

HORSEHEAD WATER USERS' ASSOCIATION, INC.  
DECEMBER 31, 2021 AND 2020

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**

**DECEMBER 31, 2021 AND 2020**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3
Statements of Activities .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	8
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	17
<b>INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS AND COMPLIANCE</b>	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	18

# JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 WEST B STREET

P O BOX 945

RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ARKANSAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA  
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552  
FAX (479) 968-8855

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Management  
Horsehead Water Users' Association, Inc.  
Clarksville, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Horsehead Water Users' Association, Inc., as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Horsehead Water Users' Association, Inc.'s basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Horsehead Water Users' Association, Inc., as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2024, on our consideration of the Horsehead Water Users' Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Horsehead Water Users' Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Horsehead Water Users' Association, Inc.'s internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas  
August 23, 2024



**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**

**ASSETS**

	<u>2021</u>	<u>2020</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents - Unrestricted (Note 2)	\$ 70,584	\$ 39,340
Accounts Receivable (Note 4)	132,075	113,803
Inventory	17,687	17,687
Prepaid Expense	3,684	0
Total Current Assets	<u>224,030</u>	<u>170,830</u>
 <b>PROPERTY AND EQUIPMENT, at cost (Note 5)</b>		
Land	59,634	59,634
Distribution System	10,017,573	10,017,573
Pumping Stations and Equipment	555,080	555,080
Tanks	693,853	693,853
Buildings	82,413	82,413
Furniture and Fixtures	50,878	43,960
Automotive Equipment	60,674	60,674
Machinery and Equipment	8,895	8,895
	<u>11,529,000</u>	<u>11,522,082</u>
Less: Accumulated Depreciation	<u>6,342,935</u>	<u>5,924,162</u>
	<u>5,186,065</u>	<u>5,597,920</u>
 <b>OTHER ASSETS</b>		
Cash and Cash Equivalents - Restricted (Note 2)	29,911	21,258
Certificates of Deposit - Restricted (Note 3)	151,688	151,688
Investments - Arkansas Valley Electric Co-op Certificates	54,847	54,847
	<u>236,446</u>	<u>227,793</u>
	<u>\$ 5,646,541</u>	<u>\$ 5,996,543</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION (continued)**  
**DECEMBER 31, 2021 AND 2020**

**LIABILITIES**

	<u>2021</u>	<u>2020</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-term Debt (Note 6)	\$ 58,431	\$ 49,830
Accounts Payable	71,195	83,336
Accrued Taxes Payable	4,471	8,424
Accrued Interest Payable	3,566	3,638
Total Current Liabilities	<u>137,663</u>	<u>145,228</u>
 <b>LONG-TERM LIABILITIES</b>		
Long-term Debt (Note 6)	2,425,253	2,483,687
Customer Deposits	42,253	34,275
	<u>2,467,506</u>	<u>2,517,962</u>
	<u>2,605,169</u>	<u>2,663,190</u>
	<b><u>NET ASSETS</u></b>	
Net Invested in Capital Assets	3,002,381	3,064,403
Unrestricted Net Assets	31,185	130,279
Restricted Net Assets	7,806	138,671
	<u>3,041,372</u>	<u>3,333,353</u>
	<u>\$ 5,646,541</u>	<u>\$ 5,996,543</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>REVENUES</b>		
Water Sales	\$ 1,270,641	\$ 1,154,436
Penalties	24,695	31,773
Connection Fees	27,930	29,000
Other Income	10,569	20,399
	1,333,835	1,235,608
<b>EXPENSES</b>		
<b>DIRECT OPERATING</b>		
Water Purchases	700,390	771,396
Utilities	107,248	84,281
Pipe and Supply	41,688	32,661
Repairs and Maintenance	1,005	0
Machine Hire	2,245	856
Depreciation	410,472	409,370
	1,263,048	1,298,564
Gross Profit (Loss)	70,787	(62,956)
<b>GENERAL &amp; ADMINISTRATIVE</b>		
Salaries	152,916	164,276
Depreciation	8,302	8,064
Insurance	48,917	52,310
Office Expense and Postage	15,943	11,229
Health Dept Fees	8,674	0
Professional Fees	4,500	725
Utilities	7,631	6,746
Vehicle Expense	13,298	10,910
Payroll Taxes	12,397	18,712
Bad Debt Expense	2,943	1,263
Miscellaneous	6,038	11,213
	281,559	285,448
<b>LOSS FROM OPERATIONS</b>	(210,772)	(348,404)
<b>OTHER INCOME (EXPENSE)</b>		
Interest Income	458	2,651
Interest Expense	(81,667)	(83,376)
	(81,209)	(80,725)
<b>CHANGE IN NET ASSETS</b>	(291,981)	(429,129)
<b>NET ASSETS, BEGINNING OF YEAR</b>	3,333,353	3,762,482
<b>NET ASSETS, END OF YEAR</b>	\$ 3,041,372	\$ 3,333,353

