense)	164,167	99,815
<u>Change in net assets</u>	(43,328)	(79,141)
<u>Net assets, beginning of year</u>	5,902,885	5,982,026
<u>Net assets, end of year</u>	\$ 5,859,557	\$ 5,902,885

The accompanying notes are an integral part of the financial statements

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	2021	2020
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (43,328)	\$ (79,141)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	185,096	190,858
Bad debts	306	322
Changes in assets and liabilities:		
Accounts receivable	18,950	(1,628)
Parts and supply inventory	-	(5,022)
Prepaid expenses	(1,846)	34,172
Accounts payable	-	7,789
Fire and garbage department fee payable	(20,262)	1,426
Accrued payroll	(654)	(400)
Other accrued expenses	113	(951)
Total adjustments	<u>181,703</u>	<u>226,566</u>
Net cash provided by (used for) operating activities	138,375	147,425
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(138,944)	(83,361)
Purchase of certificates of deposit and annuities	(1,683,730)	(199,841)
Maturities of certificates of deposit and annuities	1,731,908	200,000
Interest income reinvested	<u>(85,624)</u>	<u>(99,815)</u>
Net cash provided by (used for) investing activities	(176,390)	(183,017)
<u>Cash flows from financing activities</u>		
Change in customer deposits	<u>(1,720)</u>	<u>(310)</u>
Net cash provided by (used for) financing activities	<u>(1,720)</u>	<u>(310)</u>
<u>Change in cash and cash equivalents</u>	(39,735)	(35,902)
<u>Cash and cash equivalents, beginning of year</u>	<u>143,617</u>	<u>179,519</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 103,882</u>	<u>\$ 143,617</u>
<u>Supplemental Information</u>		
Cash paid for sales tax	\$ 59,605	\$ 57,806

The accompanying notes are an integral part of the financial statements

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	2021		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 274,961	\$ 117,841	\$ 392,802
Depreciation	175,841	9,255	185,096
Repairs and maintenance	68,858	3,624	72,482
Utilities	87,838	9,760	97,598
Health Insurance	59,164	25,356	84,520
Insurance	34,350	8,587	42,937
Retirement	24,909	10,675	35,584
Office supplies	-	34,792	34,792
Payroll taxes	20,494	8,783	29,277
Dues, subscriptions, licenses	7,445	7,445	14,890
Travel expenses	11,373	599	11,972
Professional services	-	9,280	9,280
Communication	6,927	2,309	9,236
Other expenses	3,637	3,637	7,274
Board Fees	-	6,636	6,636
Supplies	5,149	572	5,721
Engineering Fees	1,256	-	1,256
Training	540	360	900
Bad debt	-	306	306
Total expenses	<u>\$ 782,742</u>	<u>\$ 259,817</u>	<u>\$ 1,042,559</u>

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

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended December 31, 2020

	2020		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 272,409	\$ 116,747	\$ 389,156
Depreciation	181,315	9,543	190,858
Repairs and maintenance	44,261	2,329	46,590
Utilities	60,803	6,756	67,559
Health Insurance	53,877	23,090	76,967
Insurance	32,975	8,244	41,219
Retirement	25,262	10,826	36,088
Office supplies	-	28,518	28,518
Payroll taxes	20,189	8,652	28,841
Dues, subscriptions, licenses	7,351	7,350	14,701
Travel expenses	8,043	423	8,466
Professional services	-	8,460	8,460
Communication	6,621	2,207	8,828
Other expenses	5,190	5,189	10,379
Board Fees	-	6,505	6,505
Supplies	6,607	734	7,341
Training	450	300	750
Bad debt	-	322	322
Total expenses	<u>\$ 725,353</u>	<u>\$ 246,195</u>	<u>\$ 971,548</u>

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

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Highway 63 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 formed to provide rural water service to its constituents in the surrounding 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.

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.

