

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

**Independent Auditor's Report
and Financial Statements**

December 31, 2022 and 2021

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Financial Statements	
Balance Sheets	4-5
Statements of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7-8
Statements of Cash Flows	9
Notes to Financial Statements	10-18
Supplementary Information	
Schedules of Users and Consumption	19
Schedules of Insurance Coverage	20
Schedules of Water Rates	21
Board of Directors	22
Other Required Reports	
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 <i>Government Auditing Standards</i>	23-24
Schedule of Findings and Management's Response	25



Welch, Couch & Company, PA Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA
M. Garrett McSpadden, CPA

Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wright-Pastoria Water Association, Inc.
Wright, Arkansas

Opinion

We have audited the accompanying financial statements of Wright-Pastoria Water Association, Inc., which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities 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 Wright-Pastoria Water Association, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Wright -Pastoria Water Association, Inc. 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.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 8 to the financial statements, the Organization has since come under a management agreement with Grand Prairie Water Distribution District, and has stated that substantial doubt exists about the Organization's ability to continue as a outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Batesville: PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

Salem: PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

Little Rock: 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

www.welchcouch.com

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 Wright-Pastoria Water Association, 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 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 Wright-Pastoria Water Association, 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 Wright-Pastoria Water Association, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2023, on our consideration of Wright-Pastoria Water Association, Inc.'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 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 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 Wright-Pastoria Water Association, Inc.'s internal control over financial reporting and compliance.

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
November 14, 2023

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2022 and 2021

	Assets	
	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents - Note 1	\$ 40,336	\$ -
Accounts receivable, net of allowance for uncollectible amounts of \$68,693 - Note 1	23,888	41,085
Total current assets	<u>64,224</u>	<u>41,085</u>
Assets limited as to use - Note 2		
Internally designated - meter deposit fund	25,255	24,280
Restricted under indenture agreement	35,577	149,316
Total assets limited as to use	<u>60,832</u>	<u>173,596</u>
Property, plant and equipment - Note 1		
Land	5,100	5,100
Office furniture and fixtures	9,425	9,425
Pumps and treatment equipment	930,275	368,181
Wells	36,266	36,266
Plant buildings	235,389	235,389
Lines and storage	1,748,525	1,401,755
Tools and equipment	20,614	20,614
Vehicles	2,500	2,500
Construction in Progress	-	680,578
Total property, plant and equipment	<u>2,988,094</u>	<u>2,759,808</u>
Less: accumulated depreciation	(1,686,314)	(1,626,010)
Net property, plant and equipment	<u>1,301,780</u>	<u>1,133,798</u>
Total assets	<u>\$ 1,426,836</u>	<u>\$ 1,348,479</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2022 and 2021

