

MOUNTAIN TOP PUBLIC WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mountain Top Public Water Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Mountain Top Public Water Authority as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Mountain Top Public Water Authority basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mountain Top Public Water Authority, as of September 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, 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 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 Mountain Top Public Water Authority 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 opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mountain Top Public Water Authority ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the 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 Mountain Top Public Water Authority 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 Mountain Top Public Water Authority 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

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, on our consideration of the Mountain Top Public Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mountain Top Public Water Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountain Top Public Water Authority's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
December 21, 2023

MOUNTAIN TOP PUBLIC WATER AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

	<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current Assets:			
Cash and cash equivalents		\$ 136,707	\$ 115,796
Short term investments		291,310	288,688
Accounts receivable- water sales (net of allowance)		407,184	385,963
Prepaid insurance and maintenance		4,760	4,609
Inventory		60,253	53,876
Total Current Assets		<u>900,214</u>	<u>848,932</u>
Property, Plant, and Equipment:			
Land		72,877	72,877
Water system		9,275,073	9,199,157
Buildings		303,230	292,883
Equipment		477,571	418,758
Vehicles		148,810	132,242
		<u>10,277,561</u>	<u>10,115,917</u>
Less: Accumulated Depreciation		<u>(5,456,739)</u>	<u>(5,215,014)</u>
Net Property, Plant, and Equipment		<u>4,820,822</u>	<u>4,900,903</u>
Other Assets			
Cash and cash equivalents - restricted		693,593	645,199
Lease receivable		<u>4,126</u>	<u>-</u>
Total Other Assets		<u>697,719</u>	<u>645,199</u>
Total Assets		<u><u>\$ 6,418,755</u></u>	<u><u>\$ 6,395,034</u></u>

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

MOUNTAIN TOP PUBLIC WATER AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

Liabilities and Net Position

	<u>2023</u>	<u>2022</u>
Current Liabilities:		
Accounts payable	\$ 114,027	\$ 155,443
Accrued interest	3,818	3,818
Accrued expenses	39,198	28,208
Deferred revenue	31,417	32,371
Meter deposits	252,244	238,060
Current portion long-term debt	95,715	92,502
	<u>536,419</u>	<u>550,402</u>
Total Current Liabilities		
Long-term Debt		
Bond payable	289,170	295,334
Note payable	1,994,588	2,080,906
Less: Current portion long-term debt	(95,715)	(92,502)
Total Long-term Liabilities	<u>2,188,043</u>	<u>2,283,738</u>
Total Liabilities	<u>2,724,462</u>	<u>2,834,140</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to lease	4,126	-
Total Deferred Inflows of Resources	<u>4,126</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,728,588</u>	<u>2,834,140</u>
Net Position:		
Net investment in capital assets	2,537,063	2,524,663
Restricted- debt service and short-lived asset	441,349	407,139
Unrestricted	711,755	629,092
Total Net Position	<u>3,690,167</u>	<u>3,560,894</u>
Total Liabilities and Net Position	<u><u>\$ 6,418,755</u></u>	<u><u>\$ 6,395,034</u></u>

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

MOUNTAIN TOP PUBLIC WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Revenues		
Operating Revenues		
Water revenue	\$ 2,189,616	\$ 2,106,668
Connection fee income	97,666	75,805
Inspection fee income	6,800	6,600
Miscellaneous income	19,789	18,837
Total Operating Revenues	<u>2,313,871</u>	<u>2,207,910</u>
Expenses		
Operating Expenses		
Water purchases	1,184,579	1,306,218
Service connection expenses	24,259	31,546
Telemetry	17,840	18,906
Truck and fuel expense	28,046	29,609
Depreciation expense	244,404	234,665
Repairs and maintenance	44,974	55,170
Professional fees	14,000	11,900
Advertising	-	326
Utilities	106,347	102,165
Telephone	3,967	5,466
Salaries	230,811	224,892
Employee benefits	52,360	58,642
Travel and meals	184	525
Insurance	34,303	35,178
Payroll taxes	16,373	16,336
Office expenses	12,247	11,102
Directors fees	12,150	9,450
Supplies and postage	65,183	55,867
Dues and subscriptions	5,537	8,939
Taxes and licenses	2,338	1,445
Bad debt expense	5,465	5,355
Tank maintenance	-	6,196
Miscellaneous	3,846	3,452
Total Operating Expenses	<u>2,109,213</u>	<u>2,233,350</u>
Operating Income (Loss)	<u>204,658</u>	<u>(25,440)</u>
Non-Operating Revenue (Expense)		
Interest Income	3,280	2,999
Rental Income	13,835	12,070
Gain/(Loss) on sale of fixed assets	-	20,379
Lease Income	174	-
Interest expense	(92,674)	(94,807)
Total Non-Operating Revenue (Expenses)	<u>(75,385)</u>	<u>(59,359)</u>
Increase (Decrease) in Net Position	129,273	(84,800)
Net position at beginning of year	3,560,894	3,645,694
Net position at end of year	<u>\$ 3,690,167</u>	<u>\$ 3,560,894</u>

