

**HIGHLAND PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS**

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

March 31, 2025 and 2024

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Highland Public Water Authority of the State of Arkansas
2025 Hwy 62/412
Highland, Arkansas 72542

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Highland Public Water Authority as of and for the years ended March 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise Highland Public Water Authority's 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 financial position of Highland Public Water Authority as of March 31, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Highland 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Highland Public Water Authority's 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 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

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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 Highland Public Water Authority'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 Highland Public Water Authority'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 4-7 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.

Supplementary Information

Management is responsible for the supplementary information on pages 23-30. Our opinion on the basic financial statements does not cover the supplementary information on pages 23-30, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the supplementary information on pages 23-30 and consider whether a material inconsistency exists between the supplementary information and the basic financial statements, or the supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the supplementary information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2025, on our consideration of the Highland 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 Highland 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 Highland Public Water Authority's internal control over financial reporting and compliance.

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

Batesville, Arkansas
May 21, 2025

Highland Public Water Authority of The State of Arkansas

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Highland Public Water Authority of the State of Arkansas Management's Discussion and Analysis

Our discussion and analysis of Highland Public Water Authority of the State of Arkansas' ("the Authority") financial performance provides an overview of the Authority's financial activities for the fiscal years ended March 31, 2025 and 2024. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

Financial Highlights

- The Authority's net position increased by \$155,996 from \$865,184 in 2024 to \$1,021,180 in 2025 as a result of this year's operations. The Authority's net position increased by \$50,231 from \$814,953 in 2023 to \$865,184 in 2024 as a result of last year's operations.
- The Authority had operating income of \$182,097 and \$90,330 in 2025 and 2024, respectively.
- Cash and cash equivalents increased by \$184,028 for the year ended March 31, 2025, and increased by \$71,992 for the year ended March 31, 2024.
- The Authority had no additional borrowings in 2025 or 2024.

Using This Annual Report

This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements consist of three financial statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. The financial statements and related notes focus on the individual parts of the Authority, offering short and long term financial information about the activities that the government operates like a business.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position – the difference between assets less liabilities – as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as:

- Where did cash come from?
- What was cash used for?
- What was the change in cash balance during the reporting period?

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Authority's Net Position

The Authority's net position represents the difference between its assets less its liabilities reported in the statement of net position on pages 8 and 9. The Authority's net position increased during the year ended March 31, 2025, by \$155,996 or 18%.

Table 1 below details the various elements of the statement of net position for the past three years:

Table 1			
Assets, Liabilities and Net Position			
	March 31,		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Total current assets	\$ 554,370	\$ 367,359	\$ 313,359
Noncurrent assets	274,296	266,209	245,324
Capital assets - net	<u>1,291,669</u>	<u>1,381,534</u>	<u>1,446,846</u>
Total assets	<u>\$ 2,120,335</u>	<u>\$ 2,015,102</u>	<u>\$ 2,005,529</u>
Current liabilities	\$ 61,302	\$ 62,696	\$ 57,813
Other liabilities	85,730	83,795	79,925
Long-term debt	952,123	1,003,427	1,052,838
Total liabilities	<u>1,099,155</u>	<u>1,149,918</u>	<u>1,190,576</u>
Net investment in capital assets	288,343	328,757	346,442
Restricted expendable	274,196	266,109	245,224
Unrestricted	458,641	270,318	223,287
Total net position	<u>1,021,180</u>	<u>865,184</u>	<u>814,953</u>
Total liabilities and net position	<u>\$ 2,120,335</u>	<u>\$ 2,015,102</u>	<u>\$ 2,005,529</u>

Operating Results and Changes in the Authority's Net Position

For the year ended March 31, 2025, the Authority's net position increased by \$155,996 or 18%. This increase is made up of very different components, as shown in table 2 which follows:

