

HIGHWAY 63 WATER USERS ASSOCIATION, INC
COMPARATIVE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

HIGHWAY 63 WATER USERS ASSOCIATION, INC.
DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying comparative financial statements of Highway 63 Water Users Association, Inc., (an Arkansas non-profit corporation), which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statement of activities, net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's 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 auditor considers 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highway 63 Water Users Association, Inc., as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Searcy & Associates, LLC

Searcy & Associates, LLC
January 31, 2021

HIGHWAY 63 WATER USERS ASSOCIATION, INC.
COMPARATIVE STATEMENT OF FINANCIAL POSITION
DECEMBER 31:

ASSETS		
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 143,617	\$ 179,519
Accounts Receivable	93,808	92,445
Prepaid Insurance	1,345	36,556
Parts and Supply Inventory	14,384	9,417
Prepaid Expenses	<u>11,223</u>	<u>10,184</u>
Total Current Assets	<u>264,377</u>	<u>328,121</u>
INVESTMENTS		
Certificates of Deposit	1,832,144	1,384,563
Annuities	<u>1,594,595</u>	<u>1,543,208</u>
Total Investments	<u>3,426,739</u>	<u>2,927,771</u>
RESTRICTED ASSETS		
Certificates of Deposits	<u>405,695</u>	<u>405,005</u>
CAPITAL ASSETS		
Capital Assets	5,624,274	6,270,139
Less: Accumulated Depreciation	<u>(3,364,285)</u>	<u>(3,902,654)</u>
Net Capital Assets	<u>2,259,989</u>	<u>2,367,485</u>
TOTAL ASSETS	<u>\$6,356,800</u>	<u>\$6,028,382</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 14,522	\$ 6,733
Other Current Liabilities	<u>33,698</u>	<u>34,622</u>
Total Current Liabilities	48,220	41,355
OTHER LIABILITIES		
Customer Water Meter Deposits	<u>405,695</u>	<u>405,005</u>
TOTAL LIABILITIES	<u>453,915</u>	<u>446,360</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Members Equity	<u>5,902,885</u>	<u>5,982,022</u>
Total Net Assets	<u>5,902,885</u>	<u>5,982,022</u>
LIABILITIES AND NET ASSETS	<u>\$6,356,800</u>	<u>\$6,428,382</u>

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

HIGHWAY 63 WATER USERS ASSOCIATION, INC.
 COMPARATIVE STATEMENT OF ACTIVITIES
 AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31:

Change in Net Assets without Donor Restrictions	<u>2020</u>	<u>2019</u>
Increase in Net Assets Without Donor Restriction		
Water Revenue	\$ 638,271	\$ 672,115
Late Charges	15,492	18,591
Reconnect Fees	10,400	14,960
Construction Revenue	18,090	21,927
Meter Reading Charges	71,780	62,180
Gain on Sale of Fixed Assets	0	3,500
Other Revenue	38,561	39,676
Interest Income	<u>99,815</u>	<u>107,365</u>
	892,409	940,314
 Decrease in Net Assets Without Donor Restrictions (See Schedule)		
Production and Distribution	743,838	771,721
General and Administrative	<u>227,708</u>	<u>206,759</u>
Total Expenses	971,546	978,480
 Decrease in Total Net Assets	 <u>\$ (79,137)</u>	 <u>\$ (38,166)</u>
 Net Assets without Donor Restrictions		
Members' Equity - Beginning of Year	\$5,982,022	\$6,020,188
Increase/(Decrease) for Year	<u>(79,137)</u>	<u>(38,166)</u>
Balance at End of Year	<u>\$5,902,885</u>	<u>\$5,982,022</u>

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

HIGHWAY 63 WATER USERS ASSOCIATION, INC.
 COMPARATIVE SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31:

FUNCTIONAL EXPENSES	<u>2020</u>	<u>2019</u>
Production & Distribution		
Salaries	\$263,552	\$251,204
Payroll Taxes	19,850	19,198
Retirement	24,467	23,382
Health Insurance	52,169	46,023
Uniform	2,800	2,800
Environmental, Etc.	13,971	11,704
Fuel	8,541	10,934
Chemicals	7,337	2,491
Insurance	41,219	44,388
Repairs	22,865	86,399
Meters	2,858	3,827
Depreciation	190,858	184,451
Utilities	82,972	71,594
Other	<u>10,379</u>	<u>13,326</u>
	<u>\$743,838</u>	<u>\$771,721</u>
 General & Administrative		
Administrative Salaries	\$125,168	\$119,319
Office Supplies	5,508	5,082
Computer Supplies	4,889	3,762
Billing	11,561	12,296
Telephone	8,828	7,260
Electricity	2,655	3,137
Payroll Taxes	9,427	8,855
Retirement	11,620	11,106
Health Insurance	38,485	21,860
Director Fees & Annual Meeting	1,105	6,675
Legal & Accounting	<u>8,462</u>	<u>7,407</u>
	<u>\$227,708</u>	<u>\$206,759</u>
	<u>\$971,546</u>	<u>\$978,480</u>

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, employee benefits which are allocated on the basis of job description.

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

HIGHWAY 63 WATER USERS ASSOCIATION, INC
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31:

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 790,689	\$ 833,107
Cash Paid to Suppliers	(242,270)	(261,545)
Cash Paid for the Benefit of Employees	<u>(531,051)</u>	<u>(500,947)</u>
Cash Provided by Operations	<u>17,368</u>	<u>70,615</u>
Cash Flows from Investing Activities		
Interest Received	99,815	103,364
Purchases of Certificates of Deposit	(218,336)	(1,024,110)
Purchases of Annuities	(51,387)	(760,639)
Maturities of Certificates of Deposit	200,000	733,662
Maturities of Annuities	0	947,728
Purchase of Equipment	<u>(83,362)</u>	<u>(133,662)</u>
Cash (Used) by Investing Activities	<u>(53,270)</u>	<u>(133,657)</u>
Net (Decrease) in Cash and Cash Equivalents	(35,902)	(63,042)
Cash and Cash Equivalents at Beginning of Year	<u>179,519</u>	<u>242,561</u>
Cash and Cash Equivalents at End of Year	<u>\$ 143,617</u>	<u>\$ 179,519</u>
Reconciliations of Net (Decrease) in Net Assets to Cash Provided by Operating Activities		
Net Increase/(Decrease) in Net Assets	\$ (79,137)	\$ (38,166)
Items not Requiring Cash		
Depreciation	190,858	184,451
Changes in:		
Accounts Receivable	(1,363)	267
Prepaid Insurance	842	(1,184)
Prepaid Expenses	(1,039)	(10,154)
Accrued Expenses	6,865	(3,712)
Change in Restricted Assets	<u>(99,658)</u>	<u>(60,887)</u>
Cash Provided by Operating Activities	<u>\$ 17,368</u>	<u>\$ 70,615</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, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Highway 63 Water Users Association, Inc. (The Association) is an Arkansas non-profit corporation organized on August 10, 1972, as a public water utility to supply potable water to users in portions of Cleveland County, Arkansas and adjacent counties. It was organized under the provisions of Arkansas Statute 64-1901 et seq. The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). It serves approximately 2,900 users. Its office is located in the community of Woodlawn, Arkansas.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue and expenses when they are incurred. Accordingly, they reflect all significant receivables, payables, and other prepaid assets and liabilities regardless of whether their asset or expense has been paid for or whether revenue or income has been received.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) under Accounting Standards Codified (ASC) 958-20-45. Under this standard the Association is required to report information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no unrestricted net assets at December 31, 2020 and 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. These estimates represent management's evaluation of information available as of the date the financial statements were prepared and are subject to varying degrees of reliability. Accordingly, actual results could, and probably will, differ from the estimates reflected in these financial statements.

Cash and Cash Equivalents

Cash and Cash Equivalents include all cash in banks and highly liquid investments with an original maturity date of less than three months. Restricted assets that meet the previously stated criteria are not included as cash or cash equivalents.

Accounts Receivable

The Association sells water to its customers who are required to make payment after receipt of the monthly billing statement. As a result, the financial statements reflect the amount of accounts receivable due from the customers for water delivered for the prior month as well as amounts for previous months amounts that have not been paid. The terms of the receivable are those customarily in the industry. A deposit is collected for all new customers that is used to offset any unpaid amounts due upon the user leaving the system. The deposit or the balance left after any offset is returned to the user upon departure from the system.

HIGHWAY 63 WATER USERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Investments

The investments of the Association consist of bank certificates of deposit and insurance annuities. A significant part of the certificates of deposit are such that the holder is unable to redeem the investment without incurring a penalty in the form of a reduction in the amount of interest earned.