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Water Customers	\$ 1,260,347	\$ 1,191,026
Other Operating Cash Receipts	63,194	81,172
Payments to Suppliers	(907,771)	(947,462)
Payments to Employees	(169,266)	(184,486)
Payments for Other Admin Costs	(68,646)	(54,228)
<b>Net Cash Provided by Operating Activities</b>	<b>177,858</b>	<b>86,022</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(6,918)	(57,311)
Interest Income	458	2,651
<b>Net Cash Used by Investing Activities</b>	<b>(6,460)</b>	<b>(54,660)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Notes Payable	(49,834)	(48,243)
Interests Paid on Notes Payable	(81,667)	(83,376)
<b>Net Cash Used by Financing Activities</b>	<b>(131,501)</b>	<b>(131,619)</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	39,897	(100,257)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>60,598</b>	<b>160,855</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 100,495</b>	<b>\$ 60,598</b>
 <b><u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u></b>		
Cash Paid During Year for Interest	\$ 81,855	\$ 83,306
Reconciliation of Cash to Statements of Financial Position		
Unrestricted	\$ 70,584	\$ 39,340
Restricted	29,911	21,258
	<b>\$ 100,495</b>	<b>\$ 60,598</b>



**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS (continued)**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
<b>Income from Operations</b>	\$ (210,772)	\$ (348,404)
<b>Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:</b>		
Depreciation and Amortization	418,774	417,434
(Increase) Decrease in Accounts Receivable	(18,272)	4,858
(Increase) Decrease in Unbilled Receivables	0	29,992
(Increase) Decrease in Inventory	0	(903)
(Increase ) Decrease in Prepaid Expenses	(3,684)	-
Increase (Decrease) in Accounts Payable	(12,141)	(17,126)
Increase (Decrease) in Accrued Payroll	0	(6,274)
Increase (Decrease) in Payroll Tax Payables	(3,953)	4,775
Increase (Decrease) in Accrued Expenses	0	990
Increase (Decrease) in Accrued Interest Payable	(72)	(70)
Increase (Decrease) in Customer Deposits	7,978	750
	<b>388,630</b>	<b>434,426</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 177,858</b>	<b>\$ 86,022</b>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

The Horsehead Water Users' Association is a utility operated by the residents of Johnson County, Arkansas, in an association form governed by an elected board of directors.

***Organization***

The Association is a proprietary fund type utilizing enterprise funds to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

***Fund Accounting***

The accounts of the Association are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Revenue resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Association are grouped in the financial statements into one generic fund type.

***Basis of Accounting***

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Association uses the accrual basis of accounting which recognizes revenues when they are earned and expenses when they are incurred.

***Cash Equivalents***

The Association considers cash equivalents to be short-term highly liquid certificates of deposit with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Cash and cash equivalents" and "Restricted Cash and cash equivalents". The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

***Accounts Receivable and Bad Debts***

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Customers are required to make a deposit which is recorded on the balance sheet. When a bad debt is identified, the deposit can be offset against the receivable to mitigate the bad debt.

***Inventories***

Inventories are stated at cost, using the first-in, first-out method of accounting and consist of construction and maintenance supplies related to the water systems.

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

***Property and Equipment***

Property and equipment are recorded at cost and is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

	<u>Years</u>
Distribution System	50
Pumping Stations and Equipment	10 - 50
Tanks	50
Buildings	15 - 40
Furniture and Fixtures	5 - 10
Automotive Equipment	5
Machinery and Equipment	5 - 15

Depreciation expenses for the years ended December 31, 2021 and 2020 amounted to \$418,774 and \$417,434 respectively.

