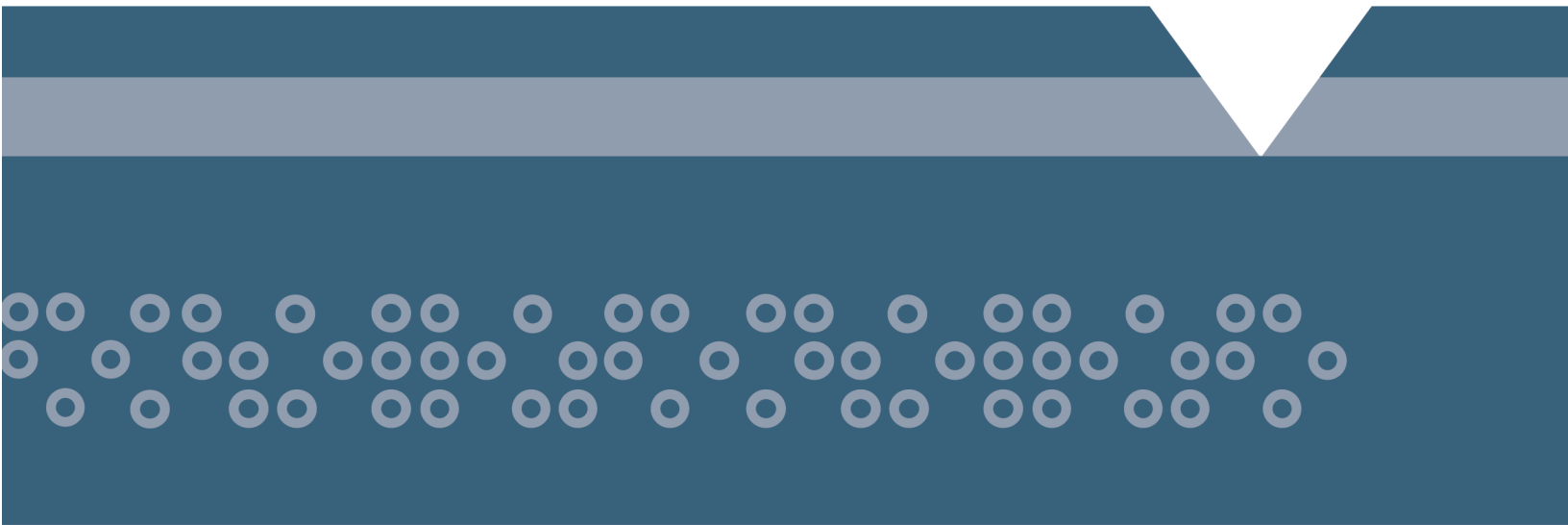


D'Arbonne Water System, Inc.
Bernice, Louisiana

December 31, 2024 and 2023



D'ARBONNE WATER SYSTEM, INC.

FINANCIAL REPORT

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-3

FINANCIAL STATEMENTS

Statements of Financial Position	4-5
Statements of Activities	6
Statements of Changes in Membership Equity	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-18

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20
Schedule of Compensation, Benefits, and Other Payments to Agency Head	21

OTHER REPORTS

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 <i>Government Auditing Standards</i>	22-23
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required By the Uniform Guidance	24-26
Schedule of Findings and Questioned Costs	27
Summary Schedule of Prior Year Findings	28
Management's Corrective Action Plan	29



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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 nonprofit corporation), which comprise the statements of financial position as of December 31, 2024 and 2023, 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, 2024 and 2023, and the change in its membership equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 2024 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. We conducted our 2023 audit in accordance with auditing standards generally accepted in the United States of America.