Liabilities and Net Assets

	<u>2022</u>	<u>2021</u>
Current liabilities		
Temporary cash over-draft	\$ -	\$ 7,670
Current portion of long-term debt - Note 3	78,678	59,742
Accounts payable	28,723	22,664
Taxes accrued and withheld	3,583	2,350
Accrued interest	2,078	826
Accrued vacation payable	1,140	1,140
Total current liabilities	<u>114,202</u>	<u>94,392</u>
Other noncurrent liabilities		
Meter deposits	22,860	22,125
Total other noncurrent liabilities	<u>22,860</u>	<u>22,125</u>
Long-term debt , less current portion - Note 3	<u>757,253</u>	<u>700,687</u>
Total liabilities	<u>894,315</u>	<u>817,204</u>
Net assets		
Without donor restrictions	532,521	531,275
Total net assets	<u>532,521</u>	<u>531,275</u>
Total liabilities and net assets	<u>\$ 1,426,836</u>	<u>\$ 1,348,479</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	Without Donor Restrictions <u>2022</u>	Without Donor Restrictions <u>2021</u>
Operating revenues		
Sale of water, net	\$ 232,716	\$ 220,021
Sewer charges	9,037	7,972
Late charges	564	10,478
Connection and reconnection fees	385	425
Membership fees	1,700	1,800
Miscellaneous	29,810	14,182
Trash fees	-	55,310
Total operating revenue	<u>274,212</u>	<u>310,188</u>
Operating expenses		
Salaries and wages	25,650	54,971
Payroll taxes	1,930	4,559
Contract labor	70,523	59,708
Repairs and maintenance	13,151	49,324
Vehicle expense	14,941	9,245
Utilities	26,300	23,543
Insurance	8,790	8,378
Legal and accounting	12,275	6,900
Office supplies	5,013	6,705
Chemicals	11,966	4,718
Postage	1,864	1,083
Testing	3,660	4,698
Depreciation	60,303	62,242
Trash fees	-	54,198
Total operating expenses	<u>256,366</u>	<u>350,272</u>
Operating income (loss)	<u>17,846</u>	<u>(40,084)</u>
Other revenue (expense)		
Interest income	232	162
Interest expense	(16,832)	(16,741)
Gain on forgiveness of loan and bond payable	-	515,737
Total other revenue (expense)	<u>(16,600)</u>	<u>499,158</u>
Increase in net assets without donor restrictions	<u>1,246</u>	<u>459,074</u>
Net assets, without donor restrictions - beginning of year	<u>531,275</u>	<u>72,201</u>
Net assets, without donor restrictions - end of year	<u>\$ 532,521</u>	<u>\$ 531,275</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.
Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
For the year ended December 31, 2022			
Salaries and wages	\$ 1,650	\$ 24,000	\$ 25,650
Payroll taxes	1,930	-	1,930
Contract labor	70,523	-	70,523
Repairs and maintenance	13,151	-	13,151
Vehicle expense	14,941	-	14,941
Utilities	26,300	-	26,300
Insurance	-	8,790	8,790
Legal and accounting	-	12,275	12,275
Office supplies	-	5,013	5,013
Chemicals	11,966	-	11,966
Postage	1,864	-	1,864
Testing	3,660	-	3,660
Depreciation	60,303	-	60,303
Interest expense	16,832	-	16,832
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 223,120</u>	<u>\$ 50,078</u>	<u>\$ 273,198</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statement of Functional Expenses

Year Ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
For the year ended December 31, 2021			
Salaries and wages	\$ 30,971	\$ 24,000	\$ 54,971
Payroll taxes	4,559	-	4,559
Contract labor	59,708	-	59,708
Repairs and maintenance	49,324	-	49,324
Vehicle expense	9,245	-	9,245
Utilities	23,543	-	23,543
Insurance	-	8,378	8,378
Legal and accounting	-	6,900	6,900
Office supplies	-	6,705	6,705
Chemicals	4,718	-	4,718
Postage	1,083	-	1,083
Testing	4,698	-	4,698
Depreciation	62,242	-	62,242
Interest expense	16,741	-	16,741
Trash fees	54,198	-	54,198
	<u>54,198</u>	<u>-</u>	<u>54,198</u>
Total expenses	<u>\$ 321,030</u>	<u>\$ 45,983</u>	<u>\$ 367,013</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,246	\$ 459,074
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Provision for price concessions	41,195	34,116
Depreciation	60,303	62,242
Net changes in:		
Accounts receivable	(23,998)	(30,652)
Restricted cash	112,764	(101,648)
Accounts payable	(1,611)	13,470
Accrued liabilities	2,485	(2,444)
Meter deposits	735	25
Net cash provided by operating activities	<u>193,119</u>	<u>434,183</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(228,285)	(629,578)
Net cash (used in) investing activities	<u>(228,285)</u>	<u>(629,578)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(36,957)	(551,460)
Proceeds from long-term debt	112,459	745,405
Net cash provided by financing activities	<u>75,502</u>	<u>193,945</u>
Net increase (decrease) in cash and cash equivalents	40,336	(1,450)
Cash and cash equivalents at beginning of year	<u>-</u>	<u>1,450</u>
Cash and cash equivalents at end of year	<u>\$ 40,336</u>	<u>\$ -</u>
<u>Supplemental disclosure:</u>		
Operating activities reflect:		
Interest paid	<u>\$ 16,832</u>	<u>\$ 16,813</u>

The notes to financial statements are an integral part of this statement.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

Nature of Business

Wright-Pastoria Water Association, Inc. was incorporated as a non-profit corporation under the laws of the State of Arkansas to construct, operate and maintain a rural water system.

The Association supplies fresh water to approximately 400 active members in the Wright, Arkansas area.

Basis of Accounting

The Association recognizes revenues and expenses under the accrual method of accounting.

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 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments with an original maturity of three months or less, excluding amounts that are restricted under the terms of long-term debt agreements or held for meter deposits.

