

**HIGHWAY 63 WATER USERS' ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

December 31, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 cursive script that reads "Seary & Associates LLC".

Monticello, Arkansas  
April 9, 2025

**HIGHWAY 63 WATER USERS' ASSOCIATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2024 and 2023

	2024	2023
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 402,568	\$ 142,694
Accounts receivable	83,792	82,654
Parts and supply inventory	14,384	14,384
Prepaid expenses	14,863	12,952
Total current assets	515,607	252,684
<u>Investments</u>		
Certificate of Deposits	597,995	611,829
Certificate of Deposits - restricted for meter deposits	408,355	407,035
Annuities	2,403,217	2,726,158
Total investments	3,409,567	3,745,022
<u>Fixed assets, net of accumulated depreciation</u>	1,927,773	1,964,446
Total assets	\$ 5,852,947	\$ 5,962,152
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 14,522	\$ 14,522
Fire and garbage department fee payable	9,973	9,973
Accrued payroll	1,410	589
Other accrued expenses	5,557	5,914
Total current liabilities	31,462	30,998
<u>Long term liabilities</u>		
Customer deposits	408,355	407,035
Total liabilities	439,817	438,033
<u>Net assets</u>		
Net assets without restrictions	5,413,130	5,524,119
Total net assets	5,413,130	5,524,119
Total liabilities and net assets	\$ 5,852,947	\$ 5,962,152

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, 2024 and 2023

	2024	2023
<u>Changes in net assets without restrictions</u>		
Revenues		
Water services	\$ 676,363	\$ 685,640
Meter reading charges	108,360	99,140
Construction charges	16,115	22,671
Water connection and meter set fees	10,878	12,757
Penalties and late fees	14,979	13,946
Other operating revenues	9,244	6,450
Total revenues	835,939	840,604
Expenses		
Operating expenses	770,840	758,439
General and administrative	287,578	270,104
Total expenses	1,058,418	1,028,543
Income (loss) from operations	(222,479)	(187,939)
Non-operating income (expense)		
Interest income	111,490	84,478
<u>Change in net assets</u>	(110,989)	(103,461)
<u>Net assets, beginning of year</u>	5,524,119	5,627,580
<u>Net assets, end of year</u>	\$ 5,413,130	\$ 5,524,119

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (110,989)	\$ (103,461)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	145,918	152,423
Bad debts	596	824
Changes in assets and liabilities:		
Accounts receivable	(1,734)	(5,195)
Prepaid expenses	(1,911)	3,512
Accounts payable	-	(5,738)
Fire and garbage department fee payable	-	18
Accrued payroll	821	(1,957)
Other accrued expenses	(357)	(305)
Total adjustments	<u>143,333</u>	<u>143,582</u>
Net cash provided by (used for) operating activities	32,344	40,121
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(109,245)	(74,121)
Purchase of certificates of deposit and annuities	(1,777,596)	(991,428)
Maturities of certificates of deposit and annuities	2,224,541	1,096,820
Interest income reinvested	(111,490)	(84,478)
Net cash provided by (used for) investing activities	226,210	(53,207)
<u>Cash flows from financing activities</u>		
Change in customer deposits	1,320	2,465
Net cash provided by (used for) financing activities	1,320	2,465
<u>Change in cash and cash equivalents</u>	259,874	(10,621)
<u>Cash and cash equivalents, beginning of year</u>	142,694	153,315
<u>Cash and cash equivalents, end of year</u>	<u>\$ 402,568</u>	<u>\$ 142,694</u>
<u>Supplemental Information</u>		
Cash paid for sales tax	\$ 58,790	\$ 59,745

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, 2024

	2024		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 292,454	\$ 125,338	\$ 417,792
Depreciation	138,622	7,296	145,918
Repairs and maintenance	63,946	3,366	67,312
Utilities	85,610	9,512	95,122
Health Insurance	46,103	19,759	65,862
Insurance	41,556	10,389	51,945
Retirement	26,928	11,541	38,469
Office supplies	-	37,960	37,960
Payroll taxes	22,818	9,779	32,597
Dues, subscriptions, licenses	7,883	7,883	15,766
Travel expenses	14,578	767	15,345
Professional services	-	24,310	24,310
Communication	5,656	1,885	7,541
Other expenses	8,991	8,990	17,981
Board Fees	-	6,089	6,089
Supplies	15,022	1,669	16,691
Training	673	449	1,122
Bad debt	-	596	596
Total expenses	<u>\$ 770,840</u>	<u>\$ 287,578</u>	<u>\$ 1,058,418</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, 2023

