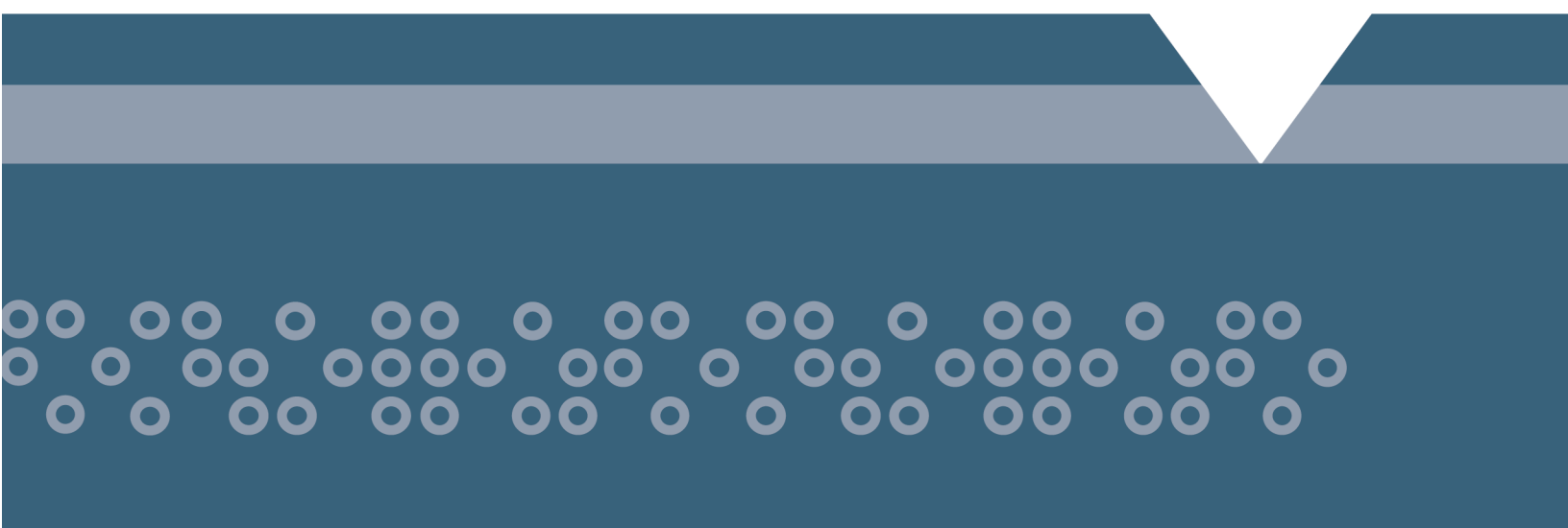


D'Arbonne Water System, Inc.
Financial Report

December 31, 2023 and 2022



HMV
CERTIFIED PUBLIC
ACCOUNTANTS

D'ARBONNE WATER SYSTEM, INC.

FINANCIAL REPORT

DECEMBER 31, 2023 AND 2022

D'ARBONNE WATER SYSTEM, INC.

FINANCIAL REPORT

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PREMIER PLAZA
1900 N. 18TH STREET, SUITE 300 | MONROE, LOUISIANA 71201
318.388.3108 (P) | 318.429.2124 (F)

The Board of Directors
D'Arbonne Water System, Inc.
Bernice, Louisiana

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of D'Arbonne Water System, Inc. (a Louisiana corporation), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, changes in membership equity, and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of D'Arbonne Water System, Inc. as of December 31, 2023 and 2022, and the change in membership equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Restatement of Financial Statements

We draw attention to Note 13 to the financial statements which describes i) that the financial statements that we originally reported on June 1, 2023 have been restated, and ii) the matter that gives rise to the restatement of the financial statements. Our opinion is not modified in respect of this matter.

Basis for Opinion

We conducted our 2023 audit in accordance with auditing standards generally accepted in the United States of America. We conducted our 2022 audit 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of D'Arbonne Water System, 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 opinion.