Assets Limited as to Use

Assets limited as to use primarily include assets held under debt agreements and designated assets set aside by the Board members for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes.

Accounts Receivable and Bad Debts

The Association states accounts receivable for services rendered at net realizable amounts from customers. The Association provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

At December 31, 2022, gross accounts receivable was \$91,590 with allowance for uncollectible accounts of \$68,693. At December 31, 2021, gross accounts receivable was \$70,124 with allowance for uncollectible accounts of \$29,040.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Property, Plant and Equipment

Property, plant and equipment acquisitions of \$1,000 or more are capitalized and recorded at cost. Assets are depreciated using the straight-line method over estimated useful lives of 5 - 15 years for furniture and equipment, and 20 - 50 years for buildings, storage tanks, and distribution lines. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during the construction phase of these fixed assets is reflected in the capitalized value of the asset constructed. The Association capitalized \$-0- and \$-0- in interest cost for the years ended December 31, 2022 and 2021, respectively. The Association's property, plant and equipment are pledged as security for various USDA Rural Utilities Service Loans, Arkansas Natural Resources Commission (ANRC), and Arkansas Development Finance and Authority (ADFA).

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Depreciation expense for the years ended December 31, 2022 and 2021 was \$60,303 and \$62,242, respectively.

Statement of Operations

For purposes of display, transactions considered by management to be ongoing, major, or central to the provision of water services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Operating income (loss)

The System's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water and sewer utility services. Operating expenses are all expenses incurred to provide water and sewer utility services, other than financing costs.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code and therefore no income taxes on earnings have been accrued. However, the Association is subject to federal income tax on any unrelated business taxable income.

Uncertainty in Income Taxes

In July 2006, authoritative guidance was issued that created a single model to address uncertainty in income tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to the authoritative guidance, tax liabilities were recorded as incurred. Management has determined that there are no material unrecorded tax liabilities as of December 31, 2022 or 2021. Tax years open to audit by the Internal Revenue Service and State of Arkansas are 2020, 2021 and 2022.

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

With donor restrictions

This classification is composed of net assets that are limited by donors to a specific time period or purpose and net assets that have been restricted by donors to be maintained by the Association in perpetuity. Net assets subject to donor-imposed stipulations that may be maintained in perpetuity may still permit use of the income earned on the related investments for general or specific purposes. Net assets with donor restrictions also include net assets subject to donor-imposed stipulations that may or will be met by actions of the Association and/or the passage of time.

Without donor restrictions

This classification is composed of net assets that are available for the general use of the Association including but not limited to board designated net assets. These net assets are not subject to donor-imposed restrictions. Additionally, support that is restricted by the donor will be reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires net assets with donor restrictions are reclassified to net assets without donor restrictions.

Risk Management

The Association is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses, natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Revenue from Contracts with Customers

The Organization recognized revenue from exchange transactions from contracts with customers for water and sewer services. The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU 2014-09 and ASC 606), Revenue from contracts with Customers. This standard applies to exchange transactions with customers that are bound by contracts or similar arrangement and establishes performance obligation approach to revenue recognition with a focus on the transfer of control of promised goods or services to a customer. The following exchange transactions were reported in the statements of activities:

Water and sewer services – The Organization provides water and sewer services (including various fees and charges that are directly related) to Association members in the Wright, AR area. Contracts are entered into with members to provide these services. Performance obligations are determined based on the amount (gallons) of water or sewer service provided to members, over a month, as the performance obligation is satisfied. The Organization believes that this method provides a faithful depiction of the transfer of service over the term of the performance obligation. Revenue for the performance obligation satisfied over time is recognized as water or sewer fees charges. The organization measures the performance obligation from the start of a billing cycle to the end of the billing cycle based on usage. The pricing is based on the service provided. The transaction price does not include any price concessions. The Organization determined that there were no services provided without a contract in place and, therefore, has no expected adjustment to receivable or revenue. Total revenue of \$274,212 and \$254,878 related to water and sewer services was recognized in the year ended June 30, 2022 and 2021, respectively. Accounts receivable of \$23,888 and \$41,085 were recognized as of December 31, 2022 and 2021 for services provided.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers for the effects of a significant financing component, due to the Organizations expectation that the period between the time the service is provided to the customer and the time the customer pays for the services will be one year or less.