Table 2			
Operating Results and Changes in Net Position			
	Years Ended		
	March 31,		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues			
Water sales	\$ 553,523	\$ 507,098	\$ 445,533
Other revenue	58,132	36,594	68,462
Total operating revenues	<u>611,655</u>	<u>543,692</u>	<u>513,995</u>
Operating expenses			
Salaries and employee benefits	149,455	136,781	125,347
Repairs and maintenance	1,845	3,622	3,596
Operating supplies	53,745	98,680	63,699
Utilities and telephone	30,851	33,439	29,296
License, dues and subscriptions	1,243	760	765
Insurance expense	31,614	25,464	24,507
Legal and accounting	11,229	12,025	9,227
Office supplies	18,112	12,098	10,118
Transportation	10,681	13,986	13,148
Miscellaneous	14,740	10,229	6,154
Depreciation	106,043	106,278	123,850
Total operating expenses	<u>429,558</u>	<u>453,362</u>	<u>409,707</u>
Operating income	182,097	90,330	104,288
Nonoperating revenues (expenses)	<u>(26,101)</u>	<u>(40,099)</u>	<u>(43,425)</u>
Increase in net position	155,996	50,231	61,321
Prior period adjustment	-	-	(10,253)
Net position - beginning of year	<u>865,184</u>	<u>814,953</u>	<u>763,885</u>
Net position - end of year	<u>\$ 1,021,180</u>	<u>\$ 865,184</u>	<u>\$ 814,953</u>

Operating Revenues

The Authority's total operating revenues increased by \$67,963 from \$543,692 in 2024 to \$611,655 in 2025, primarily due to an increase in the average number of customers and rate increases in 2025. Total operating expenses decreased by \$(23,804) from \$453,362 in 2024 to \$429,558 in 2025 primarily because of meter replacements in the prior year.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses primarily consist of interest expense on long-term debt. Interest expense was \$39,851 and \$41,676 in 2025 and 2024, respectively.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At March 31, 2025 and 2024, the Authority had \$1,291,669 and \$1,381,534, respectively, invested in a broad range of capital assets, including buildings, water tanks and lines, and furniture and fixtures. The Authority's capital asset purchases totaled \$16,233 in 2025, as compared to \$40,966 in 2024.

Debt

At March 31, 2025, the Authority had \$1,003,326 in debt outstanding versus \$1,052,777 in debt at March 31, 2024.

	March 31,		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Notes payable			
Long-term	\$ 539,365	\$ 557,700	\$ 575,258
Current	18,342	17,565	16,822
Bonds payable			
Long-term	412,758	445,727	477,580
Current	32,861	31,785	30,744
Total	<u><u>\$ 1,003,326</u></u>	<u><u>\$ 1,052,777</u></u>	<u><u>\$ 1,100,404</u></u>

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Highland Public Water Authority of the State of Arkansas, Highland, Arkansas.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statements of Net Position

March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Current assets		
Cash and cash equivalents - Note 9	\$ 502,916	\$ 326,975
Accounts receivable, net of allowance for uncollectible accounts - Note 2	51,454	40,384
Total current assets	<u>554,370</u>	<u>367,359</u>
Noncurrent assets		
Restricted cash and cash equivalents - Note 3	274,196	266,109
Total noncurrent assets	<u>274,196</u>	<u>266,109</u>
Capital assets, net of accumulated depreciation - Note 4	<u>1,291,669</u>	<u>1,381,534</u>
Other assets		
Deposits	100	100
Total other assets	<u>100</u>	<u>100</u>
Total assets	<u><u>\$ 2,120,335</u></u>	<u><u>\$ 2,015,102</u></u>

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

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statements of Net Position (Cont.)