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 D'Arbonne Water System, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of D'Arbonne Water System, 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 D'Arbonne Water System, 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 audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule presented on page 18 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial

statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

June 20, 2024

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022 (Restated)
ASSETS		
CURRENT ASSETS		
Cash	\$ 570,671	\$ 203,184
Certificates of deposit - current	55,001	51,001
Receivables		
Trade, less allowance for credit losses of \$5,405 and \$4,798, respectively	165,894	102,735
Grant funds receivable	-	167,476
Contract assets	52,110	28,604
Investments	150,103	146,811
Accrued interest receivable	2,076	2,076
Prepaid insurance	13,574	21,153
	1,009,429	723,040
OTHER ASSETS		
Investment in CoBank	10,789	8,513
Deposits	44	44
	10,833	8,557
RESTRICTED ASSETS		
Cash	89,587	45,987
	89,587	45,987
PROPERTY AND EQUIPMENT, net	3,484,649	3,299,214
TOTAL ASSETS	\$ 4,594,498	\$ 4,076,798

(Continued)

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022 (Restated)
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Accounts payable-trade	\$ 30,646	\$ 32,753
Current portion of long-term debt	131,016	166,267
Current portion of capital lease	135	1,755
Current portion of deferred revenue	102,383	71,151
Accrued expenses	9,462	4,484
Customer deposits	9,987	9,387
	283,629	285,797
OTHER LIABILITIES		
Long-term debt	837,222	678,065
Deferred revenue - government grants	471,996	355,753
	1,592,847	1,319,615
MEMBERSHIP EQUITY		
Without donor restrictions	3,001,651	2,757,183
	3,001,651	2,757,183
TOTAL LIABILITIES AND MEMBERSHIP EQUITY	\$ 4,594,498	\$ 4,076,798

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

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	YEAR ENDED DECEMBER 31	
	2023	2022 (Restated)
OPERATING REVENUES		
Water revenue, net of adjustments	\$ 1,435,906	\$ 1,097,003
Water service	28,770	40,627
Total Operating Revenues	1,464,676	1,137,630
OPERATING EXPENSES		
Advertising - legal notices	541	541
Provision for credit losses	3,207	2,887
Computer billings	25,490	24,625
Contract labor	-	888
Depreciation	413,260	382,192
Directors' fees	43,800	43,800
Fuel	36,466	17,266
Group health insurance	-	355
Insurance	66,543	51,278
Miscellaneous	19,690	23,031
Office expense	9,750	12,076
Professional fees	50,856	88,919
Repairs and maintenance	42,069	168,549
Retirement plan contribution	6,189	7,398
Salaries	351,085	305,686
Supplies	79,467	75,006
Taxes - payroll	28,255	24,521
Telephone	8,330	8,942
Utilities	112,570	126,249
Water service costs	5,703	9,817
Total Operating Expenses	1,303,271	1,374,026
INCOME (LOSS) FROM OPERATIONS	161,405	(236,396)
OTHER INCOME (EXPENSE)		
Investment return	18,518	11,373
Interest expense	(45,136)	(40,138)
Customer penalties	25,525	20,695
Grant income recognized	71,151	124,159
CoBank patronage allocation	5,676	6,638
Other income	7,329	8,039
Total Other Income (Expense)	83,063	130,766
CHANGE IN MEMBERSHIP EQUITY	\$ 244,468	\$ (105,630)

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

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF CHANGES IN MEMBERSHIP EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>UNRESTRICTED</u>	<u>TOTAL</u>
MEMBERSHIP EQUITY, DECEMBER 31, 2021	\$ 2,862,813	\$ 2,862,813
Change in membership equity	<u>(105,630)</u>	<u>(105,630)</u>
MEMBERSHIP EQUITY, DECEMBER 31, 2022	2,757,183	2,757,183
Change in membership equity	<u>244,468</u>	<u>244,468</u>
MEMBERSHIP EQUITY, DECEMBER 31, 2023	<u>\$ 3,001,651</u>	<u>\$ 3,001,651</u>