Trash Fees – During December 31, 2021, the Association collected trash fees on behalf of Jefferson County. Revenue is recognized when collected from members and expensed when paid to Jefferson County. No trash fees were collected in year ended December 31, 2022.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to conform to the 2022 presentation. These reclassifications had no effect on the net income or loss as previously reported.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 2 – Assets Limited as to Use

Restricted funds are established to ensure the Association meets the requirements of the U.S. Department of Agriculture Rural Utilities Service long-term debt obligations. The Association also maintains a separate meter deposit fund.

The balances in the restricted accounts at December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Internally designated - meter deposits funds:		
Cash and savings accounts	\$ 12,605	\$ 11,630
Certificates of deposit	12,650	12,650
	<u>25,255</u>	<u>24,280</u>
Held under indenture agreement:		
Cash and savings accounts	<u>35,577</u>	<u>48,188</u>
	<u>35,577</u>	<u>48,188</u>
Total assets limited as to use	<u>\$ 60,832</u>	<u>\$ 72,468</u>

Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Income:		
Interest income	<u>\$ 232</u>	<u>\$ 162</u>

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 3 – Long-Term Debt

	Principal Balance <u>12/31/2022</u>	Principal Balance <u>12/31/2021</u>
USDA - Rural Utilities Service		
5.25% Note payable, monthly payments of \$459, secured by equipment and real estate, maturing 2035	\$ 50,864	\$ 53,623
USDA - Rural Utilities Service		
3.25% note payable, monthly payments of \$2,531, secured by revenues and assets of the Association, maturing 2025	74,428	101,896
USDA - Rural Utilities Service		
3.25% note payable, monthly payments of \$1,388, secured by revenues and assets of the Association, maturing 2050	301,775	308,505
ANRC & ADFA		
.75% bond payable and 1% servicing fee, monthly payments of \$18,773 starting October 2022, secured by revenues and assets of the Association, maturing 2042	346,776	-
ANRC & ADFA		
0% bond payable and 1% servicing fee, monthly payments of \$3,405 starting October 2022, secured by revenues and assets of the Association, maturing 2032	<u>62,088</u>	<u>4,014</u>
Total long-term debt	835,931	468,038
Less current portion	<u>(78,678)</u>	<u>(59,742)</u>
Total long-term debt, net of current portion	<u>\$ 757,253</u>	<u>\$ 408,296</u>

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 3 – Long-Term Debt (Cont.)

Maturities of Long-Term Debt are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 78,678
2024	68,243
2025	81,635
2026	53,173
2027	54,046
Thereafter	500,156
Total	<u>\$ 835,931</u>

These loans are secured by the property, plant and equipment and revenues of the Association.

The Association is required to fund debt service reserves in addition to an asset management reserve as part of compliance with USDA debt agreements. Below lists the reserve requirements for outstanding debt as of December 31, 2022.

USDA Rural Development:

	<u>Debt Service Reserve</u>	<u>Debt Service Reserve</u>	<u>Debt Service Reserve</u>	<u>Asset Management Reserve</u>	
	<u>91-03</u>	<u>91-05</u>	<u>91-06</u>	<u>91-05 & 91-06</u>	<u>Total</u>
<u>USDA Reserve Requirement:</u>					
Maximum required	\$ 5,508	\$ 30,360	\$ 16,680	\$ 56,465	\$ 109,013
12/31/22 balance required	5,508	30,360	16,680	14,253	66,801
12/31/22 restricted balance	5,508	13,389	16,680	-	35,577
Over (under) funded	<u>\$ -</u>	<u>\$ (16,971)</u>	<u>\$ -</u>	<u>\$ (14,253)</u>	<u>\$ (31,224)</u>

As of the year ended December 31, 2022, the Association's debt service reserve and asset management reserve were (under) funded.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 4 – Deposits

At December 31, 2022, Wright-Pastoria Water Association, Inc. had bank deposits with a carrying value of \$100,989 and a bank balance of \$113,563, all of which was insured by FDIC insurance. Due to higher cash flows at certain times during the year, the Association's risks for uninsured deposits could be higher or lower than at year end.

Note 5 – Significant Concentration of Credit Risk

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. The Association grants unsecured credit to its customers, subject to a meter deposit.