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19-21 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and also 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 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, this information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2025 on our consideration of D'Arbonne'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 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 D'Arbonne's internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana
April 28, 2025

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,188,085	\$ 570,671
Receivables		
Trade, less allowance for credit losses of		
\$5,405 and \$4,798, respectively	166,509	165,894
Grant funds receivable	272,284	-
Contract assets	54,196	52,110
Investments	209,596	205,104
Accrued interest receivable	2,076	2,076
Prepaid insurance	11,155	13,574
	<u>1,903,901</u>	<u>1,009,429</u>
OTHER ASSETS		
Investment in CoBank	14,952	10,789
	<u>44</u>	<u>44</u>
	<u>14,996</u>	<u>10,833</u>
	<u>89,377</u>	<u>89,587</u>
	89,377	89,587
	<u>7,515,591</u>	<u>3,484,649</u>
TOTAL ASSETS	<u><u>\$ 9,523,865</u></u>	<u><u>\$ 4,594,498</u></u>

(Continued)

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Accounts payable-trade	\$ 41,030	\$ 30,646
Current portion of long-term debt	179,351	131,016
Current portion of capital lease	-	135
Current portion of deferred revenue	331,185	102,383
Accrued expenses	12,848	9,462
Customer deposits	<u>9,762</u>	<u>9,987</u>
	574,176	283,629
OTHER LIABILITIES		
Long-term debt	1,407,371	837,222
Deferred revenue - government grants	<u>4,183,106</u>	<u>471,996</u>
	6,164,653	1,592,847
	<u>3,359,212</u>	<u>3,001,651</u>
	<u>3,359,212</u>	<u>3,001,651</u>
TOTAL LIABILITIES AND MEMBERSHIP EQUITY	<u><u>\$ 9,523,865</u></u>	<u><u>\$ 4,594,498</u></u>

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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Water revenue, net of adjustments	\$ 1,745,191	\$ 1,435,906
Water service	<u>36,494</u>	<u>28,770</u>
Total Operating Revenues	<u>1,781,685</u>	<u>1,464,676</u>
OPERATING EXPENSES		
Advertising - legal notices	66	541
Provision for credit losses	6,666	3,207
Computer billings	21,340	25,490
Contract labor	2,425	-
Depreciation	547,620	413,260
Directors' fees	41,400	43,800
Fuel	31,410	36,466
Group health insurance	1,977	-
Insurance	88,501	66,543
Miscellaneous	33,121	19,690
Office expense	18,877	9,750
Professional fees	45,205	50,856
Repairs and maintenance	111,183	42,069
Retirement plan contribution	7,711	6,189
Salaries	394,787	351,085
Supplies	131,435	79,467
Taxes - payroll	31,160	28,255
Telephone	196	8,330
Utilities	113,045	112,570
Water service costs	<u>2,466</u>	<u>5,703</u>
Total Operating Expenses	<u>1,630,591</u>	<u>1,303,271</u>
INCOME FROM OPERATIONS	<u>151,094</u>	<u>161,404</u>
OTHER INCOME (EXPENSE)		
Investment return	27,351	18,518
Interest expense	(86,891)	(45,136)
Customer penalties	42,358	25,525
	180,835	71,151
	8,431	5,676
	32,440	-
	<u>1,943</u>	<u>7,330</u>
	<u>206,467</u>	<u>83,064</u>
CHANGE IN MEMBERSHIP EQUITY	<u>\$ 357,561</u>	<u>\$ 244,468</u>