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

MOUNTAIN TOP PUBLIC WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,261,122	\$ 2,269,122
Payments to suppliers	(1,640,378)	(1,845,163)
Payments to employees	(230,811)	(224,892)
Transfers to/(from) restricted assets	(2,622)	(940)
Net receipts/(refunds) customer meter deposits	14,184	12,806
Net Cash Provided/(Used) by Operating Activities	<u>401,495</u>	<u>210,933</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(164,323)	(292,620)
Proceeds from sale of capital assets	-	22,139
Interest paid on debt	(92,674)	(94,807)
Principal paid on debt	(92,482)	(89,472)
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(349,479)</u>	<u>(454,760)</u>
Cash Flows From Investing Activities		
Lease Income	174	-
Rental income	13,835	12,070
Interest income	3,280	2,999
Net Cash Provided/(Used) by Investing Activities	<u>17,289</u>	<u>15,069</u>
Net Increase/(Decrease) in Cash	69,305	(228,758)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	760,995	989,753
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 830,300</u>	<u>\$ 760,995</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities		
Net Operating Income/(Loss)	\$ 204,658	\$ (25,440)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Depreciation	244,404	234,665
(Increase)/Decrease In:		
Accounts receivable	(21,221)	70,373
Prepays	(151)	-
Inventory	(6,377)	(15,391)
Short term investments	(2,622)	(940)
Other assets	(4,126)	-
Increase/(Decrease) In:		
Accounts payable and accrued expenses	(30,426)	(55,976)
Deferred revenue	(954)	(9,164)
Customers' meter deposits	14,184	12,806
Deferred inflows of resources	4,126	-
Net Cash Provided/(Used) by Operating Activities	<u>\$ 401,495</u>	<u>\$ 210,933</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Restricted	\$ 693,593	\$ 645,199
Unrestricted	136,707	115,796
Total Cash and Cash Equivalents	<u>\$ 830,300</u>	<u>\$ 760,995</u>

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

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mountain Top Public Water Authority operates and maintains a water system for the supplying of water to its members. The system is located in areas surrounding Heber Springs, Quitman, Romance, Joy, and Rose Bud, Arkansas in Cleburne, Faulkner and White Counties.

Basis of accounting

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and regulatory requirements. Accordingly, net position of the Authority and changes therein are classified and reported as follows as required by GASB:

Net investment in Capital Assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Unrestricted Net Position- consists of all other fund position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

In addition, operating revenues and expenses derived from or related directly to providing water services are distinguished from nonoperating revenues and expenses for purposes of presentation on the Authority'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 systems, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Adoption of New Accounting Standard

On October 1, 2020, the Authority adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Authority had one lease subject to the new standards and the impact to net position and revenues as a result of applying GASB 87 for the year ended September 30, 2023 is described in footnote 8.

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.

Income taxes

The Authority is a political subdivision of the State of Arkansas and is exempt from federal income taxes.

Concentration of Credit Risk

Sales of water services are made on open account to customers located in the areas listed in Note 1 above and are collateralized to the extent of each customer's meter deposit.

Custodial Credit Risk

The Authority maintains its cash balances in multiple financial institutions located in Heber Springs, Arkansas. The balances are insured by the Federal Deposit Insurance Company up to \$250,000, per financial institution. The Authority has pledged securities held by pledging financial institutions totaling \$1,270,000 which exceed the uninsured balance of \$770,859 as of September 30, 2023.

Concentration of Vendor Risk

Mountain Top Public Water Authority has purchased its water from The City of Heber Springs Water and Sewer Utility since its inception under the terms of bi-annual water purchase contracts at the present time this relationship is mutually beneficial to both parties. In 2014, the Authority began purchasing additional water from Lonoke/White Public Water Authority.