March 31, 2025 and 2024

Liabilities and Net Position

	<u>2025</u>	<u>2024</u>
Current liabilities		
Current portion of notes payable - Note 5	\$ 18,342	\$ 17,565
Current portion of bonds payable - Note 5	32,861	31,785
Accounts payable	6,595	8,867
Payroll and related withholdings	2,837	3,791
Accrued interest	667	688
Total current liabilities	<u>61,302</u>	<u>62,696</u>
Other liabilities		
Meter deposits - Note 5	<u>85,730</u>	<u>83,795</u>
Long-term debt		
Notes payable, net of current portion - Note 5	539,365	557,700
Bonds payable, net of current portion - Note 5	<u>412,758</u>	<u>445,727</u>
Total long-term debt	<u>952,123</u>	<u>1,003,427</u>
Total liabilities	<u>1,099,155</u>	<u>1,149,918</u>
Net position		
Net investment in capital assets	288,343	328,757
Restricted expendable:		
Debt service	42,116	42,116
Unrestricted	690,721	494,311
Total net position	<u>1,021,180</u>	<u>865,184</u>
Total liabilities and net position	<u>\$ 2,120,335</u>	<u>\$ 2,015,102</u>

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

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statements of Revenues, Expenses and Changes in Net Position

Years Ended March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating revenues		
Residential water sales	\$ 442,326	\$ 407,084
Commercial water sales	108,566	100,014
Late charges and other income	58,132	36,594
Total operating revenues	<u>609,024</u>	<u>543,692</u>
Operating expenses		
Salaries and wages	114,723	103,599
Employee benefits	25,903	22,653
Utilities	27,638	30,685
Operating supplies	53,745	98,680
Transportation	10,681	13,986
Insurance expense	31,614	25,464
Payroll taxes	8,829	8,000
Office supplies	18,112	12,098
Repairs and maintenance	1,845	3,622
License, dues and subscriptions	1,243	760
Telephone	3,213	2,754
Legal and accounting	11,229	12,025
Miscellaneous	3,369	5,030
Retirement expense	3,228	2,529
Contract labor	5,512	5,199
Depreciation	106,043	106,278
Total operating expenses	<u>426,927</u>	<u>453,362</u>
Operating income	<u>182,097</u>	<u>90,330</u>
Nonoperating revenues (expenses)		
Interest income	1,756	1,577
Gain on sale of assets	11,994	-
Interest expense	(39,851)	(41,676)
Total nonoperating revenues (expenses)	<u>(26,101)</u>	<u>(40,099)</u>
Change in net position	155,996	50,231
Net position, beginning of year	<u>865,184</u>	<u>814,953</u>
Net position, end of year	<u>\$ 1,021,180</u>	<u>\$ 865,184</u>

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

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statements of Cash Flows

Years Ended March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 600,585	\$ 504,205
Cash payments to suppliers of goods and services	(113,510)	(133,585)
Cash payments to employees for services	(114,723)	(103,599)
Other operating cash payments	(96,573)	(66,337)
Net cash provided by operating activities	<u>275,779</u>	<u>200,684</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(49,451)	(47,627)
Interest payments on long-term debt	(39,873)	(41,676)
Purchase of capital assets	(16,233)	(40,966)
Proceeds from sale of capital assets	12,050	-
Net cash (used in) capital and related financing activities	<u>(93,507)</u>	<u>(130,269)</u>
Cash flows from investing activities:		
Interest income	1,756	1,577
Net cash provided by investing activities	<u>1,756</u>	<u>1,577</u>
Net increase in cash and cash equivalents	184,028	71,992
Cash and cash equivalents, beginning of year	<u>593,084</u>	<u>521,092</u>
Cash and cash equivalents, end of year	<u><u>\$ 777,112</u></u>	<u><u>\$ 593,084</u></u>
Reconciliation of cash to statements of net position:		
Cash and cash equivalents	\$ 502,916	\$ 326,975
Restricted cash and cash equivalents	274,196	266,109
Total	<u><u>\$ 777,112</u></u>	<u><u>\$ 593,084</u></u>
Supplemental disclosure		
Interest paid	<u><u>\$ 39,873</u></u>	<u><u>\$ 41,697</u></u>

(Continued)

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

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statements of Cash Flows (Cont.)