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, 2024 AND 2023

	<u>UNRESTRICTED</u>	<u>TOTAL</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	3,001,651	3,001,651
Change in membership equity	<u>357,561</u>	<u>357,561</u>
MEMBERSHIP EQUITY, DECEMBER 31, 2024	<u><u>\$ 3,359,212</u></u>	<u><u>\$ 3,359,212</u></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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
OPERATING ACTIVITIES		
Change in membership equity	\$ 357,561	\$ 244,468
Adjustments to reconcile change in membership equity to net cash provided by operating activities:		
Depreciation	547,620	413,260
Provision for credit losses	6,666	3,207
(Gain) on sale of equipment	(32,440)	-
Realized (gain) on maturity of investments	(1,431)	-
Unrealized (gain) loss on investments	5,937	(3,292)
Equity portion of patronage allocation received	(4,163)	(2,276)
(Increase) decrease in:		
Accounts receivable, trade, net	(7,281)	(66,365)
Contract assets	(2,086)	(23,506)
Grant funds receivable	(272,284)	167,476
Prepays and other	2,421	7,578
Increase (decrease) in:		
Accounts payable - trade	10,384	(2,107)
Accrued expenses	3,386	4,978
Customer deposits	(225)	600
Deferred revenue	3,939,912	147,475
Net cash provided by operating activities	<u>4,553,977</u>	<u>891,496</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(143,880)	(224,913)
Purchases of construction in progress	(4,441,251)	(373,782)
Proceeds from sale of equipment	39,009	-
Proceeds from redemption of investments	51,000	51,001
Purchases of investments	(60,000)	(55,001)
Net cash (used in) investing activities	<u>(4,555,122)</u>	<u>(602,695)</u>
FINANCING ACTIVITIES		
Payments on capital lease	(135)	(1,620)
Proceeds of long-term debt	780,264	632,786
Payments of long-term debt	(161,780)	(508,880)
Net cash provided by financing activities	<u>618,349</u>	<u>122,286</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	617,204	411,087
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>660,258</u>	<u>249,171</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,277,462</u></u>	<u><u>\$ 660,258</u></u>

(Continued)

D'ARBONNE WATER SYSTEM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH AND CASH EQUIVALENTS AS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION		
Unrestricted Cash	\$ 1,188,085	\$ 570,671
Restricted Cash	<u>89,377</u>	<u>89,587</u>
	<u><u>\$ 1,277,462</u></u>	<u><u>\$ 660,258</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest, net of amount capitalized	\$ 84,268	\$ 42,513

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

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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. Management 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, 2024 and 2023, 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. The investment in CoBank is stated at cost plus the Company's share of patronage capital credits allocated, reduced by distributions received. 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.

Fair Value Measurement - Fair value is defined as the price that would be received to sell an asset in that principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Pinnacle groups investments at fair value in up to three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

- | | |
|---------|---|
| Level 1 | Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date. |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none">• Quoted prices for similar assets/liabilities in active markets;• Quoted prices for identical or similar assets in non-active markets; |

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

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. These are included in water service revenue in the Statements of Activities. 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.

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, once the asset is placed in service.

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

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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 2024 and 2023.

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.

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.

2. **Investments**

Certificates of deposit are recorded at fair value. At December 31, 2024, the Company had one certificate of deposit maturing in 2025, bearing interest at 5.20%.

At December 31, 2024, investments are two government agency bonds and two corporate bonds. These investments are carried at fair value based on quoted prices in active markets on a trade-date basis and summarized as follows:

	As of December 31, 2024			As of December 31, 2023		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of deposit	\$ 55,000	\$ 55,064	\$ 64	\$ 55,000	\$ 55,001	\$ 1
Corporate bonds	60,000	59,107	(893)	-	-	-
Govt, agency bonds	93,020	95,425	2,405	142,591	150,103	7,512
	<u>\$208,020</u>	<u>\$209,596</u>	<u>\$ 1,576</u>	<u>\$197,591</u>	<u>\$205,104</u>	<u>\$ 7,513</u>

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

The primary investment objectives are liquidity and preservation of principal, while also earning a competitive market rate of return. The investment return and its classification can be found in the statements of activities.

3. Fair Value Measurements

The fair values of assets measured on a recurring basis are as follows:

	<u>Fair Value</u>	<u>Level 2</u>
December 31, 2024		
Certificates of deposit	\$ 55,064	\$ 55,064
Marketable debt securities	<u>154,532</u>	<u>154,532</u>
	<u>\$ 209,596</u>	<u>\$ 209,596</u>
December 31, 2023		
Certificates of deposit	\$ 55,001	\$ 55,001
Marketable debt securities	<u>150,103</u>	<u>150,103</u>
	<u>\$ 205,104</u>	<u>\$ 205,104</u>

