

HORSEHEAD WATER USERS' ASSOCIATION, INC.

DECEMBER 31, 2023 AND 2022

HORSEHEAD WATER USERS' ASSOCIATION, INC.
DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Horsehead Water Users' Association, Inc., as of and for the years ended December 31, 2023 and 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Horsehead Water Users' Association, Inc., as of December 31, 2023 and 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Horsehead Water Users' Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Horsehead Water Users' Association, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 and *Government 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 and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Horsehead Water Users' Association, Inc.'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 Horsehead Water Users' Association, Inc.'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 11, 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 Horsehead Water Users' Association, Inc.'s internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
October 11, 2024



HORSEHEAD WATER USERS' ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	<u>ASSETS</u>	
	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted (Note 2)	\$ 7,790	\$ 43,969
Accounts Receivable (Note 4)	161,987	146,307
Inventory	45,504	17,687
Total Current Assets	<u>215,281</u>	<u>207,963</u>
 PROPERTY AND EQUIPMENT, at cost (Note 5)		
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	93,786	82,413
Furniture and Fixtures	50,878	50,878
Automotive Equipment	76,905	68,250
Machinery and Equipment	142,874	127,886
	<u>11,690,583</u>	<u>11,655,567</u>
Less: Accumulated Depreciation	7,195,525	6,763,552
	<u>4,495,058</u>	<u>4,892,015</u>
 OTHER ASSETS		
Cash and Cash Equivalents - Restricted (Note 2)	165,877	155,712
Certificates of Deposit - Restricted (Note 3)	20,000	20,000
Investments - Arkansas Valley Electric Co-op Certificates	54,847	54,847
	<u>240,724</u>	<u>230,559</u>
	<u>\$ 4,951,062</u>	<u>\$ 5,330,537</u>

HORSEHEAD WATER USERS' ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION (continued)
DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current Maturities of Long-term Debt (Note 6)	\$ 72,593	\$ 70,438
Accounts Payable	84,484	53,334
Accrued Payroll	0	1,473
Accrued Taxes Payable	10,938	5,072
Accrued Interest Payable	3,663	3,491
Total Current Liabilities	<u>171,678</u>	<u>133,808</u>
 LONG-TERM LIABILITIES		
Long-term Debt (Note 6)	2,358,332	2,423,801
Customer Deposits	53,846	48,797
	<u>2,412,178</u>	<u>2,472,598</u>
	<u>2,583,856</u>	<u>2,606,406</u>
 <u>NET ASSETS</u>		
Net Invested in Capital Assets	2,064,133	2,397,776
Unrestricted Net Assets	171,042	199,440
Restricted Net Assets	132,031	126,915
	<u>2,367,206</u>	<u>2,724,131</u>
	<u>\$ 4,951,062</u>	<u>\$ 5,330,537</u>

HORSEHEAD WATER USERS' ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES		
Water Sales	\$ 1,803,203	\$ 1,528,799
Penalties	34,221	33,477
Connection Fees	53,329	32,237
	<u>1,890,753</u>	<u>1,594,513</u>
EXPENSES		
DIRECT OPERATING		
Water Purchases	1,002,661	778,358
Utilities	179,652	123,320
Pipe and Supply	82,559	97,842
Supplies and Small Tools	10,068	8,854
Repairs and Maintenance	3,466	7,188
Equipment Hire & Rental	6,006	3,174
Contract Labor	10,643	4,055
Depreciation - Direct	426,401	415,483
	<u>1,721,456</u>	<u>1,438,274</u>
Gross Profit	<u>169,297</u>	<u>156,239</u>
GENERAL & ADMINISTRATIVE		
Salaries	237,334	199,927
Depreciation - General	5,572	5,134
Insurance - General	35,421	35,475
Insurance Emp Benefits	23,717	24,319
Office Expense and Postage	28,956	29,717
Health Dept Fees	11,556	10,424
Professional Fees	8,133	8,628
Utilities	19,815	6,556
Vehicle Expense	22,853	21,883
Mileage	16,927	21,864
Payroll Taxes	18,171	15,522
Bad Debt Expense	6,268	3,290
Miscellaneous	10,264	9,027
	<u>444,987</u>	<u>391,766</u>
LOSS FROM OPERATIONS	<u>(275,690)</u>	<u>(235,527)</u>
OTHER INCOME (EXPENSE)		
Interest Income	752	288
Interest Expense	(81,927)	(82,002)
	<u>(81,175)</u>	<u>(81,714)</u>
CHANGE IN NET ASSETS	<u>(356,865)</u>	<u>(317,241)</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,724,071</u>	<u>3,041,312</u>
NET ASSETS, END OF YEAR	<u>\$ 2,367,206</u>	<u>\$ 2,724,071</u>

