

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2023 and 2022

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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, 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. 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
April 10, 2024

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2023 and 2022

	2023	2022
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 142,694	\$ 153,315
Accounts receivable	82,654	78,283
Parts and supply inventory	14,384	14,384
Prepaid expenses	12,952	16,464
Total current assets	252,684	262,446
<u>Investments</u>		
Certificate of Deposits	611,829	525,295
Certificate of Deposits - restricted for meter deposits	407,035	404,570
Annuities	2,726,158	2,836,071
Total investments	3,745,022	3,765,936
<u>Fixed assets, net of accumulated depreciation</u>	1,955,345	2,042,748
Total assets	<u>\$ 5,953,051</u>	<u>\$ 6,071,130</u>
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 14,522	\$ 20,260
Fire and garbage department fee payable	9,973	9,955
Accrued payroll	589	2,546
Other accrued expenses	5,914	6,219
Total current liabilities	30,998	38,980
<u>Long term liabilities</u>		
Customer deposits	407,035	404,570
Total liabilities	438,033	443,550
<u>Net assets</u>		
Net assets without restrictions	5,515,018	5,627,580
Net assets with restrictions	-	-
Total net assets	5,515,018	5,627,580
Total liabilities and net assets	<u>\$ 5,953,051</u>	<u>\$ 6,071,130</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, 2023 and 2022

	2023	2022
<u>Changes in net assets without restrictions</u>		
Revenues		
Water services	\$ 685,640	\$ 678,440
Meter reading charges	99,140	93,480
Construction charges	22,671	15,355
Water connection and meter set fees	12,757	11,760
Penalties and late fees	13,946	14,974
Other operating revenues	6,450	7,766
Total revenues	840,604	821,775
Expenses		
Operating expenses	767,085	844,750
General and administrative	270,559	287,376
Total expenses	1,037,644	1,132,126
Income (loss) from operations	(197,040)	(310,351)
Non-operating income (expense)		
Interest income	84,478	78,374
<u>Change in net assets</u>	(112,562)	(231,977)
<u>Net assets, beginning of year</u>	5,627,580	5,859,557
<u>Net assets, end of year</u>	\$ 5,515,018	\$ 5,627,580

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, 2023 and 2022

	2023	2022
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (112,562)	\$ (231,977)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	151,439	171,088
Bad debts	824	77
Changes in assets and liabilities:		
Accounts receivable	(5,195)	(3,808)
Prepaid expenses	3,512	(2,050)
Accounts payable	(5,738)	5,738
Fire and garbage department fee payable	18	1,599
Accrued payroll	(1,957)	1,700
Other accrued expenses	(305)	1,527
Total adjustments	142,598	175,871
Net cash provided by (used for) operating activities	30,036	(56,106)
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(64,036)	-
Purchase of certificates of deposit and annuities	(991,428)	(246,000)
Maturities of certificates of deposit and annuities	1,096,820	428,318
Interest income reinvested	(84,478)	(78,374)
Net cash provided by (used for) investing activities	(43,122)	103,944
<u>Cash flows from financing activities</u>		
Change in customer deposits	2,465	1,595
Net cash provided by (used for) financing activities	2,465	1,595
<u>Change in cash and cash equivalents</u>	(10,621)	49,433
<u>Cash and cash equivalents, beginning of year</u>	153,315	103,882
<u>Cash and cash equivalents, end of year</u>	\$ 142,694	\$ 153,315
<u>Supplemental Information</u>		
Cash paid for sales tax	\$ 59,745	\$ 58,991

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, 2023

	2023		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 271,087	\$ 116,180	\$ 387,267
Depreciation	143,867	7,572	151,439
Repairs and maintenance	75,742	3,986	79,728
Utilities	80,423	8,936	89,359
Health Insurance	56,200	24,085	80,285
Insurance	49,806	12,452	62,258
Retirement	25,505	10,930	36,435
Office supplies	-	34,016	34,016
Payroll taxes	20,537	8,802	29,339
Dues, subscriptions, licenses	7,277	7,276	14,553
Travel expenses	15,224	801	16,025
Professional services	-	19,913	19,913
Communication	6,869	2,290	9,159
Other expenses	4,577	4,577	9,154
Board Fees	-	6,428	6,428
Supplies	8,442	938	9,380
Engineering Fees	700	-	700
Training	829	553	1,382
Bad debt	-	824	824
Total expenses	<u>\$ 767,085</u>	<u>\$ 270,559</u>	<u>\$ 1,037,644</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, 2022

	2022		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 297,499	\$ 127,499	\$ 424,998
Depreciation	162,534	8,554	171,088
Repairs and maintenance	75,446	3,971	79,417
Utilities	104,436	11,604	116,040
Health Insurance	62,790	26,910	89,700
Insurance	48,139	12,035	60,174
Retirement	28,371	12,159	40,530
Office supplies	-	34,203	34,203
Payroll taxes	22,284	9,550	31,834
Dues, subscriptions, licenses	7,615	7,615	15,230
Travel expenses	18,430	970	19,400
Professional services	-	18,877	18,877
Communication	7,172	2,390	9,562
Other expenses	3,846	3,846	7,692
Board Fees	-	6,100	6,100
Supplies	5,596	622	6,218
Training	592	394	986
Bad debt	-	77	77
Total expenses	<u>\$ 844,750</u>	<u>\$ 287,376</u>	<u>\$ 1,132,126</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, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022