***Certificates of Deposit***

The Association considers certificates of deposit to be longer-term less liquid certificates of deposit with original maturities of more than three months which are less readily convertible to cash. The Association understands that these certificates of deposit can be immediately available, but that a penalty would be incurred for early withdrawal.

***Investments***

The Association considers investments to be stock certificate or share type instruments that are intended to be held and not readily available for sale.

***Compensated Absences***

Employees of the Association are entitled to paid vacations and sick days depending on job classification, length of service, and other factors. It is important to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when paid to employees.

***Fair Value of Financial Instruments***

The Association's financial instruments include cash, cash equivalents and investments. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

***Income Tax***

The Horsehead Water Users' Association, Inc. is nontaxable for Federal and State income tax purposes under the Internal Revenue Code Section 501(c)12.

***Net Asset Classifications***

Net assets are classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net assets – All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

***Regulatory Environment***

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department.

***Budget***

Enterprise Fund service delivery levels are determined by the extent of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons and, accordingly, these comparisons have not been included.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2: CASH AND CASH EQUIVALENTS**

The cash balance is composed of unrestricted and restricted funds as follows:

	<u>2021</u>	<u>2020</u>
Unrestricted		
Petty Cash	\$ 200	\$ 200
Revenue Fund Checking	13,273	2,252
Operation and Maintenance Checking	57,111	7,272
Short Lived Asset Fund	<u>0</u>	<u>29,616</u>
	<u>70,584</u>	<u>39,340</u>
Restricted		
Meter Fund Checking	22,253	14,246
Debt Service Reserve Fund Checking	<u>7,658</u>	<u>7,012</u>
	<u>29,911</u>	<u>21,258</u>
	<u>\$ 100,495</u>	<u>\$ 60,598</u>

The Short Lived Asset Fund has been exhausted through use to maintain and repair the water and sewer systems.

**NOTE 3: CERTIFICATES OF DEPOSIT**

The certificates of deposit balance is composed of restricted funds as follows:

	<u>2021</u>	<u>2020</u>
Restricted		
Meter Fund CD	\$ 20,000	\$ 20,000
Debt Service Reserve Fund CD	<u>131,688</u>	<u>131,688</u>
	<u>\$ 151,688</u>	<u>\$ 151,688</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 4: ACCOUNTS RECEIVABLE**

The Association considers accounts receivable to be fully collectable; accordingly, no estimated allowance for doubtful accounts is required. Past due accounts are reviewed annually, and those that are determined to be uncollectible are written off to Bad Debt Expense at that time. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Accounts receivable aging for December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Current		
1 – 30 days past due	\$ 127,713	\$ 95,981
31 – 60 days past due	13,182	17,267
Over 60 days past due	6,667	4,961
Overpayments/Prepayments	8,003	4,732
Total Receivables	<u>(23,490)</u>	<u>(9,138)</u>
	<u>\$ 132,075</u>	<u>\$ 113,803</u>

**NOTE 5: PROPERTY AND EQUIPMENT (at cost)**

At December 31, 2021, the Department had property and equipment as follows:

	<u>12-31-2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2021</u>
Land	\$ 59,634	\$		\$ 59,634
Distribution System	10,017,573			10,017,573
Pumping Stations and Equipment	555,080			555,080
Tanks	693,853			693,853
Buildings	82,413			82,413
Furniture and Fixtures	43,960	6,918		50,878
Automotive Equipment	60,674			60,674
Machinery and Equipment	8,895			8,895
	<u>\$ 11,522,082</u>	<u>\$ 6,918</u>		<u>\$ 11,529,000</u>

At December 31, 2020, the Department had property and equipment as follows:

	<u>12-31-2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2020</u>
Land	\$ 59,634	\$		\$ 59,634
Distribution System	10,017,573			10,017,573
Pumping Stations and Equipment	508,492	46,588		555,080
Tanks	693,853			693,853
Buildings	71,690	10,723		82,413
Furniture and Fixtures	43,960			43,960
Automotive Equipment	60,674			60,674
Machinery and Equipment	8,895			8,895
	<u>\$ 11,464,771</u>	<u>\$ 57,311</u>		<u>\$ 11,522,082</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**NOTE 6: LONG-TERM DEBT**