Cash and Cash Equivalents

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

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

Investments

Governmental Accounting Standard No. 31 (GASB 31), Accounting and Financial Reporting for Certain Investments and for External Investment Pools, requires that certain investments with remaining maturity of one year or more at the time of purchase be reported at fair market value. In accordance with GASB 31, investments are recorded at fair market value. Gains and losses on investments are determined by specific identification. Realized gains and losses on investments held more than one year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year. The Authority is authorized to invest per the discretion of the Board of Directors. As of September 30, 2023 and 2022, investments consisted entirely of certificates of deposits with banks located in the United States of America.

Accounts receivable

Accounts receivable consist of amounts due for water and various miscellaneous charges. Meter deposits are considered to adequately cover past due accounts. Bad Debt expense consists of balances management believes are uncollectible and consists of balances over one year. The allowance for doubtful accounts is an estimate based upon historical losses. Bad debt expense was \$5,465 and \$5,355 for the years ended September 30, 2023 and 2022, respectively.

Inventory

Inventory is valued at the lower of cost, on a first-in, first-out basis, or market. Inventory consists of various items including water pipe, repair clamps, meters, etc.

Property and equipment

Property accounts are stated at cost. Acquisitions of property and equipment in excess of \$750 are capitalized. Major improvements or betterments to property accounts are capitalized, including construction period interest. Maintenance and repairs which do not extend the lives of the applicable assets are charged to the expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the property accounts and any resulting gain or loss is recorded in income. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are summarized as follows:

Water System	5 – 40 years
Buildings	10 – 40 years
Equipment	5 – 15 years
Vehicles	4 – 10 years

Depreciation expense was \$244,404 and \$234,665 for the years ended September 30, 2023 and 2022.

Compensated Absences

The Authority awards paid vacations as follows:

- 5 days paid vacation after 1 year of employment
- 10 days paid vacation after 3-7 years of employment
- 15 days paid vacation after 8 years of employment

Vacation time cannot accumulate past December 31 of each year. The Authority also has a sick pay policy for which an employee receives no benefit if unused or if the employee terminates. The liability for accrued and unpaid vacation pay has been recorded as a liability of the Authority.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

Customer Deposits

As security for payment of bills, the Authority requires a deposit from customers. No interest is paid on such deposits.

Long Term Debt

All long-term debt to be repaid from business-type resources are reported as liabilities in the financial statements. The long-term debt consists primarily of bonds and notes payable.

Revenue Recognition

Revenue is recognized each month for the sales of water used by the Authority's customers and for services rendered at the time of completion of the service. Operating revenues consist of charges for water and other fees billed to customers. Non-operating revenues consist of interest income, grant funds and miscellaneous income. Expenses are recognized when incurred. Accounts receivable and revenues reported on the Authority's financial statements include an estimate of charges for services provided but unbilled at year end.

Advertising

The Authority expenses advertising as incurred. Advertising expense was \$0 and \$326 for the years ended September 30, 2023 and 2022.

Sales Taxes

Sales taxes charged to the Authority's customers are recorded as a payable when received. The payable is then decreased when these amounts are remitted to the appropriate taxing authority.

Reclassifications

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

Subsequent Events

Management has evaluated subsequent events through December 21, 2023, the date which the financial statements were available to be issued.

2) RESTRICTED CASH AND CASH EQUIVALENTS AND DEBT RESERVE

Restricted Balances

Meter Deposits and Debt Service Reserves are restricted in the amounts of \$693,593 and \$645,199 for the years ended September 30, 2023 and 2022, respectively.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

Reserve Accounts

The reserve accounts as required by the loan security agreements are funded by cash in bank. Fund transfers, as required by the U.S. Department of Agriculture's Rural Development Agency are summarized as follows:

	Reserve	Additional	Reserve	Additional	Required	Actual
	Acct Balance	Reserve	Acct Balance	Reserve	Reserve	Reserve
	<u>10/1/2021</u>	<u>Amount</u>	<u>9/30/2022</u>	<u>Amount</u>	<u>9/30/2023</u>	<u>9/30/2023</u>
USDA (Loan 91-08)*	\$ 16,920	\$ -	\$ 16,920	\$ -	\$ 16,920	\$ 16,920
USDA (Loan 91-10)*	5,640	-	5,640	-	5,640	5,640
USDA (Loan 91-11)*	95,880	-	95,880	-	95,880	95,880
USDA (Loan 91-12)*	18,732	-	18,732	-	18,732	18,732
USDA (Loan 91-14 Deprec)	222,838	31,834	254,672	31,834	286,506	286,506
USDA (Loan 91-14)	9,996	1,428	11,424	1,428	12,852	12,852
USDA (Loan 91-16)	<u>2,923</u>	<u>948</u>	<u>3,871</u>	<u>948</u>	<u>4,819</u>	<u>4,819</u>
	<u>\$ 372,929</u>	<u>\$ 34,210</u>	<u>\$ 407,139</u>	<u>\$ 34,210</u>	<u>\$ 441,349</u>	<u>\$ 441,349</u>

* The total required accumulated reserve has been reached.

