

Grand Prairie Regional Water Distribution District

Financial Statements

Years Ended December 31, 2021 and 2020

Together With Independent Auditor's Reports

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Grand Prairie Regional Water Distribution District
Stuttgart, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Grand Prairie Regional Water Distribution District (District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 the District and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

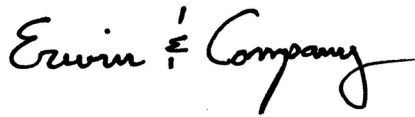
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2022 on our consideration of the District'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 the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Erwin & Company". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
April 28, 2022

**GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2021 and 2020**

General Overview and Introduction of Financial Statements:

The following management's discussion and analysis of the Grand Prairie Regional Water Distribution District's (District) financial performance provides an overview of the District's activities for the years ended December 31, 2021 and 2020, and comparisons to the prior year financial results. This discussion and analysis should be read in conjunction with the financial statements, which follow this section.

The District was organized on December 7, 1977, under Arkansas law to operate and provide rural water services to the residents of the District with its principal office located in Arkansas County. The District is authorized and empowered by the provisions of the Regional Water Distribution District Act of 1957, currently codified as Title 14, Chapter 116 of the Arkansas Code of 1987 Annotated. Its primary source of revenues are charges from the sale of water and related services to the residents served by the District. The District is not subject to federal and state income taxation. The District is not a component unit of any other governmental reporting entity.

The Grand Prairie Regional Water Distribution District's financial statements consists of three statements:

Statements of net position – This statement presents the same information (in general) as a balance sheet: it assesses the balance of the District's assets (the resources it can use to provide water service and operate the District) against its liabilities (its obligations to turn over resources to other organizations or individuals). The difference between the District's assets and liabilities is called net position. The name of this statement reflects its emphasis on what the District would have left over after satisfying its liabilities. Net position at a point in time is an indicator of the District's overall financial position. Net position can be tracked over time to assess whether the District's financial health is improving or deteriorating.

Statements of revenues, expenses, and changes in net position – This statement presents the same information (in general) as an income statement: it tracks the flow of operating and non-operating resources in and out of the District over a period of time. The difference between the inflows (operating and non-operating income) less the outflows (operating and non-operating expenses) is called the change in net position. This amount is added to the net position as of the beginning of the fiscal year to arrive at the ending net position amount that is used in the statement of net position.

Statements of cash flow – This statement classifies cash receipts and payments according to whether they arose from operating, capital, and non-capital financing, or investing activities. The District reports cash flows from operating activities by showing major classes of operating cash receipts and payments (the direct method) with a reconciliation of operating income to net cash flow from operating activities. This statement is intended to measure and assess the District's ability to meet its needs over a specific time period.

Financial Highlights:

	<u>2021</u>	<u>2020</u>
ASSETS		
Total current assets (unrestricted)	\$ 2,269,294	\$ 2,364,268
Total restricted assets	1,138,137	1,013,815
Total capital assets, net	<u>9,699,109</u>	<u>9,848,684</u>
TOTAL ASSETS	<u>\$13,106,540</u>	<u>\$13,226,767</u>
LIABILITIES AND NET POSITION		
Total current liabilities	\$ 1,067,649	\$ 1,059,594
Total non-current liabilities	<u>2,038,302</u>	<u>2,342,561</u>
Total Liabilities	<u>3,105,951</u>	<u>3,402,155</u>
Net investment in capital assets	7,356,548	6,952,253
Restricted	803,858	687,844
Unrestricted	<u>1,840,183</u>	<u>2,184,515</u>
Total Net Position	<u>10,000,589</u>	<u>9,824,612</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$13,106,540</u>	<u>\$13,226,767</u>
OPERATING REVENUES		
Sale of water	\$ 2,738,977	\$ 2,615,965
Penalty charges, net adjustment fees, and other	<u>44,448</u>	<u>75,565</u>
Total Operating Revenue	<u>2,783,425</u>	<u>2,691,530</u>
OPERATING EXPENSES		
Depreciation	827,720	801,626
Salary and wages	662,504	652,722
Other operating and general expenses	<u>1,068,083</u>	<u>1,103,852</u>
Total Operating Expense	<u>2,558,307</u>	<u>2,558,200</u>
OPERATING INCOME	<u>225,118</u>	<u>133,330</u>
NET NON-OPERATING REVENUE (EXPENSE)	<u>(49,141)</u>	<u>272,044</u>
INCREASE IN NET POSITION	274,259	(138,714)
NET POSITION, BEGINNING OF YEAR	<u>9,280,524</u>	<u>9,419,238</u>
NET POSITION, END OF YEAR	<u>\$ 9,554,783</u>	<u>\$ 9,280,524</u>