See Independent Auditors' Report and Notes to Financial Statements

JONES and LAWTON, CPAs, P.A.
A PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS

HORSEHEAD WATER USERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 1,792,572	\$ 1,521,111
Other Operating Cash Receipts	87,550	197,402
Payments to Suppliers	(1,373,411)	(1,107,985)
Payments to Employees	(291,611)	(259,558)
Payments for Other Admin Costs	(61,550)	(54,058)
Net Cash Provided by Operating Activities	153,550	296,912
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(35,016)	(126,567)
Interest Income	752	288
Net Cash Used by Investing Activities	(34,264)	(126,279)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Notes Payable	(63,314)	(57,452)
Proceeds from Notes Payable	0	68,007
Interests Paid on Notes Payable	(81,986)	(82,002)
Net Cash Used by Financing Activities	(145,300)	(71,447)
CHANGE IN CASH & CASH EQUIVALENTS	(26,014)	99,186
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	199,681	100,495
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 173,667	\$ 199,681
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash Paid During Year for Interest	\$ 81,755	\$ 82,077
Reconciliation of Cash to Statements of Financial Position		
Unrestricted	\$ 7,790	\$ 43,969
Restricted	165,877	155,712
	\$ 173,667	\$ 199,681

HORSEHEAD WATER USERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2022	2022
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ (275,690)	\$ (235,527)
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	431,973	420,617
(Increase) Decrease in Accounts Receivable	(15,680)	(14,232)
(Increase) Decrease in Prepaid Expenses	0	3,684
(Increase) Decrease in Inventory	(27,817)	0
(Increase) Decrease in Reserve CD Balance	0	131,688
Increase (Decrease) in Accounts Payable	31,150	(17,861)
Increase (Decrease) in Accrued Payroll	(1,473)	1,473
Increase (Decrease) in Payroll Tax Payables	5,866	601
Increase (Decrease) in Accrued Interest Payable	172	(75)
Increase (Decrease) in Customer Deposits	5,049	6,544
	429,240	532,439
Net Cash Provided by Operating Activities	\$ 153,550	\$ 296,912

HORSEHEAD WATER USERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 AND 2022

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, 2023 and 2022 amounted to \$431,973 and \$420,617 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, 2023 AND 2022

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>2023</u>	<u>2022</u>
Unrestricted		
Petty Cash	\$ 200	\$ 200
Revenue Fund Checking	7,519	17,051
Operation and Maintenance Checking	71	26,718
Short Lived Asset Fund	<u>0</u>	<u>0</u>
	<u>7,790</u>	<u>43,969</u>
Restricted		
Meter Fund Checking	33,846	27,986
Debt Service Reserve Fund Checking	<u>132,031</u>	<u>127,726</u>
	<u>165,877</u>	<u>155,712</u>
	<u>\$ 173,667</u>	<u>\$ 199,681</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>2023</u>	<u>2022</u>
Restricted		
Meter Fund CD	<u>\$ 20,000</u>	<u>\$ 20,000</u>

HORSEHEAD WATER USERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 breakdowns for December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current Charges	\$ 164,781	\$ 131,195
Past Due	30,060	39,449
Overpayments/Prepayments	<u>(32,854)</u>	<u>(24,337)</u>
Total Receivables	<u>\$ 161,987</u>	<u>\$ 146,307</u>

NOTE 5: PROPERTY AND EQUIPMENT (at cost)

At December 31, 2023, the Department had property and equipment as follows:

	<u>12-31-2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2023</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	11,372		93,785
Furniture and Fixtures	50,878			50,878
Automotive Equipment	68,250	8,655		76,905
Machinery and Equipment	<u>127,886</u>	<u>14,988</u>		<u>142,874</u>
	<u>\$ 11,655,567</u>	<u>\$ 126,567</u>		<u>\$ 11,690,583</u>

At December 31, 2022, the Department had property and equipment as follows:

	<u>12-31-2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2022</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	50,878			50,878
Automotive Equipment	60,674	7,576		68,250
Machinery and Equipment	<u>8,895</u>	<u>118,991</u>		<u>127,886</u>
	<u>\$ 11,529,000</u>	<u>\$ 126,567</u>		<u>\$ 11,655,567</u>

HORSEHEAD WATER USERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

NOTE 6: LONG-TERM DEBT

Long-term debt at December 31, 2023 consists of the following:

	<u>12-31-2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2023</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.	\$ 855,420		\$ 18,803	\$ 836,617
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.	142,403		3,358	139,045
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.	563,263		11,971	551,292
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.	871,122		19,044	852,078
5.75% note payable to BNP Paribas, payable in monthly installments of \$1,120 including interest, secured by equipment.	<u>62,031</u>		<u>10,138</u>	<u>51,893</u>
	<u>\$ 2,494,239</u>		<u>\$ 63,314</u>	<u>2,430,925</u>
Less Current Maturities				<u>72,593</u>
				<u>\$ 2,358,332</u>