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

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
		(Restated)
OPERATING ACTIVITIES		
Change in membership equity	\$ 244,468	\$ (105,630)
Adjustments to reconcile change in membership equity to net cash provided by operating activities:		
Depreciation	413,260	382,192
Provision for credit losses	3,207	2,887
Unrealized (gain) loss on investments	(3,292)	(4,088)
Patronage allocation received	(2,276)	(1,700)
(Increase) Decrease in:		
Accounts receivable, trade, net	(66,365)	(7,367)
Contract assets	(23,506)	13,931
Grant funds receivable	167,476	(167,476)
Prepays and other	7,578	(6,492)
Increase (Decrease) in:		
Accounts payable - trade	(2,107)	2,006
Accrued expenses	4,978	(419)
Customer deposits	600	(650)
Deferred revenue	147,475	426,904
Net cash provided by operating activities	891,496	534,098
INVESTING ACTIVITIES		
Purchases of property and equipment	(224,913)	(412,041)
Purchases of construction in progress	(373,782)	(250,881)
Proceeds from redemption of certificates of deposit	51,001	-
Purchases of certificates of deposit	(55,001)	(10,777)
Net cash (used in) investing activities	(602,695)	(673,699)
FINANCING ACTIVITIES		
Net change in line of credit	-	(24,240)
Payments on capital lease	(1,620)	(1,485)
Proceeds of long-term debt	632,786	501,400
Payments of long-term debt	(508,880)	(339,699)
Net cash provided by financing activities	122,286	135,976
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	411,087	(3,625)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	249,171	252,796
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 660,258	\$ 249,171

(Continued)

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u> (Restated)
CASH AND CASH EQUIVALENTS AS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION		
Unrestricted Cash	\$ 570,671	\$ 203,184
Restricted Cash	<u>89,587</u>	<u>45,987</u>
	<u>\$ 660,258</u>	<u>\$ 249,171</u>

**SUPPLEMENTAL DISCLOSURES OF
CASH FLOW INFORMATION**

Cash paid during the year for:

Interest, net of amount capitalized	\$ 42,513	\$ 31,055
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DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies

Nature of Operations - D'Arbonne Water System, Inc. (the Company) was incorporated under the laws of Louisiana on April 5, 1977, for the purpose of providing water services primarily to individuals and businesses in certain rural areas of North Louisiana and South Arkansas.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

Trade Accounts Receivable and the Allowance for Credit Losses - Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. mgt evaluates trade receivables based on past history of writeoffs and collections, adjusted for current conditions and reasonable supportable estimates of future losses. The Company provides an allowance for credit losses equal to the estimated losses that could be incurred based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to trade accounts receivable.

Accounts receivable charged against the allowance net of recoveries were \$2,600 and \$1,044 for the years ended December 31, 2023 and 2022, respectively.

Investment Securities - Investments in marketable debt securities with readily determinable fair values are reported at approximate fair value in the statements of financial position. Realized gains and losses on the sale of securities are determined using the specific identification method. Net investment return is reported in the statement of activities and consists of interest income and realized and unrealized gains and losses net of external investment expenses.

Property and Equipment - Property and equipment are recorded at cost. Property and equipment additions and improvements are charged to asset accounts, while maintenance and repairs, which do not improve or extend the useful life of the assets, are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range as follows:

	<u>Years</u>
Wells, tanks and distribution lines	40
Pumps, chlorinators and motors	5-7
Well site improvements, structures and line extensions	10
Office building	40
Equipment and vehicles	5
Capitalized interest	40

Membership Fees and Customer Deposits - Membership fees are nonrefundable and are recognized as revenue when received by the Company. Customer deposits received from individuals, who lease the property for which water services are provided, are refundable to the customer and are recorded as a liability. All other customer deposits are nonrefundable and are recognized as revenue when received by the Company.

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Government Grant Recognition - The Company is receiving government grants to assist in the cost of major system improvements required to meet water safety requirements established by the State of Louisiana. These government capital grant funds are initially recognized as deferred revenue when received, then are recognized as revenue over the depreciable life of the related assets, primarily 7 years.

Compensated Absences - Employees of the Company are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. The Company does not accumulate vacation or sick time. The estimate for the amount of compensation for future absences was immaterial and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when paid to employees.

Income Taxes - The Company is a not-for-profit membership organization exempt from income tax under Section 501(c)(12) of the Internal Revenue Code but must file an annual return with the Internal Revenue Service that contains information on its financial operations. The Company is required to review various tax positions it has taken with respect to its exempt status and determine whether in fact it continues to qualify as a tax-exempt entity. It must also consider whether it has nexus in jurisdictions in which it has income and whether a tax return is required in those jurisdictions. In addition, as a tax-exempt entity, the Company must assess whether it has any tax positions associated with unrelated business income subject to income tax. The Company does not expect any of these tax positions to change significantly over the next twelve months. Any penalties related to late filing or other requirements would be recognized as penalties expense in the Company's accounting records. Its federal income tax returns for the tax years 2020 and beyond remain subject to examination by the Internal Revenue Service.