Another significant portion of the certificates of deposit held by the Association is in brokered certificates. In order to realize the value of these certificates prior to maturity they must be sold on the open market. The result is that the Association is exposed to interest rate risk and the risk of incurring the cost of brokering the certificates if the necessity arises to redeem their value.

Allowance for Doubtful Accounts

The Association recognizes bad debts on the direct write off method. GAAP requires that an allowance for estimated uncollectible amounts be established and the estimates be expensed at that time. The bad debt history of the Association is such that management believes this GAAP departure is not material to the financial statements.

Capital Assets and Depreciation

Additions of capital assets in excess of \$1,000 that have an economic benefit to the Association for more than one year are capitalized. The Capital assets presented in the financial statements are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method. These assets consist of water storage facilities, pipelines, pumps, equipment, and office facilities. These are being depreciated for periods ranging from 5 to 40 years.

Management reviews the carrying value of long-lived assets for impairment when and if circumstances indicate that the remaining carrying value may not be recoverable. There are no such assets recorded in the financial statements presented.

Income Taxes

The Association is exempt under Internal Revenue Code Section 501(c)(12) 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 Association had no unrelated business income and, as a result, there is no provision for income taxes for the year ended December 31, 2020 and 2019. The Association's Department of the Treasury information returns are subject to examination generally for three years after their filing date. The last return open for examination is for the year ended December 31, 2017.

Net Assets without Donor Restrictions

Net Assets without Donor Restrictions are net assets of the Association that are not subject to restriction by Donors or restrictions related to other conditions imposed by contractual arrangement or law. The Association is exempt from income taxes under Code Section 501 (c)(12) which limits the use of any net assets retained from the operations of the Association to be retained as reasonable reserves for future operations or system improvements. The retained excess of revenues over expenses not used as described above, are limited to the rights and interests of members in proportion to their patronage or business done with the organization. A members right to these savings are forfeited upon withdrawal of termination from the Association.

HIGHWAY 63 WATER USERS ASSOCIATION, INC
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2020

NOTE 2 - CASH DEPOSITED IN COMMERCIAL BANKS AND ANNUITIES

Revenue reported from the sale of water is reported net of sales taxes of \$57,806 for the year ended December 31, 2020 and \$61,786 for 2019.

The schedule below is designed to disclose the level of custody credit risk assumed by the Association based upon how it's deposits were insured or secured by pledged securities, or unsecured at December 31, 2020.

Category 1 - Insured by FDIC, the Arkansas Insurance Guarantee Fund or collateralized with securities held by the Association (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent in the Association's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Association's bank deposits at December 31, 2020 were as follows:

<u>Depository</u>	<u>Total</u>	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>
Bank A	\$1,147,257	\$ 250,000	\$ 897,257	\$ 0
Brokered Deposits	400,000	400,000	0	0
Bank B	592,577	250,000	342,577	0
Bank C	<u>241,571</u>	<u>241,571</u>	<u>0</u>	<u>0</u>
	<u>\$2,381,405</u>	<u>\$1,141,571</u>	<u>\$1,239,834</u>	<u>\$ 0</u>
 <u>Annuities</u>				
Sagicor Life	\$ 244,929	\$ 244,929	\$ 0	\$ 0
Guggenheim Life	280,810	280,810	0	0
Fidelity & Guranty	271,858	271,858	0	0
Liberty Bankers Life	305,802	300,000	0	5,802
Oxford Life	244,974	244,974	0	0
Americo Financial	<u>246,222</u>	<u>246,222</u>	<u>0</u>	<u>0</u>
	<u>1,594,595</u>	<u>1,588,793</u>	<u>0</u>	<u>5,802</u>
Totals	<u>\$3,976,000</u>	<u>\$2,730,364</u>	<u>\$1,239,834</u>	<u>\$ 5,802</u>

The depository balances shown in the table above represents the Bank's ledger balance at December 31, 2020, and will differ from the balances shown on the Statement of Position by the amount of any outstanding checks or deposits.

The Arkansas Insurance Department's Guaranty fund insures the annuities shown above up to \$300,000 for each issue by the Company.