USDA (Loan 91-14) reserves began on October 12, 2014. This loan requires \$119 per month deposit for ten years or until reserves reaches amount equal to annual payment of \$14,280. In addition, a monthly depreciation reserve is required in the amount of \$2,653 or until reserve reaches amount equal to \$422,500.

USDA (Loan 91-16) reserves began on September 16, 2018. This loan requires \$79 per month deposit for ten years or until reserves reaches amount equal to annual payment of \$9,480.

Legal and Contractual Provisions

There were no violations during the year ended September 30, 2023, of legal or contractual provisions for deposits. Bank balances of the deposits listed above are insured up to the limits allowed by the Federal Deposit Insurance Corporation and are collateralized with securities pledged by First Arkansas Bank and Trust.

The Authority is required by loans security agreements to maintain sufficient revenues (net revenues being gross revenues to be derived during the next twelve months less the reasonably anticipated cost of operation and maintenance for the next twelve months and less the required deposits for depreciation of the System for the next twelve months) equal to not less than 120% of the maximum amount that will become due in any year thereafter for principal and interest on the Authority's Obligations. For the year ended September 30, 2023, the Authority's revenue is sufficient by \$192,783.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

3) CASH AND INVESTMENTS

The Authority maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2023 and 2022, cash balances did exceed the FDIC coverage and collateral was pledged to the Authority. The table presented below is designed to disclose the level of custody credit risk assumed by the Authority based upon how its deposits were insured or secured with collateral at September 30, 2023 and 2022. The categories of credit risk are defined as follows:

Category 1-Insured by FDIC or collateralized with securities held by the Authority (or public trust) or by its agents in its name.

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

Category 3-Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust Authority or agent but not in the Authority's name; or collateralized with no written or approved collateralized agreement.

	2023	2022
Category 1	\$ 370,702	\$ 369,356
Category 2	770,859	701,869
Category 3	-	-
	<u>\$ 1,141,561</u>	<u>\$ 1,071,225</u>

4) INVESTMENTS

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Authority has the following fair value measurements as of September 30, 2023:

	Total	Fair Value Measurement		
		Level 1	Level 2	Level 3
Certificates of Deposit	\$ 291,310	\$ 291,310	\$ -	\$ -
Total Investments	\$ 291,310	\$ 291,310	\$ -	\$ -

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

The Authority has the following fair value measurements as of September 30, 2022:

	Total	Fair Value Measurement		
		Level 1	Level 2	Level 3
Certificates of Deposit	\$ 288,688	\$ 288,688	\$ -	\$ -
Total Investments	\$ 288,688	\$ 288,688	\$ -	\$ -

5) PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment for the year ended September 30, 2023 is as follows:

	Balance 10/1/2022	Additions	Dispositions	Balance 9/30/2023
Land	\$ 72,877	\$ -	\$ -	\$ 72,877
Water System	9,199,157	75,916	-	9,275,073
Buildings	292,883	10,347	-	303,230
Equipment	418,758	61,492	(2,679)	477,571
Vehicles	132,242	16,568	-	148,810
Totals	\$ 10,115,917	\$ 164,323	\$ (2,679)	\$ 10,277,561
Accumulated Depreciation	\$ (5,215,014)	\$ (244,404)	\$ 2,679	\$ (5,456,739)
Net Fixed Assets	\$ 4,900,903	\$ (80,081)	\$ -	\$ 4,820,822

A summary of changes in property, plant and equipment for the year ended September 30, 2022 is as follows:

	Balance 10/1/2021	Additions	Dispositions	Balance 9/30/2022
Land	\$ 72,877	\$ -	\$ -	\$ 72,877
Water System	8,972,139	227,018	-	\$ 9,199,157
Buildings	281,174	15,607	(3,898)	\$ 292,883
Equipment	412,220	11,687	(5,149)	\$ 418,758
Vehicles	122,751	38,308	(28,817)	132,242
Totals	\$ 9,861,161	\$ 292,620	\$ (37,864)	\$ 10,115,917
Accumulated Depreciation	\$ (5,016,453)	\$ (234,665)	\$ 36,104	\$ (5,215,014)
Net Fixed Assets	\$ 4,844,708	\$ 57,955	\$ (1,760)	\$ 4,900,903