NOTE 1 (continued)

Date of Management's Review

The Organization evaluated its December 31, 2023 financial statements for subsequent events through April 10, 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	\$ 142,694	\$ 153,315
Receivables	82,654	78,283
Available for general expenditure	<u>225,348</u>	<u>231,598</u>
Total investments	4,152,057	4,170,506
Less: restricted investment for deposit accounts	<u>(407,035)</u>	<u>(404,570)</u>
Total unrestricted investments	<u>\$ 3,745,022</u>	<u>\$ 3,765,936</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, 2023.

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, 2023 and 2022

NOTE 3 (continued)

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

Depository	Total	Category 1	Category 2	Category 3
Simmons Bank Checking	\$ 199,406	\$ 199,406	\$ -	\$ -
Bank OZK	205,510	205,510	-	-
Simmons Bank - Simmons (LPL)	200,063	200,063	-	-
Commercial Bank	438,534	250,000	188,534	-
Connect Bank	247,306	247,306	-	-
Total	<u>\$ 1,290,819</u>	<u>\$ 1,102,285</u>	<u>\$ 188,534</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:

2023			
	Cost	Fair Market Value	Interest Income Reinvested
Certificate of deposits	\$ 1,072,256	\$ 1,091,413	\$ 19,157
Annuities	2,420,608	2,653,609	233,001
Total	<u>\$ 3,492,864</u>	<u>\$ 3,745,022</u>	<u>\$ 252,158</u>
2022			
	Cost	Fair Market Value	Interest Income Reinvested
Certificate of deposits	\$ 1,162,746	\$ 1,176,740	\$ 13,994
Annuities	2,390,405	2,589,196	198,791
Total	<u>\$ 3,553,151</u>	<u>\$ 3,765,936</u>	<u>\$ 212,785</u>

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 4 (continued)

The investment maturities are as follows at December 31:

		2023			
		Investment Maturity (in Years)			
		Less than 1	1 through 5	6 through 10	More than 10
Certificate of deposits	\$ 1,032,228	\$ 59,185	\$ -	\$ -	
Annuities	876,086	1,531,523	-	246,000	
Total	<u>\$ 1,908,314</u>	<u>\$ 1,590,708</u>	<u>\$ -</u>	<u>\$ 246,000</u>	

		2022			
		Investment Maturity (in Years)			
		Less than 1	1 through 5	6 through 10	More than 10
Certificate of deposits	\$ 931,280	\$ 245,460	\$ -	\$ -	
Annuities	260,106	2,329,090	-	-	
Total	<u>\$ 1,191,386</u>	<u>\$ 2,574,550</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:

- 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.

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 5 (continued)

Assets at Fair Value as of December 31, 2023				
	Level 1	Level 2	Level 3	Total
Certificate of deposits	\$ -	\$ 1,091,413	\$ -	\$ 1,091,413
Annuities	-	2,653,609	-	2,653,609
Total	<u>\$ -</u>	<u>\$ 3,745,022</u>	<u>\$ -</u>	<u>\$ 3,745,022</u>

Assets at Fair Value as of December 31, 2022				
	Level 1	Level 2	Level 3	Total
Certificate of deposits	\$ -	\$ 1,176,740	\$ -	\$ 1,176,740
Annuities	-	2,589,196	-	2,589,196
Total	<u>\$ -</u>	<u>\$ 3,765,936</u>	<u>\$ -</u>	<u>\$ 3,765,936</u>

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, 2023.

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:

	2023	2022
Land	\$ 122,361	\$ 122,361
Building and improvements	187,827	184,173
Machines and equipment	745,158	729,376
Water distribution system	2,625,231	2,625,231
Tanks and wells	2,050,059	2,005,459
	<u>5,730,636</u>	<u>5,666,600</u>
Accumulated depreciation	<u>(3,775,291)</u>	<u>(3,623,852)</u>
	<u>\$ 1,955,345</u>	<u>\$ 2,042,748</u>

SUPPLEMENTAL INFORMATION

HIGHWAY 63 WATER USERS' ASSOCIATION, INC.
SCHEDULE OF SYSTEM INFORMATION
December 31, 2023

Number of Water Users	2,875
Annual billable gallons of water	199,096,600
Date of last rate study:	N/A
Next required date:	July 1, 2026
Met Board/Council training requirements:	Yes
<u>Debt Service Coverage Ratio (1.05 minimum required)</u>	
Net Income (loss)	\$ (112,562)
Add: Depreciation	151,439
Subtract: Non operating income	<u>-</u>
Total	\$ 38,877
Divided by next year principal & interest	<u>-</u>
Debt service coverage ratio	<u>N/A - no debt service</u>
<u>Free Cash Flow Determination</u>	
Total unrestricted cash	\$ 142,694
One twelfth of total expenses	<u>86,470</u>
Excess / (deficient) cash	<u>\$ 56,224</u>