Years Ended March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 182,097	\$ 90,330
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	106,043	106,278
Net changes in:		
Accounts receivable	(11,070)	(2,893)
Accounts payable	(2,272)	2,779
Accrued liabilities	(954)	320
Meter deposits	1,935	3,870
Net cash provided by operating activities	<u>\$ 275,779</u>	<u>\$ 200,684</u>

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

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Highland Public Water Authority of the State of Arkansas (the Authority) was incorporated as a non-profit corporation under the laws of the State of Arkansas to construct, operate and maintain a rural water system. In November 2007, the organization converted to a public water authority.

The Authority supplies fresh water to approximately 900 residents in the Highland, Arkansas area.

Basis of Accounting

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds. The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange takes place.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less from the date of acquisition, excluding amounts whose use is limited by board designation or under provisions of debt service agreements.

Accounts Receivable

The Authority grants credit to residents for water sales. The collectibility of the Authority's receivables is dependent upon the residents' ability to honor their obligations for their water bills. Each resident has a deposit with the Authority which is held as security for up to \$50 of their unpaid balance. Accounts receivable are carried on the statement of net position at net realizable value. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance for uncollectible accounts is estimated based on historical collection, current economic factors and anticipated collections. The allowance for uncollectible accounts totaled \$5,436 and \$2,807 at March 31, 2025 and 2024, respectively.

Capital Assets

Capital assets costing more than \$2,500 are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 40 years for the various assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged to expense when incurred.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

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

Net Position

Net position classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted:

Restricted expendable net position – this component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Restricted nonexpendable net position – this component of net position is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority such as permanent endowments.

Unrestricted net position – this component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets", as defined above.

Grants and Contributions

From time to time, the Authority may receive grants and contributions. Revenue from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions are nonexchange transactions and may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Compensated Absences

Employees of Highland Public Water Authority of the State of Arkansas are entitled to two weeks' vacation after one year of service. Due to the small number of employees, management does not consider accrued vacation to be material to the financial statements and no provision has been made.

Restricted Resources

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

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

Operating Revenues and Expenses

The Authority's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues are reported in accordance with GASB 33 and result from exchange transactions associated with providing water utility services. Nonoperating revenue includes activities that have characteristics of nonexchange transactions, such as investment income and gains (losses). Operating expenses are all expenses incurred to provide water utility services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

Income Taxes

The Authority is considered a political subdivision of the State of Arkansas and is exempt from federal income taxes under Section 115 of the Internal Revenue Code and a similar provision under state law and therefore the financial statements do not reflect a provision or liability for federal or state income taxes.

Revenue Recognition

Water service revenues are considered exchange transactions under GASB 33. These revenues are recognized when earned, which typically occurs when water is delivered and metered to the customer. Customers are billed monthly based on actual usage. Other operating revenues from services such as connection fees, service charges, and penalties are also recognized as revenue when the related services are provided.

Reclassifications

Certain reclassifications have been made to the 2024 financial statements to conform to the 2025 presentation. These reclassifications had no effect on the net income or loss as previously reported.

Note 2 – Accounts Receivable

The balances in trade accounts receivable at March 31, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Accounts receivable	\$ 56,891	\$ 43,191
Allowance for uncollectible accounts	<u>(5,437)</u>	<u>(2,807)</u>
Accounts receivable, net of allowance for uncollectible accounts	<u>\$ 51,454</u>	<u>\$ 40,384</u>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 3 – Noncurrent Assets

Restricted funds are established to ensure the Authority meets the requirements of the U.S. Department of Agriculture Rural Utilities Service long-term debt obligations. The Authority also maintains a separate meter deposit fund and a board-restricted depreciation reserve and capital improvements.