Total and Capital Assets

At December 31, 2021 and 2020, the District's assets totaled \$13.11 million and \$13.23 million, respectively. Total assets decreased approximately \$120,000 or 0.91%. The majority of the 2021 decrease relates to continued depreciation of existing capital assets in excess of additions to capital assets.

During the year ended December 31, 2020, a severe storm resulted in extensive damage to the District's principal office building, the District's radio tower, and other District personal property. As a result of the storm, the District was forced to relocate to a different office location for more than six months while the existing building was reconstructed. The District incurred various business interruption expenses as a result of this relocation, including rent expense and utilities. During 2020, the District recognized approximately \$389,000 of insurance proceeds related to the storm. These proceeds were primarily used for the following:

Building reconstruction	\$ 326,000
Radio tower replacement	\$ 41,000
Business interruption expenses	\$ 24,000

Due to the extent of storm damage, the remaining carrying value of the principal office building was written off during 2020, which resulted in a loss of approximately \$52,000.

Liabilities

At December 31, 2021 and 2020, the District's liabilities totaled \$3.11 million and \$3.40 million, respectively. Total liabilities decreased approximately \$296,000 or 8.71%. The 2021 decrease is primarily related to continued payments of long-term debt that arose prior to 2020. The District did not incur any new debt during the years ended December 31, 2021 and 2020.

Operating Revenues and Expenses

At December 31, 2021 and 2020, the District's operating revenues totaled \$2.78 million and \$2.69 million, respectively. Operating revenues increased by approximately \$92,000 or 3.41%. The primary cause of the 2021 increase relates to an increase in water usage, which varies annually based on customer demand.

At both December 31, 2021 and 2020, the District's operating expenses totaled approximately \$2.56 million. While salaries/wages, payroll taxes, and depreciation expense continued to marginally increase, this increase was offset by decreases in repairs and maintenance and professional fees.

Rate Structure

The District's rate structure for the sale of water is based on a cost-service approach. Operating expenses and capital improvements are the components that must be funded from rates or bond issues. Water rates are established by the District's management, as well as the Board of Directors and did not change during the periods presented.

Customer and Water Usage Data

The average daily water use in gallons, the maximum daily water use in gallons, and the total water use annually in gallons for the years ended December 31, 2021 and 2020 are as follows:

<u>Year</u> <u>Ended</u>	<u>Average Daily</u> <u>Water Use in</u> <u>Gallons</u>	<u>Maximum Daily</u> <u>Water Use in</u> <u>Gallons</u>	<u>Total Water Use</u> <u>for Year in</u> <u>Gallons</u>
2020	1,058,160	1,802,956	386,228,724
2021	1,166,923	1,839,621	425,927,040

The average number of customers of the District by category for the years ended December 31, 2021 and 2020 are as follows:

<u>Year</u> <u>Ended</u>	<u>Retail</u>	<u>Wholesale</u>	<u>Total</u>
2020	5,931	3	5,934
2021	5,988	3	5,991

COVID-19

Like many Arkansas based businesses, the District's operations expose it to risks associated with COVID-19 pandemic. To date, the District has not experienced a material disruption to its operations; however, the future impact, if any, cannot be accurately predicted.