6) METER DEPOSITS

At September 30, 2023 and 2022, \$252,244 and \$238,060 in meter deposits represent water system member payments to be refunded in whole or part upon termination of service.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

7) LONG-TERM DEBT

Notes are payable as follows:

	<u>2022</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>2023</u>	<u>Due in 1 year</u>
Forty-year promissory note dated May 26, 1999, payable in monthly installments of \$1,410 including interest at 4.75% per annum, with a maturity date of April 26, 2039.	194,277	-	(7,862)	186,415	8,243
Forty-year promissory note dated May 26, 1999, payable in monthly installments of \$470 including interest at 4.75% per annum, with a maturity date of April 26, 2039.	64,759	-	(2,619)	62,140	2,748
Forty-year promissory note dated June 14, 2001, payable in monthly installments of \$7,990 including interest at 4.75% per annum, with a maturity date of March 14, 2041.	1,186,850	-	(40,376)	1,146,474	42,336
Forty year promissory note dated June 23, 2003, payable in monthly installments of \$1,561 including interest at 4.5% per annum, with a maturity date of May 23, 2043.	251,590	-	(7,565)	244,025	7,913
Forty year bond payable dated September 19, 2013 payable in monthly installments of \$1,184 including interest at 2.75% per annum, with a maturity date of September 2053.	295,335	-	(6,164)	289,171	6,335
Forty year bond payable dated February 27, 2015, payable in monthly installments of \$783, beginning September 2018, including interest at 2.25% per annum, with a maturity date of September 2058.	221,872	-	(4,449)	217,423	4,551
Ten year promissory note dated July 1, 2019, payable in yearly installments of \$24,182 for the first year and \$24,280 for the nine years thereafter including interest at 0.5% per annum, with a maturity date of June 1, 2029.	161,557	-	(23,447)	138,110	23,589
Total Debt	<u>\$2,376,240</u>	<u>\$ -</u>	<u>\$ (92,482)</u>	<u>\$2,283,758</u>	<u>\$ 95,715</u>
Less Current Portion	<u>(92,502)</u>			<u>(95,715)</u>	
	<u>\$ 2,283,738</u>			<u>\$2,188,043</u>	

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

The above notes are secured by mortgages on the water system.

Changes in long-term debt are as follows:

	<u>9/30/2022</u>	<u>9/30/2023</u>
Balance, beginning of year	\$ 2,465,712	\$2,376,240
Principal retirement	<u>(89,472)</u>	<u>(92,482)</u>
Balance, end of year	<u>\$ 2,376,240</u>	<u>\$2,283,758</u>

Scheduled retirements of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 95,715	\$ 89,340	\$ 185,055
2025	99,065	85,990	185,055
2026	102,567	82,489	185,056
2027	106,223	78,833	185,056
2028	110,046	75,009	185,055
2029-2033	510,735	312,217	822,952
2034-2038	613,862	190,018	803,880
2039-2043	419,137	59,372	478,509
2044-2048	95,340	22,680	118,020
2049-2053	106,373	9,701	116,074
2054-2058	<u>24,695</u>	<u>784</u>	<u>25,479</u>
	<u>\$ 2,283,758</u>	<u>\$ 1,006,443</u>	<u>\$ 3,290,191</u>

8) LEASES

On July 20, 2023, the Mountain Top Public Water Authority, as lessor, entered into an agreement with Horton T.V. & Electronics (the "Authority"), the lessee, for the right to install an antenna on the lessor's water tower. The current lease is scheduled to expire on August 1, 2025. Upon expiration of the agreement, the agreement shall continue in effect with respect to the service on a month to month basis unless cancelled by either party. The tenant or lessor may terminate the lease prior to the new renewal periods with ninety days prior written notice to the other party. In accordance with GASBS No. 87, the lease was retroactively measured as of August 1, 2023 with a lease term of twenty-four months and an interest rate of 5.25%, the Authority's incremental borrowing rate.

The Authority collected \$400 from the tenant for the year ended September 30, 2023, which includes \$174 in lease revenue and \$226 in lease interest revenue.