The balances in the restricted accounts at March 31, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents:		
USDA - RUS debt service reserve	\$ 42,116	\$ 42,116
Meter deposits	85,730	83,795
Depreciation reserve	146,350	120,188
Capital improvements	-	20,010
	<hr/>	<hr/>
Total noncurrent cash and cash equivalents	\$ 274,196	\$ 266,109
	<hr/>	<hr/>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 4 – Capital Assets and Depreciation

Capital asset additions, retirements and balances for the year ended March 31, 2025, were as follows:

	<u>Balance 3/31/2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 3/31/2025</u>
Capital assets not being depreciated:				
Land	\$ 29,300	\$ -	\$ -	\$ 29,300
Total capital assets not being depreciated	<u>29,300</u>	<u>-</u>	<u>-</u>	<u>29,300</u>
Capital assets being depreciated:				
Automobiles	97,091	-	(18,440)	78,651
Buildings	261,313	-	(775)	260,538
Equipment	65,867	6,642	(10,476)	62,033
Furniture and fixtures	34,831	-	(12,359)	22,472
Fences	24,085	-	-	24,085
Water treatment plant	3,722,520	9,591	(3,805)	3,728,306
Land improvements	9,410	-	-	9,410
Total capital assets being depreciated	<u>4,215,117</u>	<u>16,233</u>	<u>(45,855)</u>	<u>4,185,495</u>
Less accumulated depreciation for:				
Automobiles	(63,166)	(7,270)	18,440	(51,996)
Buildings	(168,421)	(4,982)	775	(172,628)
Equipment	(56,325)	(3,859)	10,476	(49,708)
Furniture and fixtures	(21,717)	(3,748)	12,359	(13,106)
Fences	(24,085)	-	-	(24,085)
Water treatment plant	(2,520,533)	(86,007)	3,750	(2,602,790)
Land improvements	(8,636)	(177)	-	(8,813)
Total accumulated depreciation	<u>(2,862,883)</u>	<u>(106,043)</u>	<u>45,800</u>	<u>(2,923,126)</u>
Total capital assets being depreciated, net	<u>1,352,234</u>	<u>(89,810)</u>	<u>(55)</u>	<u>1,262,369</u>
Capital assets, net	<u>\$ 1,381,534</u>	<u>\$ (89,810)</u>	<u>\$ (55)</u>	<u>\$ 1,291,669</u>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 4 – Capital Assets and Depreciation (Cont.)

Capital asset additions, retirements and balances for the year ended March 31, 2024, were as follows:

	<u>Balance 3/31/2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 3/31/2024</u>
Capital assets not being depreciated:				
Land	\$ 29,300	\$ -	\$ -	\$ 29,300
Total capital assets not being depreciated	<u>29,300</u>	<u>-</u>	<u>-</u>	<u>29,300</u>
Capital assets being depreciated:				
Automobiles	60,741	36,350	-	97,091
Buildings	261,313	-	-	261,313
Equipment	61,251	4,616	-	65,867
Furniture and fixtures	34,831	-	-	34,831
Fences	24,085	-	-	24,085
Water treatment plant	3,722,520	-	-	3,722,520
Land improvements	9,410	-	-	9,410
Total capital assets being depreciated	<u>4,174,151</u>	<u>40,966</u>	<u>-</u>	<u>4,215,117</u>
Less accumulated depreciation for:				
Automobiles	(55,079)	(8,087)	-	(63,166)
Buildings	(162,941)	(5,480)	-	(168,421)
Equipment	(53,441)	(2,884)	-	(56,325)
Furniture and fixtures	(17,969)	(3,748)	-	(21,717)
Fences	(24,085)	-	-	(24,085)
Water treatment plant	(2,434,831)	(85,702)	-	(2,520,533)
Land improvements	(8,259)	(377)	-	(8,636)
Total accumulated depreciation	<u>(2,756,605)</u>	<u>(106,278)</u>	<u>-</u>	<u>(2,862,883)</u>
Total capital assets being depreciated, net	<u>1,417,546</u>	<u>(65,312)</u>	<u>-</u>	<u>1,352,234</u>
Capital assets, net	<u>\$ 1,446,846</u>	<u>\$ (65,312)</u>	<u>\$ -</u>	<u>\$ 1,381,534</u>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 5 – Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in long-term debt and other noncurrent liabilities for the Authority for March 31, 2025 and 2024, were as follows:

	<u>Balance at 3/31/24</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 3/31/25</u>	<u>Within One Year</u>
Long-Term Debt					
(A) Rural Development # 5	\$ 459,667	\$ -	\$ (14,506)	\$ 445,161	\$ 15,160
(B) Rural Development # 6	115,598	-	(3,052)	112,546	3,182
(C) 2021 Bonds Payable - FNBC	477,512	-	(31,893)	445,619	32,861
Total long-term debt	<u>1,052,777</u>	<u>-</u>	<u>(49,451)</u>	<u>1,003,326</u>	<u>51,203</u>
Other liabilities					
Meter deposits	<u>83,795</u>	<u>6,775</u>	<u>(4,840)</u>	<u>85,730</u>	
Total noncurrent liabilities	<u>\$ 1,136,572</u>	<u>\$ 6,775</u>	<u>\$ (54,291)</u>	<u>\$ 1,089,056</u>	<u>\$ 51,203</u>

	<u>Balance at 3/31/23</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 3/31/24</u>	<u>Within One Year</u>
Long-Term Debt					
(A) Rural Development # 5	\$ 473,553	\$ -	\$ (13,886)	\$ 459,667	\$ 14,512
(B) Rural Development # 6	118,527	-	(2,929)	115,598	3,053
(C) 2021 Bonds Payable - FNBC	508,324	-	(30,812)	477,512	31,785
Total long-term debt	<u>1,100,404</u>	<u>-</u>	<u>(47,627)</u>	<u>1,052,777</u>	<u>49,350</u>
Other liabilities					
Meter deposits	<u>79,925</u>	<u>10,085</u>	<u>(6,215)</u>	<u>83,795</u>	
Total noncurrent liabilities	<u>\$ 1,180,329</u>	<u>\$ 10,085</u>	<u>\$ (53,842)</u>	<u>\$ 1,136,572</u>	<u>\$ 49,350</u>

The terms and due dates of the Authority's long-term debt as of March 31, 2025 and 2024, follow:

(A) USDA Rural Utilities Service

Monthly payments of \$2,861, beginning July 25, 2005, including interest at 4.375%, secured by mortgage on real estate, equipment and the revenues of the water system, maturing May 2044.

(B) USDA Rural Utilities Service

Monthly payments of \$647, beginning September 7, 2008, including interest at 4.125%, secured by equipment and the revenues of the water system, maturing March 2048.

(C) First National Banking Company Revenue Bonds

Series 2021 Bonds, secured by gross revenues of the Authority and capital assets, monthly payments of \$3,936 including interest of 3.334% per annum, with the final payment due August 2036.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 5 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Scheduled principal and interest repayments on long-term debt are as follows:

<u>March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 51,203	\$ 38,121	\$ 89,324
2027	53,125	36,199	89,324
2028	55,122	34,202	89,324
2029	57,195	32,129	89,324
2030	59,347	29,977	89,324
2031-2035	332,015	114,605	446,620
2036-2040	216,532	57,608	274,140
2041-2045	163,016	19,290	182,306
2046-2050	15,771	727	16,498
	<u>\$ 1,003,326</u>	<u>\$ 362,858</u>	<u>\$ 1,366,184</u>

Note 6 – Debt Service Ratio

Certain debt covenants require that the Authority maintains rates which will produce gross revenue at least sufficient to pay operation and maintenance expenses, pay the principal and interest on all outstanding bonds to which gross revenues are pledged as the same become due, create and maintain debt service reserves, and make the required deposits for depreciation as specified in the various ordinances. Further, the Authority covenants that rates will never be reduced while the bonds are outstanding unless the new rates will produce net revenues equal to not less than 110% of the maximum annual debt service requirements of all outstanding bonds to which gross revenues are pledged.