Contacting the Corporation's Financial Management

This report is intended to provide our customers and other interested parties with a general overview of the District's financial position and to demonstrate accountability and stewardship for the revenues received by the District.

Questions about this report or request for additional information should be directed to the District at 870-673-1669 or to our office located at 2777 US-165, Stuttgart, AR 72160.

GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT

STATEMENTS OF NET POSITION

December 31, 2021 and 2020

	<u>ASSETS</u>	
	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 1,712,285	\$ 1,839,561
Certificates of deposit	273,660	268,935
Restricted cash and cash equivalents	383,463	282,804
Restricted certificates of deposit	300,000	300,000
Accounts receivable, net	224,214	215,339
Accrued interest receivable	216	569
Prepaid expenses	27,392	21,625
Other current assets	<u>31,527</u>	<u>18,239</u>
Total current assets	<u>2,952,757</u>	<u>2,947,072</u>
Non-current assets:		
Restricted cash and cash equivalents	454,674	431,011
Capital assets, net	<u>9,699,109</u>	<u>9,848,684</u>
Total non-current assets	<u>10,153,783</u>	<u>10,279,695</u>
Total assets	<u>\$ 13,106,540</u>	<u>\$ 13,226,767</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 332,071	\$ 84,418
Accrued wages payable	47,898	44,597
Accrued interest payable	23,444	24,842
Customer meter deposits	334,279	325,971
Accrued expenses and other liabilities	25,698	25,896
Current portion of long-term debt	<u>304,259</u>	<u>553,870</u>
Total current liabilities	<u>1,067,649</u>	<u>1,059,594</u>
Long-term debt:		
Non-current portion of long-term debt	<u>2,038,302</u>	<u>2,342,561</u>
Total liabilities	<u>3,105,951</u>	<u>3,402,155</u>
Net position:		
Net investment in capital assets	7,356,548	6,952,253
Restricted	803,858	687,844
Unrestricted	<u>1,840,183</u>	<u>2,184,515</u>
Total net position	<u>10,000,589</u>	<u>9,824,612</u>
Total liabilities and net position	<u>\$ 13,106,540</u>	<u>\$ 13,226,767</u>

GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Sale of water	\$ 2,738,977	\$ 2,615,965
Penalty charges and adjustment fees, net	34,076	62,759
Miscellaneous income	10,372	12,806
Total operating revenue	<u>2,783,425</u>	<u>2,691,530</u>
Operating expenses:		
Water purchases	3,807	291
Salaries and wages	662,504	652,722
Retirement	63,497	67,393
Payroll taxes	51,605	42,790
Professional fees	61,377	100,570
Insurance	243,282	234,808
Office supplies	26,068	30,441
Utilities	204,270	205,234
Permits and fees	1,678	325
Repairs and maintenance	145,020	165,009
Shop supplies	209,105	201,375
Postage	38,108	33,200
Bad debts	-	4,162
Rent	2,377	1,679
Depreciation	827,720	801,626
Miscellaneous	17,889	16,575
Total operating expenses	<u>2,558,307</u>	<u>2,558,200</u>
Operating income	<u>225,118</u>	<u>133,330</u>
Non-operating revenue (expenses):		
Interest income	7,716	10,466
Gain on sale and retirement of assets	17,289	8,449
Grant income	6,000	41,000
Interest expense	(86,290)	(100,749)
Insurance proceeds, net of involuntary conversion loss and related business interruption expenses	6,144	312,878
Total non-operating revenue (expenses)	<u>(49,141)</u>	<u>272,044</u>
Increase in net position	175,977	405,374
Net position, beginning of year	<u>9,824,612</u>	<u>9,419,238</u>
Net position, end of year	<u>\$ 10,000,589</u>	<u>\$ 9,824,612</u>

GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,730,705	\$ 2,611,824
Cash receipts from service fees and other	31,160	61,257
Payments for operation and maintenance	(340,882)	(633,242)
Payments to employees	(775,106)	(771,661)
Payments for insurance and administration	(370,213)	(383,737)
Net cash provided by operating activities	<u>1,275,664</u>	<u>884,441</u>
Cash flows from noncapital financing activities:		
Proceeds from operating grants	<u>6,000</u>	<u>41,000</u>
Net cash provided by noncapital financing activities	<u>6,000</u>	<u>41,000</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and notes payable	(553,870)	(491,437)
Purchase of capital assets	(681,856)	(451,719)
Interest and fees paid on debt	(87,688)	(101,227)
Proceeds from capital asset dispositions, net	27,144	375,595
Net cash used by capital and related financing activities	<u>(1,296,270)</u>	<u>(668,788)</u>
Cash flows from investing activities:		
Interest income	8,069	10,854
Purchases of certificates of deposit	(4,725)	(3,751)
Net withdrawals - restricted cash	<u>(116,014)</u>	<u>(199,616)</u>
Net cash used by investing activities	<u>(112,670)</u>	<u>(192,513)</u>
Net increase (decrease) in cash and equivalents	(127,276)	64,140
Cash and equivalents at beginning of year	<u>1,839,561</u>	<u>1,775,421</u>
Cash and equivalents at end of year	<u>\$ 1,712,285</u>	<u>\$ 1,839,561</u>

GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 225,118	\$ 133,330
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	827,720	801,626
Bad debts	-	4,162
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,875)	(2,130)
Prepaid expenses and other	(19,055)	(11,452)
Increase (decrease) in:		
Accounts payable	247,653	(30,328)
Accrued wages payable	3,301	(15,307)
Accrued expenses and other liabilities	(198)	4,540
Total adjustments	<u>1,050,546</u>	<u>751,111</u>
Net cash provided by operating activities	<u>\$ 1,275,664</u>	<u>\$ 884,441</u>
Non-cash transactions:		
Capital asset additions included in accounts payable	\$ 260,983	\$ -

GRAND PRAIRIE REGIONAL WATER DISTRIBUTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and nature of activities –

The Grand Prairie Regional Water Distribution District (District) was organized on December 7, 1977, under Arkansas law to operate and provide rural water services to the residents of the District with its principal office located in Arkansas County. The District is authorized and empowered by the provisions of the Regional Water Distribution District Act of 1957, currently codified as Title 14, Subtitle 7, Chapter 116 of the Arkansas Code of 1987 Annotated. Its primary source of revenues are charges from the sale of water and related services to the residents served by the District. The District is not subject to federal and state income taxation. The District is not a component unit of any other governmental reporting entity.

Measurement focus and basis of accounting –

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resource measurement focus and the accrual basis of accounting. The basis of accounting determines when transactions and economic events are reflected in financial statements and measurement focus identifies which transactions and events should be recorded. The measurement focus of an enterprise fund is an economic resources measurement focus, the objectives of which are the determination of an operating income, changes in financial position and cash flow. Under an economic resource measurement focus, all assets, deferred inflows (outflows) of resources and liabilities are reported. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises whereby revenues are recorded when earned and expenses are recorded when incurred.

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

Basis of presentation –

The presentation of the District's financial statements follows the requirements of the governmental accounting standards board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the District's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenses derived from or related directly to the distribution of water and are distinguished from nonoperating revenues and expenses for purposes of presentation in the District's statements of revenues, expenses, and changes in net position. Operating revenues consist primarily of user charges and operating expenses include the costs of maintaining and operating the water distribution systems. Non-operating revenues and expenses generally consist of those revenues and expenses that are related to financing and investing type activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the District's policy to apply the expense to restricted net position to the extent such are available and then to unrestricted net position.