4. Property, Equipment and Depreciation

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

	<u>2024</u>	<u>2023</u>
Wells, tanks and distribution and extension lines	\$10,984,681	\$ 8,812,947
Pumps, chlorinators, motors and equipment	482,845	469,125
Booster station – Charles Road	52,723	52,723
Well site improvements and structures	47,289	47,289
Office building and land improvements	107,028	101,208
Office equipment	41,663	41,663
Vehicles	316,932	231,988
Capitalized interest	99,343	99,343
Land	<u>69,859</u>	<u>69,859</u>
	12,202,363	9,926,145
Less-accumulated depreciation	<u>(7,568,002)</u>	<u>(7,066,159)</u>
	4,634,361	2,859,986
Construction in progress	<u>2,881,230</u>	<u>624,663</u>
Property and equipment, net	<u>\$ 7,515,591</u>	<u>\$ 3,484,649</u>

Depreciation expense for the years ended December 31, 2024 and 2023, totaled \$547,620 and \$413,260, respectively. As discussed in Note 6, certain property and equipment serves as collateral for notes payable.

5. Leases

During the year ended December 31, 2024, 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.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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

	<u>2024</u>
Equipment Under Capital Lease	\$ 4,860
Less: Accumulated Depreciation	<u>1,903</u>
Total	<u>\$ 2,957</u>

6. Long-Term Debt and Line of Credit

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

	<u>2024</u>	<u>2023</u>
CoBank	\$ 300,372	\$ 354,036
CoBank	237,022	298,472
CoBank	976,410	300,000
Ford Motor Credit	-	15,730
Ford Motor Credit	39,065	-
GM Financial	<u>33,853</u>	<u>-</u>
Total	1,586,722	968,238
Less current installments of long-term debt	<u>179,351</u>	<u>131,016</u>
Long-term debt	<u>\$ 1,407,371</u>	<u>\$ 837,222</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 was originally a line of credit of up to \$1,000,000 to be used to fund expenditures made in making required improvements to the system. At May 31, 2024 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, 2024.

The first Ford Motor Credit note payable was paid in full in 2024. The second Ford Motor Credit note is due in 72 monthly installments of \$663, including interest at 1.90% and is collateralized by a vehicle. The GM Financial note is due in 48 monthly installments of \$763, including interest at 1.90% and is collateralized by a vehicle.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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, 2024.

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

Year Ending December 31

2025	\$ 179,351
2026	186,151
2027	197,469
2028	160,458
2029	127,617
Later years	<u>735,676</u>
	<u>\$1,586,722</u>

For the year ended December 31, 2024 and 2023, interest costs totaled \$86,891 and \$45,136, all of which was expensed.

7. 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 6, 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 an interest-bearing bank account for refundable customer deposits. The balance in this account was \$9,762 and \$9,987 at December 31, 2024 and 2023, 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.

8. 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 compensation. The Company's matching contributions for 2024 and 2023 were \$7,711 and \$6,189, respectively.

9. 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

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Performance obligations satisfied at a point in time	\$ <u>-</u>	\$ <u>-</u>
Performance obligations satisfied over time	\$ <u>1,781,685</u>	\$ <u>1,464,676</u>
Total Operating Revenue	\$ <u>1,781,685</u>	\$ <u>1,464,676</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 \$54,196 and \$52,110 for the year ended December 31, 2024 and 2023, respectively.

10. Financial Instruments

Concentrations of Credit Risk

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

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, 2024, the Company had approximately \$1,012,000 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.

D'ARBONNE WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

11. 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 2024 and 2023 under this grant were \$471,631 and \$185,404, respectively.

An additional grant of \$4,533,777 for the North System was received which requires a matching contribution by the Company. These funds are being 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. Funds received under this grant were in \$3,376,831 and \$0 in the years ended December 31, 2024 and 2023, respectively. At December 31, 2024, an additional \$272,284 was receivable for 2024 expenditures.

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 was 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 2023, \$167,476 in reimbursements were received for 2022 expenditures. The final available grant funds of \$33,222 were received in 2023.

12. 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:

	<u>2024</u>	<u>2023</u>
Cash - unrestricted	\$ 1,188,085	\$ 570,671
Certificates of deposit	55,064	55,001
Receivables – Trade	166,509	165,894
Grant receivables	272,284	-
Contract assets	54,196	52,110
Investments	<u>154,532</u>	<u>150,103</u>
	<u>\$ 1,890,670</u>	<u>\$ 993,779</u>

13. 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.