HORSEHEAD WATER USERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 6: LONG-TERM DEBT (continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 72,592	\$ 72,536	\$ 145,128
2025	68,357	76,771	145,128
2026	70,914	74,214	145,128
2027	73,575	71,553	145,128
2028	67,499	68,928	136,427
2029-33	346,784	311,656	658,440
2034-38	408,451	249,989	658,440
2039-43	481,369	177,071	658,440
2044-48	567,650	90,790	658,440
2049-53	<u>273,734</u>	<u>11,894</u>	<u>285,628</u>
	<u>\$ 2,430,925</u>	<u>\$ 1,205,402</u>	<u>\$ 3,636,327</u>

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

Debt Service Reserve Minimal Balance for 2023	<u>\$ 132,000</u>
Debt Service Reserve Checking Fund	<u>\$ 132,031</u>

Long-term debt at December 31, 2022 consists of the following:

	<u>12-31-2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2022</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.	\$ 873,668		\$ 18,248	\$ 855,420
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.	145,662		3,259	142,403
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.	574,751		11,488	563,263

HORSEHEAD WATER USERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 7: SCHEDULE OF RATES (continued)

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: 12/16/24
Coverage: Commercial Property – \$3,721,307

Company: EMC Insurance Company
Policy No.: 3D67080
Expiration: 12/16/24
Coverage: General Liability – \$1,000,000/\$2,000,000

Company: EMC Insurance Company
Policy No.: 3C670-80
Expiration: 12/16/24
Coverage: Commercial Inland Marine – Scheduled Property Floater – \$41,500

Company: EMC Insurance Company
Policy No.: 3E67080
Expiration: 12/16/24
Coverage: Business Auto – \$1,000,000

Company: EMC Insurance Company
Policy No.: 3H67080
Expiration: 12/16/24
Coverage: Workers' Compensation and Employers' Liability – \$500,000

Company: EMC Insurance Company
Policy No.: 3J67080
Expiration: 12/16/24
Coverage: Umbrella Liability – \$1,000,000/\$1,000,000/\$1,000,000

Company: EMC Insurance Company
Policy No.: 3K67080
Expiration: 12/16/24
Coverage: Directors & Officers and Employment Practices Liability – \$1,000,000/\$2,000,000

HORSEHEAD WATER USERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8: INSURANCE COVERAGE (continued)

Company: EMC Insurance Company
Policy No.: 3Q67080
Expiration: 12/16/24
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

The Association has evaluated theie compliance with USDA loan requirements. The Debt Service Reserve has been maintained, but the SLA Fund has been exhausted through use for maintenance and repair. The Association will fund the SLA as revenues and operations allow.

NOTE 11: BOARD OF DIRECTORS

The following list of the Board of Directors at December 31, 2023 was unchanged from the prior year:

Matt McCormick	President
Matt Howard	Vice-President
Tracy Mears	Secretary/Treasurer
Jeff Howard	Director
George Rose	Director
John Vire	Director
Vacant	Director

NOTE 12: SUBSEQUENT EVENTS

The Association considers there to be no significant events to be reported through October 11, 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, 2023

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 liabilities at the close of the year by \$2,367,206 (Net Assets).

Total assets amounted to \$4,951,062 consisting of net capital assets of \$4,495,058 and all other assets of \$456,004. Total assets decreased by \$379,475 during the current fiscal year. This change was due to the current year depreciation of \$431,973 being partially offset by a net increase in current assets of \$7,318, an increase in property and equipment of \$35,016, and a net increase in other assets of \$10,165.

Total liabilities amounted to \$2,583,856 consisting of long-term liabilities of \$2,412,178 and current liabilities of \$171,678. Total liabilities decreased by \$22,550 during the current fiscal year. This change was due to a net increase of \$37,870 in current liabilities, and a net decrease in long-term liabilities of \$60,420.

The Association experienced a decrease in total cash and cash equivalents in the amount of \$26,014 during the current year. This decrease consisted of a decrease in unrestricted cash of \$36,179 and an increase in restricted cash of \$10,165. The cash and cash equivalents position of the Association should now significantly improve because the long term past due balance for purchased water has been successfully resolved.

Economic Factors

The Association indicated no overall 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.

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MEMBERS

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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 Horsehead Water Users' Association, Inc., as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Horsehead Water Users' Association, Inc.'s basic financial statements, and have issued our report thereon dated October 11, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered 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 Horsehead Water Users' Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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

October 11, 2024