Use of estimates –

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents –

For presentation in the statements of cash flows, cash and cash equivalents include unrestricted cash on hand, bank deposits, certificates of deposits, and all highly liquid cash instruments with original maturities of three months or less.

Restricted assets –

Certain proceeds of the District's revenue, as well as certain resources set aside for bond repayment and bond agreement reserve requirements, are classified as restricted assets on the statements of net position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the District are also considered restricted.

Accounts receivable, net –

Receivables are recorded at their outstanding balances, adjusted for any charge-offs, net of any allowance for doubtful accounts. The allowance is determined by management based on review of outstanding receivables and historical collection information. Management does not anticipate material losses on the District's receivables in excess of the established allowance, which was approximately \$500 at December 31, 2021 and 2020.

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

Capital assets –

The cost of additions and major replacements of retired units of property are capitalized. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is recognized in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets (3 – 80 years).

Compensated absences –

Employee's vested or accumulated vacation and sick time are recorded as an expense and liability as the benefits accrue to employees and are included in the District's financial statements.

Customer meter deposits –

All new residential and commercial customers are generally required to place a meter deposit with the District. The customer's deposit is returned when a customer's service ceases and all outstanding balances due are collected.

Net position –

Net position comprises the cumulative net earnings from operating income, nonoperating revenues and expenses, and capital contributions, when applicable. Net position is classified in the following three components:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

Revenue recognition –

Revenue from monthly billing of water sales is recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the District's financial statements do not include an estimate of charges for services provided, but unbilled at fiscal year-end. The use of this method does not result in a material difference from the accrual method of accounting required by generally accepted accounting principles (GAAP).

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.):

Budgets and budgetary accounting –

Prior to the beginning of the new fiscal year, the Board of Directors adopts an annual budget for the District. The budget is adopted under a basis consistent with GAAP. All annual appropriations lapse at year-end.

Recent accounting pronouncements –

GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions in the lease contract or agreement. In May 2020, GASB voted to delay the required implementation of GASB Statement No. 87, *Leases*, for 18 months to fiscal years beginning after June 15, 2021. Management presently does not anticipate the adoption of GASB Statement No. 87 to have a significant impact on the District's financial statements.

Subsequent events –

The District has evaluated subsequent events through April 28, 2022, the date these financial statements were available to be issued.

(2) CASH AND CASH EQUIVALENTS:

Custodial credit risk –

The District maintains its bank accounts at five different financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. It is the policy of the District to obtain collateral for all deposit balances in excess of the FDIC insurance limits and that such collateral be held in the District's name by an agent of the District. The District's cash balances may, at times, exceed these insured limits. At December 31, 2021, all of the District's deposits were insured by the FDIC or fully collateralized by investment securities held in the District's name by agents of the District.

(2) CASH AND CASH EQUIVALENTS (continued):

Restricted cash and cash equivalents and certificates of deposit –

Restricted assets consist of debt service reserves and renewal and replacement funds required under bond agreements and cash held for customer meter deposits. The following is a summary of restricted cash and cash equivalents and certificates of deposit as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents:		
Bank OZK Bond Fund	\$ 118,969	\$ 134,556
Bank OZK Operation and Maintenance Fund	331,768	240,033
Bank OZK Debt Service Reserve Fund	91,069	91,069
Bank OZK Depreciation Fund	140,000	140,000
Arkansas Department of Natural Resources Depreciation Fund	121,367	82,080
Customer meter deposits	<u>34,964</u>	<u>26,077</u>
	<u>\$ 838,137</u>	<u>\$ 713,815</u>
Certificates of deposit:		
Customer meter deposits	<u>\$ 300,000</u>	<u>\$ 300,000</u>

(3) CAPITAL ASSETS:

The following is a summary of changes in capital assets for the years ended December 31, 2021 and 2020:

	<u>Balance at 12/31/2020</u>	<u>Transfers/ Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2021</u>
Non-depreciable:				
Land	\$ 144,150	\$ -	\$ -	\$ 144,150
Construction in progress	46,880	22,516	(13,832)	55,564
	<u>191,030</u>	<u>22,516</u>	<u>(13,832)</u>	<u>199,714</u>
Depreciable:				
Building	354,594	-	-	354,594
Plant and equipment	27,320,449	578,582	-	27,899,031
Machinery	1,876,028	32,824	(14,500)	1,894,352
Trucks	209,562	61,766	(20,241)	251,087
Software	2,486	-	-	2,486
	<u>29,763,119</u>	<u>673,172</u>	<u>(34,741)</u>	<u>30,401,550</u>
Less: accumulated depreciation	<u>(20,105,465)</u>	<u>(827,720)</u>	<u>31,030</u>	<u>(20,902,155)</u>
	<u>9,657,654</u>	<u>(154,548)</u>	<u>(3,711)</u>	<u>9,499,395</u>
Capital assets, net	<u>\$ 9,848,684</u>	<u>\$(132,032)</u>	<u>\$ (17,543)</u>	<u>\$ 9,699,109</u>

(3) CAPITAL ASSETS (continued):

	Balance at 12/31/2019	Additions	Deletions	Balance at 12/31/2020
Non-depreciable:				
Land	\$ 144,150	\$ -	\$ -	\$ 144,150
Construction in progress	<u>169,094</u>	<u>46,880</u>	<u>(169,094)</u>	<u>46,880</u>
	<u>313,244</u>	<u>46,880</u>	<u>(169,094)</u>	<u>191,030</u>
Depreciable:				
Building	346,940	292,946	(285,292)	354,594
Plant and equipment	27,066,294	254,155	-	27,320,449
Machinery	1,876,028	-	-	1,876,028
Trucks	204,599	26,832	(21,869)	209,562
Software	<u>2,486</u>	<u>-</u>	<u>-</u>	<u>2,486</u>
	<u>29,496,347</u>	<u>573,933</u>	<u>(307,161)</u>	<u>29,763,119</u>
Less: accumulated depreciation	<u>(19,556,732)</u>	<u>(801,626)</u>	<u>252,893</u>	<u>(20,105,465)</u>
	<u>9,939,615</u>	<u>(227,693)</u>	<u>(54,268)</u>	<u>9,657,654</u>
Capital assets, net	<u>\$ 10,252,859</u>	<u>\$(180,813)</u>	<u>\$ (223,362)</u>	<u>\$ 9,848,684</u>

Insurance proceeds, involuntary conversion, and related storm expenses –

On April 12, 2020, a severe storm resulted in extensive damage to the District's principal office building, the District's radio tower, and other District personal property. As a result, the District was forced to relocate to a different office location for more than six months while the existing building was reconstructed. The District incurred various business interruption expenses as a result of this relocation. The following summarizes the more significant financial impacts of the storm, all of which are included in non-operating revenue (expenses) in the statement of revenue, expenses, and changes in net position as of December 31, 2020:

Insurance proceeds collected through December 31, 2020	\$378,324
Insurance proceeds collected in January 2021	10,522
Carrying value of property damaged	(51,717)
Business interruption expenses incurred	<u>(24,251)</u>
Total insurance proceeds, net of property losses and related business interruption expenses	<u>\$312,878</u>

During the year ended December 31, 2020, the District capitalized approximately \$326,000 of costs associated with the building reconstruction and approximately \$41,000 of costs associated with the replacement of the radio tower. The costs of the reconstructed building and replacement assets are included in capital assets in the statements of net position.