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021 and 2020

NOTE 1 (continued)

The Organization uses the direct write off method for accounts deemed uncollectable. The Organization acknowledges the departure from GAAP; however, the Organization does not believe that there is a materially significant difference from GAAP.

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 Distribution System	20-40 years
Tank & Wells	20-40 years
Buildings & Improvements	20-25 years
Machines & 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 \$500. 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.

Income 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 and the applicable income tax regulations of the State of Arkansas on income other than income derived from activities unrelated to its exempt purpose. The Organization files an exempt return in the U.S. federal jurisdiction.

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021 and 2020

NOTE 1 (continued)

Date of Management's Review

The Organization evaluated its December 31, 2021 financial statements for subsequent events through May 6, 2022, 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:

	2021	2020
Cash and cash equivalents	\$ 103,882	\$ 143,617
Receivables	74,552	93,808
Available for general expenditure	<u>178,434</u>	<u>237,425</u>
 Total investments	 3,869,880	 3,832,434
Less: restricted investment for deposit accounts	<u>(402,975)</u>	<u>(404,695)</u>
Total unrestricted investments	<u>\$ 3,466,905</u>	<u>\$ 3,427,739</u>

Restricted cash consists of funds to be maintained to repay customers' deposits upon the closing of the customers' accounts.

The Organization's goal is generally to maintain financial assets to meet 60 days of operating expenses (currently approximately \$160,000). As part of its liquidity plan, excess funds are held in investments.

NOTE 3 – DETAIL ON CASH DEPOSITED IN COMMERCIAL BANKS

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, 2021.

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.

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021 and 2020

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

Depository	Total	Category 1	Category 2	Category 3
Simmons Bank Checking	\$ 140,368	\$ 140,368	\$ -	\$ -
Commercial Bank	659,355	250,000	409,355	-
Connect Bank	243,628	243,628	-	-
Bank of England	245,307	245,307	-	-
Simmons Brokered Certificate	201,755	201,755	-	-
Total	<u>\$ 1,490,413</u>	<u>\$ 1,081,058</u>	<u>\$ 409,355</u>	<u>\$ -</u>

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

NOTE 4 – INVESTMENTS

The cost and market value of investments are as follows at December 31:

	2021		
	Cost	Fair Market Value	Interest Income Reinvested
Investments			
Certificate of deposits	\$ 1,336,056	\$ 1,350,045	\$ 13,989
Annuities	2,390,405	2,519,835	129,430
Total	<u>\$ 4,187,136</u>	<u>\$ 4,362,146</u>	<u>\$ 143,419</u>

The investment maturities are as follows at December 31:

	2021			
	Investment Maturity (in Years)			
	Less than 1	1 through 5	6 through 10	More than 10
Investments				
Certificate of deposits	\$ 258,638	\$ 1,091,407	\$ -	\$ -
Annuities	-	2,519,835	-	-
Total	<u>\$ 258,638</u>	<u>\$ 3,611,242</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2021 and 2020

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Assets at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Investments				
Certificate of deposits	\$ -	\$ 1,350,045	\$ -	\$ 1,350,045
Annuities	-	2,519,835	-	2,519,835
Total	\$ -	\$ 4,362,146	\$ -	\$ 4,362,146

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021.

Certificate of deposits, and Annuities: The Organization uses third party pricing services to determine the fair value of its investments. The third-party pricing services use industry-standard models to price the investments that consider various assumptions including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

NOTE 6 – PROPERTY AND EQUIPMENT

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

	2021	2020
Land	\$ 122,361	\$ 122,361
Building and improvements	184,173	184,790
Machines and equipment	729,376	694,662
Water distribution system	2,625,231	2,637,739
Tanks and wells	2,005,459	1,984,721
	<u>5,666,600</u>	<u>5,624,273</u>
Accumulated depreciation	<u>(3,452,764)</u>	<u>(3,364,285)</u>
	<u>\$ 2,213,836</u>	<u>\$ 2,259,988</u>