Sales Taxes - The State of Louisiana imposed a sales tax on the Company's sales to non-residential customers. The Company collects that sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to exclude the tax collected and remitted to the State from revenues and expenses.

Leased Equipment Capitalized - The imputed cost of leased equipment is capitalized and charged to earnings using the straight-line method of amortization over estimated useful lives of five years for financial reporting purposes. Generally, when items of leased property are retired or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in income. Amortization of assets under capital leases is included in depreciation expense for 2023 and 2022.

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. Management evaluated the effects of Topic 842 and determined them to be immaterial to the financial statements. Management did not implement Topic 842.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Functional Allocation of Expenses - The water system's only activity is to provide water service to its members. All costs incurred by the water system are incurred for the purpose of providing water service; therefore, it is not feasible to allocate expenses between program services and support services.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Recently Adopted Accounting Guidance

Allowance for Credit Losses

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the company that are subject to the guidance in FASB ASC 326 were trade accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements.

2. Certificates of Deposit

Certificates of deposit are recorded at cost. At December 31, 2023, the Company had one certificate of deposit maturing in 2025, bearing interest at 5.20%.

3. Property, Equipment and Depreciation

Property and equipment at December 31, is summarized as follows:

	<u>2023</u>	<u>2022</u>
Wells, tanks and distribution and extension lines	\$ 8,812,947	\$ 8,591,284
Pumps, chlorinators, motors and equipment	469,125	469,125
Booster station – Charles Road	52,723	52,723
Well site improvements and structures	47,289	44,039
Office building and land improvements	101,208	101,208
Office equipment	41,663	41,663
Vehicles	231,988	231,988
Capitalized interest	99,343	99,343
Land	<u>69,859</u>	<u>69,859</u>
	9,926,145	9,701,232
Less-accumulated depreciation	<u>(7,066,159)</u>	<u>(6,652,899)</u>
	2,859,986	3,048,333
Construction in progress	<u>624,663</u>	<u>250,881</u>
Property and equipment, net	<u>\$ 3,484,649</u>	<u>\$ 3,299,214</u>

Depreciation expense for the years ended December 31, 2023 and 2022, totaled \$413,260 and \$382,192, respectively. As discussed in Note 5, certain property and equipment serves as collateral for notes payable.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

4. Leases

During the year ended December 31, 2023, the Company had one capital lease for office equipment. The economic substance of this lease is that the Company was financing the acquisition of the equipment through the lease. The equipment is recorded as an asset and the lease is recorded as a liability.

The following is an analysis of the leased assets included in furniture and equipment at December 31:

	<u>2023</u>
Equipment Under Capital Lease	\$ 4,860
Less: Accumulated Depreciation	<u>1,418</u>
Total	<u>\$ 3,442</u>

5. Long-Term Debt and Line of Credit

Long-term debt as of December 31, is summarized as follows:

	<u>2023</u>	<u>2022</u>
CoBank	\$ 354,036	\$ 405,790
CoBank	298,472	-
CoBank	300,000	-
Ford Motor Credit	15,730	24,142
Origin Bank	-	<u>414,400</u>
Total	968,238	844,332
Less current installments of long-term debt	<u>131,016</u>	<u>166,267</u>
Long-term debt	<u>\$ 837,222</u>	<u>\$ 678,065</u>

The first CoBank note payable is due in 84 monthly installments of approximately \$5,500 including interest at 3.65%. The note matures December 20, 2029 and is collateralized by all personal property and revenues of the Company.

The second CoBank note payable was incurred on May 15, 2023 in the original amount of \$332,786 to facilitate the payoff of the Origin Bank loan. It is due in 60 monthly installments of approximately \$6,369 including interest at 5.34%. The note matures May 20, 2028 and is collateralized by all personal property and revenues of the Company.

The third CoBank note payable was incurred on April 28, 2023 and is a line of credit of up to \$1,000,000 to be used to fund expenditures made in making required improvements to the system. The note has a variable interest rate which was 7.06% at December 31, 2023. The term of the credit line is through May 31, 2024 at which time, the balance was \$1,000,000 and was converted to a fixed long-term note bearing interest at 6.25%. It is collateralized by all personal property and revenues of the Company.

As of April 28, 2023, the Company also has an additional \$300,000 line of credit with CoBank to facilitate its participation in the Water Sector grant program. The line of credit was renewed in 2024. The balance on the line of credit was \$0 at December 31, 2023.