Note 6 – Liquidity and Availability of Financial Assets

The Association's working capital and cash flows have variations during the year attributable to the cash receipts from users. The following reflects the Association's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of creditor restrictions or internal designations.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents and restricted cash	\$ 40,336	\$ -
Accounts receivable, net of allowance	23,888	41,085
Assets limited as to use	<u>60,832</u>	<u>173,596</u>
Total financial assets	<u>125,056</u>	<u>214,681</u>
Creditor and internal restrictions:		
Assets limited as to use	<u>(60,832)</u>	<u>(173,596)</u>
	<u>(60,832)</u>	<u>(173,596)</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 64,224</u>	<u>\$ 41,085</u>

Note 8 – Subsequent Events

Date of Management Evaluation

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

Wright-Pastoria Water Association entered into a management agreement effective July 1, 2023, with Grand Prairie Regional Water Distribution District. Under the terms of the agreement, the Association will remain responsible for the system and Grand Prairie Regional Water Distribution District will provide operational and financial management as an independent contractor for the Association's water services. The Tucker sewer system is specifically excluded from the agreement. The initial term of the agreement is for six months and will automatically be renewed unless either party terminates the agreement.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 – Subsequent Events – (Cont.)

The Association expects that upon completion of certain due diligence actions that Grand Prairie Regional Water Distribution District will completely take over the assets of Wright-Pastoria Water Association excluding Tucker sewer system. Substantial doubt exists about the Association's ability to continue as a going concern due to these options.

Wright-Pastoria Water Association entered into a loan agreement on September 21, 2023, with Communities Unlimited, Inc. The purpose was to consolidate debt arrangements and provide capital to pay outstanding payables. Approximately, \$848,812 was received to payoff USDA, ANRC and multiple vendor payables.

There were no other subsequent events requiring recognition or disclosure in the financial statements other than those previously disclosed.

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.
Schedule of Users and Consumption
Years Ended December 31, 2022 and 2021

December 31, 2022

<u>Month</u>	<u>Consumption</u>	<u>Active Users</u>
January	*	-
February	*	-
March	*	-
April	*	-
May	*	-
June	*	-
July	*	-
August	*	-
September	*	-
October	*	-
November	*	-
December	*	-
	<hr/>	<hr/>
Total consumption	<hr/> <hr/>	
	<hr/>	
Monthly averages	<hr/> <hr/>	<hr/> <hr/>
	<hr/>	<hr/>

* Information is unavailable due to software changes in year ended 2022.

December 31, 2021

<u>Month</u>	<u>Consumption</u>	<u>Active Users</u>
January	1,156,150	412
February	3,502,730	429
March	4,661,210	388
April	1,531,740	388
May	1,215,258	388
June	1,922,551	391
July	1,691,977	390
August	1,247,791	392
September	828,937	394
October	1,101,750	391
November	999,935	391
December	914,906	392
	<hr/>	<hr/>
Total consumption	<hr/> 20,774,935 <hr/>	
	<hr/>	
Monthly averages	<hr/> 1,731,245 <hr/>	<hr/> 396 <hr/>
	<hr/>	<hr/>

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedules of Insurance Coverage

Years Ended December 31, 2022 and 2021

<u>Company</u>	<u>Description Of Policy</u>	<u>2022 Amount of Coverage</u>	<u>2021 Amount of Coverage</u>
EMC Insurance Co.	Workers' Compensation:	Statutory \$500,000 per accident \$500,000 policy limit \$500,000 per employee	Statutory \$500,000 per accident \$500,000 policy limit \$500,000 per employee
Glatfelter Public Practice	Commercial Property: Above ground piping, real and personal property blanket per occurrence limit	\$1,370,504	\$1,370,504
	Commercial Liability: General liability aggregate Products Personal injury Medical expense	\$3,000,000 \$3,000,000 \$1,000,000 \$10,000	\$3,000,000 \$3,000,000 \$1,000,000 \$10,000
	Hired and Non-Owned Automobile Liability	\$1,000,000	\$1,000,000
	Employee Dishonesty	\$50,000	\$50,000
	Directors & Officers Liability	\$1,000,000	\$1,000,000

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedules of Water Rates

Years Ended December 31, 2022 and 2021

December 31, 2022

Water rates

From 0 to 1,000	\$37.20 per 1,000 gallons
From 1,001 to 999,999	\$8.70 per 1,000 gallons

Sewer rates

From 0 to 1,000	\$10.00 per 1,000 gallons
From 1,001 to 999,999	\$2.00 per 1,000 gallons