Long-term debt at December 31, 2021 consists of the following:

	<u>12-31-2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2021</u>
3.00% note payable to USDA Rural Development (No.91-08), payable in monthly installments of \$3,684 including interest, is ending 2051, and secured by water system and revenues.	\$ 891,378		\$ 17,710	\$ 873,668
3.00% note payable to USDA Rural Development (No.91-13), payable in monthly installments of \$632 including interest, is ending 2050, and secured by water system and revenues.	148,825		3,163	145,662
3.00% note payable to USDA Rural Development (No.91-11), payable in monthly installments of \$2,915 including interest, is ending 2049, and secured by water system and revenues.	585,775		11,024	574,751
3.00% note payable to USDA Rural Development (No.91-09), payable in monthly installments of \$3,743 including interest, is ending 2052, and secured by water system and revenues.	<u>907,539</u>		<u>17,936</u>	<u>889,603</u>
	<u>\$ 2,533,517</u>		<u>\$ 49,833</u>	<u>2,483,684</u>
Less Current Maturities				<u>58,431</u>
				<u>\$ 2,425,253</u>

The aggregate maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 58,431	\$ 73,257	\$ 131,688
2023	53,409	78,279	131,688
2024	55,173	76,515	131,688
2025	56,997	74,691	131,688
2026	58,883	72,805	131,688
2027-31	325,012	333,428	658,440
2032-36	382,720	275,720	658,440
2037-41	450,939	207,501	658,440
2042-46	531,638	126,802	658,440
2047-51	<u>510,482</u>	<u>36,680</u>	<u>547,162</u>
	<u>\$ 2,483,684</u>	<u>\$ 1,355,678</u>	<u>\$ 3,839,362</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 6: LONG-TERM DEBT**

Long-term debt at December 31, 2021 consists of the following:

	<u>12-31-2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2021</u>
3.00% note payable to USDA Rural Development (No.91-08), payable in monthly installments of \$3,684 including interest, is ending 2051, and secured by water system and revenues.	\$ 891,378		\$ 17,710	\$ 873,668
3.00% note payable to USDA Rural Development (No.91-13), payable in monthly installments of \$632 including interest, is ending 2050, and secured by water system and revenues.	148,825		3,163	145,662
3.00% note payable to USDA Rural Development (No.91-11), payable in monthly installments of \$2,915 including interest, is ending 2049, and secured by water system and revenues.	585,775		11,024	574,751
3.00% note payable to USDA Rural Development (No.91-09), payable in monthly installments of \$3,743 including interest, is ending 2052, and secured by water system and revenues.	<u>907,539</u>		<u>17,936</u>	<u>889,603</u>
	<u>\$ 2,533,517</u>		<u>\$ 49,833</u>	<u>2,483,684</u>
Less Current Maturities				<u>58,431</u>
				<u>\$ 2,425,253</u>

The aggregate maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 58,431	\$ 73,257	\$ 131,688
2023	53,409	78,279	131,688
2024	55,173	76,515	131,688
2025	56,997	74,691	131,688
2026	58,883	72,805	131,688
2027-31	325,012	333,428	658.440
2032-36	382,720	275,720	658.440
2037-41	450,939	207,501	658.440
2042-46	531,638	126,802	658.440
2047-51	<u>510,482</u>	<u>36,680</u>	<u>547,162</u>
	<u>\$ 2,483,684</u>	<u>\$ 1,355,678</u>	<u>\$ 3,839,362</u>

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 6: LONG-TERM DEBT (continued)**

Long-term debt at December 31, 2020 consists of the following:

	<u>12-31-2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2020</u>
3.00% note payable to USDA Rural Development (No.91-08), payable in monthly installments of \$3,684 including interest, is ending 2051, and secured by water system and revenues.	\$ 908,565		\$ 17,187	\$ 891,378
3.00% note payable to USDA Rural Development (No.91-13), payable in monthly installments of \$632 including interest, is ending 2050, and secured by water system and revenues.	151,894		3,069	148,825
3.00% note payable to USDA Rural Development (No.91-11), payable in monthly installments of \$2,915 including interest, is ending 2049, and secured by water system and revenues.	596,355		10,580	585,775
3.00% note payable to USDA Rural Development (No.91-09), payable in monthly installments of \$3,743 including interest, is ending 2052, and secured by water system and revenues.	<u>924,946</u>		<u>17,407</u>	<u>907,539</u>
	<u>\$ 2,581,760</u>		<u>\$ 48,253</u>	<u>2,533,517</u>
Less Current Maturities				<u>49,830</u>
				<u>\$ 2,483,687</u>