The Ford Motor Credit note payable is due in 60 monthly installments of \$782, including interest at 4.79% and is collateralized by a vehicle.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

The Origin Bank note at December 31, 2022, consisted of two short-term notes of \$260,500 bearing interest at 7.5% due April 26, 2023 and \$158,900 bearing interest at 5.17% due January 26, 2023, both of which were refinanced in January 2023 with a \$75,000 principal reduction and the remainder converted to a fixed rate loan bearing interest at 7.97% payable in 60 monthly installments of approximately \$5,300 with a balloon payment due January 24, 2028. These loans were paid off by incurring the second CoBank note described above.

The Company has agreed to certain financial covenants with CoBank, the more significant being as follows:

- Debt service coverage ratio will be no less than 1.25 times tested annually based on year-end financial statements.
- Maintenance of a reserve account with a balance of \$79,000.

The Company was in compliance with these covenants as of December 31, 2023.

The combined aggregate amounts of maturities for long-term debt are presented as follows:

<u>Year Ending December 31</u>	
2024	\$ 131,016
2025	140,389
2026	140,022
2027	146,895
2028	109,035
Later years	<u>300,882</u>
	<u>\$ 968,239</u>

For the year ended December 31, 2023 and 2022, interest costs totaled \$45,136 and \$40,138, all of which was expensed.

6. Restricted Assets

Under FASB ASU 2016-14 only net assets restricted by donors are grouped as restricted in equity. However, cash set aside for customer deposits and reserve balances as required by lenders as described in Note 5, are presented as restricted assets. These monies are released from restriction when the loan is repaid, or a customer leaves the system.

Restricted assets are described as follows:

The Company maintains a noninterest-bearing bank account for refundable customer deposits. The balance in this account was \$10,587 and \$9,987 at December 31, 2023 and 2022, respectively.

In 2023, CoBank increased the required reserve account from \$36,000 to \$79,000. The Company is utilizing \$79,000 of its bank account designated as a reserve account to satisfy this requirement. This restriction ends when all debt is paid in full.

7. Simple IRA

Effective January 1, 2003, the Company established a SIMPLE IRA plan (the Plan). The Plan covers substantially all employees and allows participants to make pre-tax contributions (salary reductions up to statutory limits) with the Company making matching contributions of up to 3% of employee

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

compensation. The Company's matching contributions for 2023 and 2022 were \$6,189 and \$7,398, respectively.

8. Revenue Recognition

The Company derives its revenues primarily from the sales of water to residential, agricultural and commercial customers. Revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the company expects to be entitled to in exchange for those services. Sales and other taxes the Company collects concurrent with revenue producing activities are excluded from revenue. The Company does not have significant financing components as payment is normally received in the month following sale. The Company does not incur costs to obtain customer contracts.

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the years ended December 31, 2022 and 2021:

	<u>2023</u>	<u>2022</u>
Performance obligations satisfied at a point in time	\$ <u>-</u>	\$ <u>-</u>
Performance obligations satisfied over time	\$ <u>1,464,676</u>	\$ <u>1,137,630</u>
Total Operating Revenue	\$ <u><u>1,464,676</u></u>	\$ <u><u>1,137,630</u></u>

Revenue from performance obligations satisfied over time consists of the sale of water. These services are sold to residential and commercial customers. The Company has different rate structures for each type of customer, so that the relative volume of water sold to the various customer classifications could impact total revenue.

Performance Obligations

For performance obligations related to sales of water, control transfers to the customer over time. The water sold is received and consumed by the customer as the Company provides the service. Customers are billed near the end of each month based on usage at stated rates, with payment due by the 10th of the following month. Service is disconnected if payment is not received by the 20th of the following month.

Variable Consideration

The nature of the Company's business generally does not give rise to variable consideration, including rebates, allowances, and returns.

Contract Assets and Liabilities

Contract assets include the estimated unbilled amount resulting from sales from the last billing date through the last day of the year, approximately 11 days of usage. Contract assets were \$52,110 and \$28,604 for the year ended December 31, 2023 and 2022, respectively.

9. Financial Instruments

Concentrations of Credit Risk

The Company extends credit to its water customers in rural North Louisiana and South Arkansas.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

The Company maintains its cash balances at two financial institutions located in North Louisiana.

Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2023, the Company had approximately \$220,000 in cash balances that exceeded federal depository insurance.

Collateralization Policy

Unless otherwise disclosed, the Company does not obtain collateral or other security to support financial instruments subject to credit risk.