	2023		
	Program (Water) Services	Management & General	Total
Salaries and Wages	\$ 271,087	\$ 116,180	\$ 387,267
Depreciation	144,802	7,621	152,423
Repairs and maintenance	66,161	3,482	69,643
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
Training	829	553	1,382
Bad debt	-	824	824
Total expenses	<u>\$ 758,439</u>	<u>\$ 270,104</u>	<u>\$ 1,028,543</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, 2024 and 2023

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**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, 2024 and 2023

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**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, 2024 and 2023

**NOTE 1 (continued)**

Date of Management's Review

The Organization evaluated its December 31, 2024, financial statements for subsequent events through April 9, 2025, 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:

	2024	2023
Cash and cash equivalents	\$ 402,568	\$ 142,694
Receivables	83,792	82,654
Available for general expenditure	486,360	225,348
Total investments	3,817,922	4,152,057
Less: restricted investment for deposit accounts	(408,355)	(407,035)
Total unrestricted investments	\$ 3,409,567	\$ 3,745,022

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 \$170,000). 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, 2024.

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, 2024 and 2023

**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	\$ 432,845	\$ 250,000	\$ 182,845	\$ -
Simmons Bank - Simmons (LPL)	210,092	210,092	-	-
Commercial Bank	453,547	250,000	203,547	-
Bank of America	202,459	202,459	-	-
Total	<u>\$ 1,298,943</u>	<u>\$ 912,551</u>	<u>\$ 386,392</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:

	2024		
	Cost	Fair Market Value	Interest Income Reinvested
Certificate of deposits	\$ 851,831	\$ 866,098	\$ 14,267
Annuities	2,429,900	2,543,469	113,569
Total	<u>\$3,281,731</u>	<u>\$3,409,567</u>	<u>\$ 127,836</u>
	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>

**HIGHWAY 63 WATER USERS' ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
December 31, 2024 and 2023

**NOTE 4 (continued)**

The investment maturities are as follows at December 31:

	2024			
	Investment Maturity (in Years)			
	Less than 1	1 through 5	6 through 10	More than 10
Certificate of deposits	\$ 488,507	\$ 377,591	\$ -	\$ -
Annuities	43,361	2,028,381	-	471,728
Total	\$ 531,867	\$2,405,972	\$ -	\$ 471,728
	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	\$ 1,908,314	\$ 1,590,708	\$ -	\$ 246,000

**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, 2024 and 2023

**NOTE 5 (continued)**

Assets at Fair Value as of December 31, 2024				
	Level 1	Level 2	Level 3	Total
Certificate of deposits	\$ -	\$ 866,098	\$ -	\$ 866,098
Annuities	-	2,543,469	-	2,543,469
Total	\$ -	\$ 3,409,567	\$ -	\$ 3,409,567

  

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	\$ -	\$ 3,745,022	\$ -	\$ 3,745,022

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, 2024.

*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:

	2024	2023
Land	\$ 122,361	\$ 122,361
Building and improvements	190,673	184,173
Machines and equipment	787,669	745,158
Water distribution system	2,625,231	2,625,231
Tanks and wells	2,124,033	2,063,798
	5,849,967	5,740,721
Accumulated depreciation	(3,922,194)	(3,776,275)
	\$ 1,927,773	\$ 1,964,446

**SUPPLEMENTAL INFORMATION**

**HIGHWAY 63 WATER USERS' ASSOCIATION, INC.**  
**SCHEDULE OF SYSTEM INFORMATION**  
December 31, 2024

Number of Water Users	2,866
Annual billable gallons of water	207,256,400
Date of last rate study:	N/A
Next required date:	July 1, 2026
Met Board/Council training requirements:	Yes

Debt Service Coverage Ratio (1.05 minimum required)

Net Income (loss)	\$ (110,989)
Add: Depreciation	145,918
Subtract: Non operating income	<u>-</u>
Total	\$ 34,929
Divided by next year principal & interest	<u>-</u>
Debt service coverage ratio	<u><u>N/A - no debt service</u></u>

Free Cash Flow Determination

Total unrestricted cash	\$ 402,568
One twelfth of total expenses	<u>88,202</u>
Excess / (deficient) cash	<u><u>\$ 314,367</u></u>