D'ARBONNE WATER SYSTEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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 April 28, 2025, 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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2024

	Assistance Listing Number	Pass- Through Grantor No.	Passed Through to Subrecipient	Federal Expenditures
United States Department of Treasury				
Passed Through Louisiana Department of Administration				
Coronavirus State and Local Fiscal Recovery Funds	21.027		\$ -	\$4,120,746
Total United States Department of Treasury			<u>-</u>	<u>4,120,746</u>
 Total Federal Expenditures			 <u>\$ -</u>	 <u>\$4,120,746</u>

D'ARBONNE WATER SYSTEM, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2024

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of D'Arbonne Water System Inc. (D'Arbonne) under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of D'Arbonne Water System, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of D'Arbonne.

2. Summary of Significant Accounting Policies

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
 - b) The Coalition has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
3. D'Arbonne Water System, Inc. did not expend any federal awards in the form of noncash assistance during the fiscal year. D'Arbonne did not pass any federal awards received to other not-for-profit agencies (subrecipients).
4. Expenditures for the Coronavirus State and Local Fiscal Recovery Funds were capital expenditures. The revenue related to funds received is being recognized as revenue over the estimated useful lives of the assets.

D'ARBONNE WATER SYSTEM, INC.
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2024

D'Arbonne Water System, Inc. is a nonprofit entity that receives public funds. However, no public funds were used to pay for the compensation, reimbursements, benefits or other payments to the agency head.

OTHER REPORTS



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

Independent Auditor's 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*

We have audited, 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, the financial statements of D'Arbonne Water System, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, changes in membership equity and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated April 28, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered D'Arbonne Water System, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of D'Arbonne Water System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of D'Arbonne Water System, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether D'Arbonne Water System, Inc.'s financial statements are free of 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 audit, 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

April 28, 2025



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

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by The Uniform Guidance

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the D'Arbonne Water System, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of D'Arbonne Water System, Inc.'s major federal programs for the year ended December 31, 2024. D'Arbonne Water System, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the D'Arbonne Water System, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the D'Arbonne Water System, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the D'Arbonne Water System, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the D'Arbonne Water System, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the D'Arbonne Water System, Inc.'s compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the D'Arbonne Water System, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 D'Arbonne Water System, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the D'Arbonne Water System, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the D'Arbonne Water System, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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.

Report on Internal Control Over Compliance

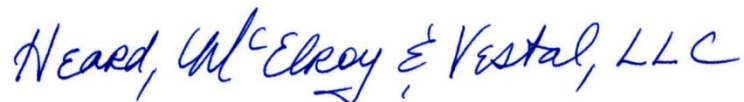
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance

requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Heard, McElroy & Vestal, LLC". The signature is written in a cursive, flowing style.

Monroe, Louisiana
April 28, 2025

D'ARBONNE WATER SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2024

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of D'Arbonne Water System, Inc.
2. One instance of noncompliance material to the basic financial statements of D'Arbonne Water System, Inc. was 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. No material weaknesses in internal control over compliance, relating to the audit of a major federal award program, are reported.
5. The auditor's report on compliance for the major federal award programs for D'Arbonne Water System, Inc. expresses an unmodified opinion.
6. There were no audit findings relative to major federal award programs for D'Arbonne Water System, Inc.
7. The programs tested as major programs included:

<u>Program</u>	<u>ALN No.</u>
Coronavirus State and Local Fiscal Recovery Funds	21.027

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. D'Arbonne Water System, Inc. was not determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

2024-01 – Noncompliance with Community Drinking Water Infrastructure Sustainability Act

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.

C. Findings and Questioned Costs - Major Federal Award Programs

None

D'ARBONNE WATER SYSTEM, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Findings - Financial Statement Audit

None.

D'ARBONNE WATER SYSTEM, INC.
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2024

2024-01

D'Arbonne Water System is currently making comprehensive improvements to the system utilizing Water Sector Program funds to bring the entire system into compliance with accountability standards.