The actual ratios at March 31, 2025 and 2024, are computed below:

	<u>2025</u>	<u>2024</u>
Operating income	\$ 182,097	\$ 90,330
Plus depreciation expense	<u>106,043</u>	<u>106,278</u>
Funds available for debt service	288,140	196,608
Maximum annual debt service requirements	89,324	89,324
Debt service ratio	3.22	2.20

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

March 31, 2025 and 2024

Note 7 – Retirement Plan

Highland Public Water Authority of the State of Arkansas maintains a SIMPLE IRA retirement plan for eligible employees. The Authority contributes a matching contribution equal to individual employee salary reduction contributions of 3% per year. For the years ended March 31, 2025 and 2024, retirement plan expense totaled \$3,228 and \$2,529, respectively.

Note 8 – Concentrations

Accounts Receivable

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

Note 9 – Deposits

Custodial Credit Risk

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provision of state law. At March 31, 2025, the Authority's carrying amount of deposits was \$776,612. The bank balance was \$776,005. Of this balance, \$396,351 was insured by the FDIC and \$379,654 was collateralized by pledged securities.

At March 31, 2024, the Authority's carrying amount of deposits was \$593,084. The bank balance was \$597,020. Of this balance, \$370,188 was insured by FDIC and \$226,832 was collateralized by pledged securities.

The carrying amounts of deposits are included in the Authority's statements of net position as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 502,916	\$ 326,975
Restricted cash and cash equivalents	<u>274,196</u>	<u>266,109</u>
Total	<u>\$ 777,112</u>	<u>\$ 593,084</u>

Interest Rate Risk

The Authority does not have a written investment policy as a means of limiting its exposure to interest rate risk. However, the Authority does not have investments. Interest income is an immaterial amount earned on a savings account at a local financial institution.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Notes to Financial Statements
March 31, 2025 and 2024

Note 9 – Deposits (Cont.)

Credit Risk

The Authority does not have a written policy regarding credit risk but rather adheres to provisions under state law.

Investment income for cash equivalents is comprised of the following for the years ended March 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Interest income	\$ <u>1,756</u>	\$ <u>1,577</u>

Note 10 – Risk Management

Highland Public Water Authority of the State of Arkansas is exposed to a number of risks such as losses from natural disasters, fire, accidents, other causes and torts. Management of Highland Public Water Authority of the State of Arkansas believes it has immunity under state law from losses from torts. For material risks of losses due to other property and liability claims, the Authority has transferred the risk to a third party by purchasing commercial insurance.

Note 11 – Subsequent Events

Management has evaluated subsequent events through May 21, 2025, the date on which the financial statements were available to be issued. No events were noted which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Statement of Revenues and Expenses – Budget and Actual
(Non-GAAP Budgetary Basis)

Year Ended March 31, 2025

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Anticipated revenues			
Water revenue	\$ 578,800	\$ 553,523	\$ (25,277)
Miscellaneous customer fees	28,200	58,132	29,932
Interest income and other income	4,000	13,750	9,750
Total anticipated revenues	<u>611,000</u>	<u>625,405</u>	<u>14,405</u>
Proposed disbursements			
Salaries and benefits	151,300	149,455	1,845
Supplies	64,800	71,857	(7,057)
Interest expense	40,000	39,851	149
Administration and insurance expense	64,000	56,612	7,388
Utilities	33,000	30,851	2,149
Miscellaneous expense	1,300	14,740	(13,440)
Depreciation	105,400	106,043	(643)
Total proposed disbursements	<u>459,800</u>	<u>469,409</u>	<u>(9,609)</u>
	<u>\$ 151,200</u>	<u>\$ 155,996</u>	<u>\$ 4,796</u>

See Independent Auditor's Report.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Prior Year Statement of Revenues and Expenses – Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended March 31, 2024