HIGHWAY 63 WATER USERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - CASH DEPOSITED IN COMMERCIAL BANKS AND ANNUITIES (Continued)

Restricted Cash

As shown on the Statement of Financial Position the Association has restricted certificates of deposit at December 31, as follows:

	<u>2020</u>	<u>2019</u>
Certificates of Deposit	<u>\$ 405,695</u>	<u>\$ 405,005</u>

Cash restricted for customer deposits is required to be deposited in separate accounts.

Cash is restricted in the amount of user deposits held by the Association as security for payment of unpaid utility billing.

NOTE 3 - ACCRUED COMPENSATED ABSENCES

It is the practice of the Association to record vacation pay expense and other compensated absences when paid rather than when earned. This is a departure from GAAP. Accrued compensated absences at December 31, 2020 and 2019, were not materially significant.

NOTE 4 - PENSION PLAN

The Association offers eligible employees a 401(k) retirement plan. The Association pays 8% of any eligible employees annual salary that elects to defer 3% of their salary. The Association also matches an additional 2% of an employee's wage who contribute an amount over 3% of their salary. Payments for retirement benefits were \$36,087 for 2020 and \$34,488 for 2019.

All employees are eligible after completing one year of service.

NOTE 5 - INVESTMENTS

The Association's investments consist of Certificates of Deposit and Insurance annuities as shown on the Statement of Financial Position as Restricted Assets. They are carried at their amortized book value. The Association has the intent and ability to hold these assets to maturity and they are treated as Held-to-Maturity securities.

Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value and a hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
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HIGHWAY 63 WATER USERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 - INVESTMENTS (Continued)

Fair Value Measurements (Continued)

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs Unobservable inputs for determining the fair value of assets or liabilities that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

The following schedules set forth by level, within the fair value hierarchy, the Associations investment assets at fair value at December 31, 2020 and 2019:

December 31, 2019

Certificates of Deposit

	Book Value	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Market Value Total
Brokered CD's	\$ 600,000	\$ 0	\$603,665	\$ 0	\$ 603,665
Bank A - CD's	776,805	0	0	776,805	776,805
Bank B - CD's	573,947	0	0	573,947	573,947
Bank C - CD's	<u>238,816</u>	<u>0</u>	<u>0</u>	<u>238,816</u>	<u>238,816</u>
	<u>\$2,189,568</u>	<u>\$ 0</u>	<u>\$603,665</u>	<u>\$1,589,568</u>	<u>\$2,193,233</u>

Annuities

Sagicor Life	\$ 237,873	\$ 0	\$ 0	\$ 219,110	\$ 219,110
Guggenheim Life	272,037	0	0	254,644	254,644
Fidelity & Guaranty	263,668	0	0	250,914	250,914
Liberty Bankers Life	296,202	0	0	275,424	275,424
Oxford Life	237,763	0	0	213,944	213,944
Americo Financial	<u>235,666</u>	<u>0</u>	<u>0</u>	<u>216,359</u>	<u>216,359</u>
	<u>1,543,209</u>	<u>0</u>	<u>0</u>	<u>1,430,395</u>	<u>1,430,395</u>
Total Investments	<u>\$3,732,777</u>	<u>\$ 0</u>	<u>\$603,665</u>	<u>\$3,019,963</u>	<u>\$3,623,628</u>

HIGHWAY 63 WATER USERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 - INVESTMENTS (Continued)

December 31, 2020

Certificates of Deposit

	Book Value	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Market Value Total
Brokered CD's	\$ 400,000	\$0	\$408,044	\$ 0	\$ 408,044
Bank A - CD's	1,003,691	0	0	1,003,691	1,003,691
Bank B - CD's	592,577	0	0	592,577	592,577
Bank C - CD's	<u>241,571</u>	<u>0</u>	<u>0</u>	<u>241,571</u>	<u>241,571</u>
	<u>\$2,237,839</u>	<u>\$0</u>	<u>\$408,044</u>	<u>\$1,837,839</u>	<u>\$2,245,883</u>
 <u>Annuities</u>					
Sagicor Life	\$ 244,929	\$0	\$ 0	\$ 240,589	\$ 240,589
Guggenheim Life	280,810	0	0	274,767	274,767
Fidelity & Guaranty	271,858	0	0	267,956	267,956
Liberty Bankers Life	305,802	0	0	286,817	286,817
Oxford Life	244,974	0	0	232,302	232,302
Americo Financial	<u>246,222</u>	<u>0</u>	<u>0</u>	<u>233,650</u>	<u>233,650</u>
	<u>\$1,594,595</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$1,536,081</u>	<u>\$1,536,081</u>
 Total Investments	 <u>\$3,832,434</u>	 <u>\$0</u>	 <u>\$408,044</u>	 <u>\$3,373,920</u>	 <u>\$3,781,964</u>

The investments shown in the schedules above were purchased with maturities from one to five years.