The aggregate maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 56,926	\$ 74,762	\$ 131,688
2022	51,714	79,974	131,688
2023	53,421	78,267	131,688
2024	55,186	76,501	131,688
2025	57,011	74,677	131,688
2026-30	314,659	343,781	658,440
2031-35	370,486	287,954	<u>658,440</u>
2036-40	436,474	221,966	<u>658,440</u>
2041-45	514,523	143,917	<u>658,440</u>
2046-50	542,469	53,543	<u>596,013</u>
2051	80,647	1,223	<u>81,870</u>
	<u>\$ 2,533,517</u>	<u>\$ 1,436,565</u>	<u>\$ 3,970,082</u>



**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 6: LONG-TERM DEBT (continued)**

The Debt Service Requirement for the above loans is as follows:

Debt Service Reserve Minimal Balance for 2021	<u>\$ 118,475</u>
Debt Service Reserve Checking Fund	7,657
Debt Service Reserve Certificate of Deposit	<u>131,688</u>
Debt Service Reserve balance at 12-31-20	<u>\$ 138,700</u>

**NOTE 7: SCHEDULE OF RATES**

There are currently three rate schedules in use. The Parent System is the older schedule that is being phased out. Those accounts remain grandfathered in that rate structure until such time as the service location changes ownership and is moved to the standard structure of the 3-1 Schedule. And the third rate structure is the Ozone Schedule. Those schedules are unchanged from the previous year as follows:

Parent System Schedule

- a. Minimum charge for up to 2,000 gallons \$26.86
- b. Charge of \$6.20 per 1,000 gallons for the next 1,000 gallons
- c. Charge of \$4.70 per 1,000 gallons for the next 2,000 gallons
- d. Charge of \$4.35 per 1,000 gallons for the usage over 5,000 gallons

Horsehead Water Schedule

- a. Minimum charge for up to 1,000 gallons \$26.86
- b. Charge of \$6.20 per 1,000 gallons for the next 1,000 gallons
- c. Charge of \$4.70 per 1,000 gallons for the next 2,000 gallons
- d. Charge of \$4.35 per 1,000 gallons for the usage over 5,000 gallons

Ozone Schedule

- a. Minimum charge for up to 2,000 gallons \$31.49
- b. Charge of \$6.20 per 1,000 gallons for the next 1,000 gallons
- c. Charge of \$4.70 per 1,000 gallons for the next 2,000 gallons
- d. Charge of \$4.35 per 1,000 gallons for the usage over 5,000 gallons

**NOTE 8: INSURANCE COVERAGE**

Company: EMC Insurance Company  
 Policy No.: 3A67080  
 Expiration: 12/16/22  
 Coverage: Commercial Property – \$3,721,307

Company: EMC Insurance Company  
 Policy No.: 3D67080  
 Expiration: 12/16/22  
 Coverage: General Liability – \$1,000,000/\$2,000,000

Company: EMC Insurance Company  
 Policy No.: 3C670-80  
 Expiration: 12/16/22  
 Coverage: Commercial Inland Marine – Scheduled Property Floater – \$41,500

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 8: INSURANCE COVERAGE (continued)**

Company: EMC Insurance Company  
 Policy No.: 3E67080  
 Expiration: 12/16/22  
 Coverage: Business Auto – \$1,000,000

Company: EMC Insurance Company  
 Policy No.: 3H67080  
 Expiration: 12/16/22  
 Coverage: Workers' Compensation and Employers' Liability – \$500,000

Company: EMC Insurance Company  
 Policy No.: 3J67080  
 Expiration: 12/16/22  
 Coverage: Umbrella Liability – \$1,000,000/\$1,000,000/\$1,000,000