(4) LONG-TERM DEBT:

The following is a summary of the District's long-term debt at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Bond agreements:		
1995 Bond Issue with the Arkansas Department of Natural Resources; fixed interest rate of 2.75%; collateralized by property and equipment; semi-annual payments of \$70,266 until final maturity on December 1, 2023	\$ 271,663	\$ 402,029
1997 Bond Issue with the Arkansas Department of Natural Resources; fixed interest rate of 2.75%; collateralized by property and equipment; semi-annual payments of \$32,492 until final maturity on December 1, 2024	185,898	244,557
2012 Bond Issue with Bank OZK; varying interest rates ranging from 2.50% to 4.00%; secured by a pledge of revenues and other resources of the District; semi-annual payment of varying amounts ranging from \$85,000 to \$140,000 until final maturity on March 1, 2037	<u>1,885,000</u>	<u>1,995,000</u>
	<u>2,342,561</u>	<u>2,641,586</u>
Note agreement:		
Note payable with First Security Bank; fixed interest rate of 2.30%; collateralized by equipment; monthly payments of \$26,434 until final maturity on October 28, 2021	-	254,845
	2,342,561	2,896,431
Less: current portion of long-term debt	<u>(304,259)</u>	<u>(553,870)</u>
Total long-term portion	<u>\$ 2,038,302</u>	<u>\$ 2,342,561</u>

The bond indenture agreements require deposits to be made into certain restricted funds and requires certain balances to be maintained in these funds. At December 31, 2021, the District had \$91,069 in reserve funds restricted for debt service. The combined future annual debt service requirements under the District's bond agreements as of December 31, 2021 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 304,259	\$ 76,794	\$ 381,053
2023	309,640	68,115	377,755
2024	178,662	60,178	238,840
2025	125,000	55,138	180,138
2026	125,000	51,106	176,106
2027-2031	550,000	198,391	748,391
2032-2036	665,000	84,866	749,866
2037	<u>85,000</u>	<u>1,700</u>	<u>86,700</u>
	<u>\$ 2,342,561</u>	<u>\$ 596,288</u>	<u>\$ 2,938,849</u>

(4) LONG-TERM DEBT (continued):

At December 31, 2021, the District was in compliance with all known provisions of the 1995, 1997, and 2012 bond issues that require cash reserves to be maintained in designated restricted account(s) for the payment of future debt service and other purposes.

Scheduled principal payments on all long-term debt for years subsequent to December 31, 2021 are as follows:

2022	\$ 304,259
2023	309,640
2024	178,662
2025	125,000
2026	125,000
Thereafter	<u>1,300,000</u>
	<u>\$ 2,342,561</u>

(5) EMPLOYEE RETIREMENT PLAN:

The District has a non-contributory employee retirement benefit plan in which, at its discretion, it makes monthly contributions of 10% of each employee's salary to individual employee accounts managed by Ameriprise Financial Services. The District's contributions to the retirement funds for the years ended December 31, 2021 and 2020 totaled \$63,497 and \$67,393, respectively.

(6) RISK MANAGEMENT:

The District is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased insurance to address these risks.

(7) COVID-19:

The District's operations expose it to risks associated with the COVID-19 pandemic. Uncertainty exists regarding the pandemic's impact on future demand for the District's services, the financial stability of the District's customers, and potential increases in the District's operating costs. To date, the District has not experienced a material disruption to its operations due to the pandemic. However, there is no guarantee that such conditions will continue during the remainder of the pandemic or after it subsides. The extent of the impact on the District's business will continue to depend on numerous evolving factors that cannot be accurately predicted, including the duration and scope of the pandemic, global economic conditions during and after the pandemic, further governmental actions to be taken in response to the pandemic, and changes in customer behavior as a result of the pandemic, some of which may be more than just temporary.

**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**

The Board of Directors
Grand Prairie Regional Water Distribution District
Stuttgart, Arkansas

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 Grand Prairie Regional Water Distribution District (District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated April 28, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

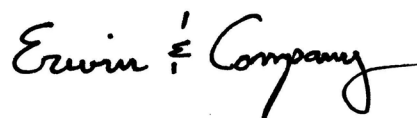
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Erwin & Company". The script is cursive and fluid, with the ampersand being a simple cross-like symbol.

Little Rock, Arkansas
April 28, 2022