Service

Repair reserve	\$3.00	Tax rate	7.75%
Safe water act	\$0.40	Penalty	10.00%
Trash	\$26.72	Due date	15th
Fire protection	\$2.92	Shut off date	31st
		Reconnection fee	\$35.00

December 31, 2021

Water rates

From 0 to 1,000	\$22.00 per 1,000 gallons
From 1,001 to 999,999	\$5.10 per 1,000 gallons

Sewer rates

From 0 to 1,000	\$10.00 per 1,000 gallons
From 1,001 to 999,999	\$2.00 per 1,000 gallons

Service

Repair reserve	\$3.00	Tax rate	7.75%
Safe water act	\$0.40	Penalty	10.00%
Trash	\$26.72	Due date	15th
Fire protection	\$2.92	Shut off date	31st
		Reconnection fee	\$35.00

See independent auditor's report.

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Board of Directors

December 31, 2022

<u>Officer's Name</u>	<u>Three-Year Term Expires</u>
Dianne Aiken - President 7816 Ar Hwy 256 England, AR 72046	2023
Jake McNulty - Member 4201 S McKinney Rd Sherrill, AR 72152	2023
Martin Carty - Member P.O. Box 29 Wright, AR 72182	2023
Patty Reed - Secretary 7811 Ar Hwy 256 England, AR 72046	2023
James Bost - Member P.O. Box 10 Wright, AR 72168	2023
Dean Callahan - Vice President 9200 Trulock Bay Sherrill, AR 72152	2023

See independent auditor's report.



Welch, Couch & Company, PA Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA
M. Garrett McSpadden, CPA

Members of American Institute of Certified Public Accountants

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 of
Wright-Pastoria Water Association, Inc.
Wright, 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 Wright-Pastoria Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wright-Pastoria Water Association, 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 the Wright-Pastoria Water Association Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Wright-Pastoria Water Association 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association'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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as item 2022-01, that we consider to be a significant deficiency.

Batesville: PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

Salem: PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

Little Rock: 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wright-Pastoria Water Association, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and management responses as item 2022-02.

Wright-Pastoria Water Association, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Wright-Pastoria Water Association, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and management responses. The Association's response was not subjected to the other auditing procedures applied in the audit of 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
November 14, 2023

WRIGHT-PASTORIA WATER ASSOCIATION, INC.

Schedule of Findings and Management's Response

Year Ended December 31, 2022

Significant Deficiencies

#2022-01 – Segregation of Duties

Condition: During our review of internal controls, we noted inadequate segregation of duties over customer billings and cash receipts.

Criteria: Management is responsible for internal controls to provide adequate safekeeping of company funds and financial reporting.

Cause: For cost and benefit considerations, the Association has chosen to accept certain limitations in the system of internal controls.

Effect: Inadequate segregation of duties over customer billings and cash receipts could allow errors or irregularities to go undetected for extended periods of time.

Recommendation: We recommend that the Board implement internal controls over the establishment of customer accounts, adjustments of customer balances and write off of accounts receivable. The operation of those controls should be documented in the Association's books and records. In addition, we recommend that a system to receive and monitor customer complaints be established that is independent of the accounting functions.

Response: Management concurs with the finding and will draft policies and procedures to be followed in regards to customer billings and cash receipts and provide greater oversight.

Noncompliance

#2022-02 – Noncompliance with Loan Covenants

Condition: During our review of loan agreements, we noted that required reserves as referenced in USDA debt agreements were not in compliance

Criteria: Loan covenants should be monitored on an ongoing basis as a means of avoiding possible violations and resolving any violation on a timely basis. Required cash reserves are to be maintained by the Association, to be used for payments due on notes if other funds are not available and with written approval from USDA reserves may be used for repairing, replacing, and improving the system.

Cause: As described in Note 3 of the financial statements, required USDA reserves were (under)funded by \$(31,224).

Effect: Although the lender did not take any action over the particular items, we believe that it is in the best interest of the Association to adhere to all loan covenants in order to maintain a favorable standing with creditors.

Recommendation: We recommend that a procedure be developed that encompasses a review of loan covenants monthly. Furthermore, it is strongly advised to increase billing rates in order to meet the required reserve amounts.

Response: Management agrees with the finding and will draft procedures to be followed to review loan covenants and will discuss with board members the need to increase rates.