10. Grant Funds Received

Under a Cooperative Endeavor Agreement with the State of Louisiana, the Company was approved for additional American Rescue Plan funds under the Water Sector Program in 2023. Initial approval for grant funds of \$573,276 for the South System was later increased to \$717,261. The funding was to be used to construct activated carbon absorption units for one well in the South system. Total funds received in 2023 under this grant were \$185,404.

Approval for an additional grant of \$4,533,777 for the North System has been received which will require a matching contribution of \$600,000 by the Company. These funds will be used to construct carbon vessels for treatment at four well sites and other improvements in the North System. The funds are available on a reimbursement basis so that the Company must first expend the funds. No funds were received under this grant in 2023.

In 2022, the Company was awarded two American Rescue Plan Act grants through the Union Parish Police Jury. The first grant was for \$379,500 to repair and recoat the interior of three water wells on the North system. The second grant is for \$204,785 for the South system to purchase 3 generators required by the state. The funds are available on a reimbursement basis so that the Company must first expend the funds. The Company obtained an additional loan from Origin Bank to fund these expenditures with the expectation of repaying the loan once grant funds are received. During 2022, \$383,587 in grant funds were received with an additional \$167,476 receivable for reimbursements received in 2023 for 2022 expenditures. The final available grant funds of \$33,222 were received in 2023.

11. Liquidity and Availability

The Company regularly monitors the availability of resources required to meet its operating needs, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Company considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without contractual restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash - unrestricted	\$ 570,671
Certificates of deposit	55,001
Receivables - Trade	165,894
Contract assets	52,110
Investments	<u>150,103</u>
	<u>\$ 993,779</u>

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

12. Other

In 2011, the Company signed a lease for 99 years for a booster station site at a cost of \$30 per year.

The Company is currently under two Administrative Orders from the Louisiana Department of Health citing issues of non-compliance with state primary drinking water regulations. The Company is currently working to resolve the issues and has incurred significant costs to bring its operations into compliance. The additional financial effect of resolving these issues cannot be determined at this time.

13. Restatement of 2022 Financial Statements

Generally accepted accounting standards require that capital grants received should be initially recorded as deferred revenue and recognized as revenue over the useful life of the asset. For 2022, capital grants were reported as income in the year received rather than as deferred revenue. The 2022 financial statements have been restated to reflect the correct accounting treatment of the grant funds. The net effect of the restatement was to reduce grant income and increase deferred revenue \$426,904 to reflect the portion of the grant funds received associated with capital assets. The effect of the restatement on the 2022 financial statements is as follows:

	As Originally Stated	Increase (Decrease)	As Restated
Balance Sheet Accounts			
- Deferred revenue - government grants	\$ -	\$ 355,753	\$ 355,753
- Deferred revenue - current	-	71,151	71,151
	\$ -	\$ 426,904	\$ 426,904
Income Statement Accounts			
- Grant income	\$ 551,063	\$(426,904)	\$ 124,159

14. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date but before the financial statements are made available. Management evaluated such events and transactions through June 20, 2024, the date for which financial statements were made available for distribution, and other than what is referenced below, noted no significant subsequent events as of this date.

SUPPLEMENTARY INFORMATION

D'ARBONNE WATER SYSTEM, INC.
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD
DECEMBER 31, 2023

No public funds were utilized to pay compensation or benefits to the agency head for the year ended December 31, 2023.

OTHER REPORTS

D'ARBONNE WATER SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of D'Arbonne Water System, Inc.
2. No instances of noncompliance material to the financial statements of D'Arbonne Water System, Inc. were disclosed during the audit.
3. No material weaknesses or significant deficiencies in internal control, relating to the audit of the financial statements are reported.
4. D'Arbonne Water System, Inc. was not subject to a federal single audit for the year ended December 31, 2023.

B. Findings - Financial Statement Audit

None

D'ARBONNE WATER SYSTEM, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

Findings - Financial Statement Audit

2022-01 – Noncompliance with Community Drinking Water Infrastructure Sustainability Act

Finding: D'Arbonne Water System received a grade of D on the North section of the Water System from the Louisiana Department of Health, indicating it was out of compliance with the standards established by the Louisiana Department of Health.

Response: D'Arbonne Water System is currently working on a comprehensive multi-year improvement plan to bring the entire system into compliance with the accountability standards. The grade was improved to C as of May, 2024.