Company: EMC Insurance Company  
 Policy No.: 3K67080  
 Expiration: 12/16/22  
 Coverage: Directors & Officers and Employment Practices Liability – \$1,000,000/\$2,000,000

Company: EMC Insurance Company  
 Policy No.: 3Q67080  
 Expiration: 12/16/22  
 Coverage: Cybersolutions – \$50,000/\$50,000/\$25,000 Annual Aggregate Limits (Sub-limits apply)

**NOTE 9: CONCENTRATION OF RISK**

The Association provides water services to the residents of a limited geographic area located in Johnson County, Arkansas, and grants unsecured credit to its customers. The credit risk is considered minimal because the monthly revolving accounts receivable balances are small, the customer base is very stable with minimal changes, and the limited geographical area covered. And there is no cash credit risk because the Departments balances are below the FDIC insurance limits. Management acknowledges the concentrated risk of having only one supplier, Clarksville Light & Water, for all the water purchased.

**NOTE 10: USDA, RURAL DEVELOPMENT DISCLOSURES**

As part of our audit, we have evaluated the Association's compliance with USDA loan requirements. We found that the Debt Service Reserve has been maintained, but the SLA Fund has been exhausted through use for maintenance and repair. Additionally, the Association maintained accurate and complete financial records that were in substantial agreement with the audited financial statements. The Association had adequate physical controls over assets.

**NOTE 11: BOARD OF DIRECTORS**

The following list of the Board of Directors at December 31, 2021 was unchanged from the prior year:

Matt McCormick	President
Jeff Howard	Vice-President
Jimmy Dickerson	Secretary/Treasurer
Rick Brown	Board Member
Matt Howard	Board Member
John Vire	Board Member
Tammy Warren	Board Member
Todd Russell	Board Member

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 12: SUBSEQUENT EVENTS**

The Association considers there to be no significant events to be reported through August 23, 2024, which is the date the financial statements were available to be issued.

**HORSEHEAD WATER USERS' ASSOCIATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2021**

Horsehead Water Users' Association, Inc. discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the Association's financial activity
- Identify changes in the Association's financial position
- Identify individual fund issues or concerns

**Overview of the Financial Statements**

The financial statements of the Association report information using accounting methods similar to those used by private business enterprises. These statements provide both long-term and short-term information about the Association's overall financial status.

The Statements of Financial Position present information on all the Association's assets and liabilities with the difference between the two reported as net assets.

The Statements of Activities present information showing how the Association's net assets changed during the current and most recent years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operations, financing, and investing activities. These statements provide information regarding sources of cash and use of cash.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Financial Analysis of the Department**

The assets of the Association exceeded its liabilities at the close of the most recent fiscal year by \$3,041,372 (Net Assets).

Total assets amounted to \$5,646,541 consisting of net capital assets of \$5,186,065 and other assets of \$460,476. Total assets decreased by \$350,002 during the current fiscal year. This change was due to the current year depreciation of \$418,773, a net decrease in other assets of \$122,887, a net increase in current assets of \$184,740 and an increase in property and equipment of \$6,918.

Total liabilities amounted to \$2,605,169 consisting of long-term liabilities of \$2,483,684 and other liabilities of \$121,485. Total liabilities decreased by \$58,021 during the current fiscal year. This change was due to a decrease of \$49,833 in long-term debt and a net decrease in other liabilities of \$8,188.

The Association experienced an increase in total cash and cash equivalents in the amount of \$39,897 during the current year. This increase consisted of an increase in unrestricted cash of \$31,244 and an increase in restricted cash of \$8,653.

**Economic Factors**

The Association indicated no changes due to current economic factors.

**Request for Information**

This report is designed to provide a general overview of the Association's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Horsehead Water Users' Association, Inc., 4969 AR-103, Clarksville, AR 72830.

# JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 WEST B STREET

P O BOX 945

RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ARKANSAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA  
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552  
FAX (479) 968-8855

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors and Management  
Horsehead Water Users' Association, Inc.  
Clarksville, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Horsehead Water Users' Association, Inc. as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Horsehead Water Users' Association, Inc.'s basic financial statements, and have issued our report thereon dated August 23, 2024.

### Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Horsehead Water Users' Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Horsehead Water Users' Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Horsehead Water Users' Association, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Horsehead Water Users' Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas  
August 23, 2024

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.