9) ECONOMIC DEPENDENCE

The Authority purchased \$1,184,579 and \$1,306,218 of water from Heber Springs Water and Lonoke/White Water, during the years ended September 30, 2023 and 2022.

10) RELATED PARTY TRANSACTIONS

Directors' fees paid to Mountain Top Public Water Authority's board of directors members were \$12,150 and \$9,450 for the fiscal years ended September 30, 2023 and 2022.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

11) PENSION PLAN

On September 12, 1996, the board of directors of Mountain Top Public Water Authority voted to establish a simplified employee pension plan (SEP). Employees who have worked in at least two of the past five years and are at least 21 years of age are eligible to participate. Contributions to the individual SEP-IRA accounts for eligible employees were \$9,222 and \$8,769, for the years ended September 30, 2023 and 2022, representing 6% of eligible employees' 2023 and 2022 wages.

12) RISK MANAGEMENT

Mountain Top Public Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for risks of loss, including property and casualty insurance, worker's compensation, directors and officer liability and employee health, life, and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in the amount of coverage provided.

13) CHANGES IN NET POSITION

The changes in net position are as follows:

	Net Investment in Capital Assets	Unrestricted	Restricted	Total
Net position at September 30, 2021	\$ 2,378,996	\$ 893,769	\$ 372,929	\$ 3,645,694
Profit	-	(84,800)	-	(84,800)
Transfers	<u>145,667</u>	<u>(179,877)</u>	<u>34,210</u>	<u>-</u>
Net position at September 30, 2022	<u>\$ 2,524,663</u>	<u>\$ 629,092</u>	<u>\$ 407,139</u>	<u>\$ 3,560,894</u>
Profit	-	129,273	-	129,273
Transfers	<u>12,400</u>	<u>(46,610)</u>	<u>34,210</u>	<u>-</u>
Net position at September 30, 2023	<u>\$ 2,537,063</u>	<u>\$ 711,755</u>	<u>\$ 441,349</u>	<u>\$ 3,690,167</u>

14) INCOME TAXES

Generally accepted accounting principles require tax effects from uncertain tax position to be recognized in financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The Authority's primary tax positions relate to its status as a governmental entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the Authority's tax filings and does not believe that any material uncertain tax positions exist.

SUPPLEMENTAL INFORMATION

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

To the Board of Directors
Mountain Top Public Water Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mountain Top Public Water Authority, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Mountain Top Public Water Authority's basic financial statements and have issued our report thereon dated December 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mountain Top Public Water Authority's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Top Public Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain Top Public Water Authority'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, and described in the accompanying schedule of findings and questioned costs as item 2023-1 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of Mountain Top Public Water Authority, 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*.

Mountain Top Public Water Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Mountain Top Public Water Authority's response to the findings identified in our engagement and described in the accompanying schedule of findings and questioned costs. Mountain Top Public Water Authority's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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 engagement to perform an audit 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.

Turner, Williams and Associates, P.A.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
December 21, 2023

MOUNTAIN TOP PUBLIC WATER AUTHORITY
AUDIT FINDINGS AND RESPONSES
September 30, 2023

FINDING 2023-1:

Condition: Numerous adjusting entries were required during the 2023 audit in order to present the Authority's financial statements in accordance with generally accepted accounting principles (GAAP).

Criteria and Cause: The Authority does not have a process in place to ensure accounting records are in accordance with GAAP.

Effect: This caused many accounts within the Authority's financial statements to be misstated.

Recommendation: We recommend the Authority establish a formal closing checklist (monthly and annually) to document entries, reversing entries, and reconciliations that should be performed. In addition, at the completion of the audit, all required entries should be posted to the accounting software to ensure the Authority's final trial balance agrees to the audited trial balance.

Response: Management will establish and implement a closing checklist for the monthly and annual closing processes to ensure the books are closed properly.

MOUNTAIN TOP PUBLIC WATER AUTHORITY
PRIOR YEAR AUDIT FINDINGS AND RESPONSES
September 30, 2022

FINDING 2022-1:

Condition: Numerous adjusting entries were required during the 2022 audit in order to present the Authority's financial statements in accordance with generally accepted accounting principles (GAAP).

Current Status: This finding has improved but is ongoing in the current fiscal year.

FINDING 2022-2:

Condition: Upon recalculation of the water rate requirement required by the Authority's loan covenant, it was noted that the Authority's net revenues did not meet the requirements.

Current Status: This finding has improved in the current fiscal year and net revenues were able to meet the water rate requirements at fiscal year end.