The certificates of deposit in Banks A, B, & C are not negotiable and can be redeemed prior to maturity. The value of the brokered certificates can only be realized by selling on the open market.

NOTE 6 - CONCENTRATIONS OF RISK

Financial instruments which subject the Association to concentrations of risk consist principally of certificates of deposit, annuities and accounts receivable. The Association has deposits in Banks in excess of FDIC insurance and pledged securities as shown in Note 2 above. Accounts receivable and sales to the Association's customers are all located in or adjacent to Cleveland County, Arkansas and renders diversification of customers difficult. The commodity sold is a necessity and there is no competition.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through January 31, 2020, the date which the financial statements were available to be issued.

HIGHWAY 63 WATER USERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets at year end	\$3,975,851
Less amounts not available to be used in one year:	
Restricted Cash	(405,695)
Certificates of Deposit with a maturity in excess of 12 months	(521,779)
Annuities with maturities in excess of 12 months	<u>(1,288,510)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$1,759,867</u>

NOTE 9 - CAPITAL ASSETS

Capital Asset activity for the comparative period were as follows:

Year Ended December 31, 2020

	Beginning <u>Balance</u>	<u>Increase</u>	<u>(Decrease)</u>	Ending <u>Balance</u>
Buildings	\$ 202,419	\$ 0	\$ (17,628)	\$ 184,791
Distribution System	2,857,368	0	(219,629)	2,637,739
Land	122,361	0	0	122,361
Machinery & Equipment	640,859	1,609	0	642,468
Office Equipment	59,482	0	(75,289)	(15,807)
Tanks and Wells	<u>2,387,650</u>	<u>81,753</u>	<u>(484,681)</u>	<u>1,984,722</u>
	6,270,139	83,362	(797,227)	5,556,274
Accumulated Deprn.	<u>(3,902,654)</u>	<u>(190,858)</u>	<u>729,227</u>	<u>(3,364,285)</u>
	<u>\$ 2,367,485</u>	<u>\$(107,496)</u>	<u>\$ (68,000)</u>	<u>\$2,191,989</u>

Year ended December 31, 2019

	Beginning <u>Balance</u>	<u>Increase</u>	<u>(Decrease)</u>	Ending <u>Balance</u>
Buildings	\$ 138,692	\$ 67,836	\$ (4,109)	\$ 202,419
Distribution System	4,562,976	0	(1,705,608)	2,857,368
Land	122,361	0	0	122,361
Machinery & Equipment	593,128	62,909	(15,179)	640,858
Office Equipment	61,092	2,917	(4,526)	59,483
Tanks & Wells	<u>2,387,650</u>	<u>0</u>	<u>0</u>	<u>2,387,650</u>
	7,865,899	133,662	(1,729,422)	6,270,139
	<u>(5,447,626)</u>	<u>(184,451)</u>	<u>1,729,423</u>	<u>(3,902,654)</u>
	<u>\$ 2,418,273</u>	<u>\$ (50,789)</u>	<u>\$ 1</u>	<u>\$2,367,485</u>

HIGHWAY 63 WATER USERS ASSOCIATION, INC
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2020

Significant Weaknesses

2020-1

Criteria: Management is responsible for segregating the duties of initiating, authorizing, recording, processing, and reporting financial duties and information to ensure the detection and correction of errors in a timely manner.

Condition: The small size of the staff does not allow for the proper segregation of duties for the processing of accounting information.

Effect: The ability of the Association to segregate accounting duties is limited because of having a small staff to perform most accounting functions, increasing the possibility of an undiscovered error.

Cause: Due to cost/benefit implications, the Association is not able to effectively address the lack of segregation of duties.

Recommendation: Management should continue to segregate and monitor the accounting duties to the extent possible.

Views of Responsible officials and planned corrective actions: The Association will segregate the duties to the extent possible, given the limited number of personnel available. Management considers that the cost of the remedy for the deficiency exceeds the risk of a possible error.