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Anticipated revenues			
Water revenue	\$ 502,000	\$ 507,098	\$ 5,098
Miscellaneous customer fees	27,700	34,289	6,589
Interest income and other income	1,800	3,882	2,082
Total anticipated revenues	<u>531,500</u>	<u>545,269</u>	<u>13,769</u>
Proposed disbursements			
Salaries and benefits	143,000	136,781	6,219
Supplies	56,600	111,538	(54,938)
Interest expense	41,757	41,676	81
Administration and insurance expense	57,500	60,296	(2,796)
Utilities	27,400	33,439	(6,039)
Miscellaneous expense	1,200	5,030	(3,830)
Depreciation	103,300	106,278	(2,978)
Total proposed disbursements	<u>430,757</u>	<u>495,038</u>	<u>(64,281)</u>
	<u>\$ 100,743</u>	<u>\$ 50,231</u>	<u>\$ (50,512)</u>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedule of Insurance Coverage

March 31, 2025

<u>Company</u>	<u>Description of Policy</u>	<u>Amount of Coverage</u>
Employers Mutual Casualty Company 10/04/2024 thru 10/04/2025	Commercial General Liability:	
	General aggregate limit	\$ 2,000,000
	Products/completed ops aggregate	2,000,000
	Each occurrence limit	1,000,000
	Personal and advertising injury limit	1,000,000
	Employers liability	500,000
	Employee benefits liability aggregate	2,000,000
	Each occurrence limit	1,000,000
	Commercial Property Coverage:	
	Blanket property coverage	\$ 1,857,577
	Automobile:	
	Liability	\$ 1,000,000
	Uninsured/underinsured motorist	1,000,000
	Medical payments	2,000
	Umbrella Liability Coverage	\$ 1,000,000
	Directors and Officers Liability	1,000,000
	Workers Compensation	Statutory
	Employer's Liability	500,000
	Public Employee Dishonesty	250,000
	Commercial Inland Marine:	
	Small tools limit (any 1 item)	\$ 2,500
	Limit any (1) occurrence	12,000
	2008 Case Cx36 B excavator	20,000
	Cybersolutions Declarations:	
	Data compromise coverage	\$ 50,000

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Prior Year Schedule of Insurance Coverage
March 31, 2024

<u>Company</u>	<u>Description of Policy</u>	<u>Amount of Coverage</u>
Employers Mutual Casualty Company 10/04/2023 thru 10/04/2024	Commercial General Liability:	
	General aggregate limit	\$ 2,000,000
	Products/completed ops aggregate	2,000,000
	Each occurrence limit	1,000,000
	Personal and advertising injury limit	1,000,000
	Employers liability	500,000
	Employee benefits liability aggregate	2,000,000
	Each occurrence limit	1,000,000
	Commercial Property Coverage:	
	Blanket property coverage	\$ 1,857,577
	Automobile:	
	Liability	\$ 1,000,000
	Uninsured/underinsured motorist	1,000,000
	Medical payments	2,000
	Umbrella Liability Coverage	\$ 1,000,000
	Directors and Officers Liability	1,000,000
	Workers Compensation	Statutory
	Employer's Liability	500,000
	Public Employee Dishonesty	250,000
	Commercial Inland Marine:	
	Small tools limit (any 1 item)	\$ 2,500
	Limit any (1) occurrence	12,000
	2008 Case Cx36 B excavator	20,000
Cybersolutions Declarations:		
Data compromise coverage	\$ 50,000	

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedules of Water Rates

March 31, 2025 and 2024

March 31, 2025

Residential:

Base service charge	\$ 20.75 minimum charge
Usage charge	\$ 9.50 per 1,000 gallons

Commercial:

Base service charge	\$ 20.75 minimum charge
Usage charge	\$ 9.50 per 1,000 gallons

March 31, 2024

Residential:

Base service charge	\$ 19.50 minimum charge
Usage charge	\$ 8.39 per 1,000 gallons

Commercial:

Base service charge	\$ 19.50 minimum charge
Usage charge	\$ 8.39 per 1,000 gallons

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Supplemental Schedule of Customers and Gallons Sold
March 31, 2025

<u>Month</u>	<u>Gallons Sold</u>	<u>Water Customers</u>
April	3,062,652	1,004
May	3,062,890	1,001
June	3,085,582	1,001
July	3,884,791	1,006
August	3,528,221	1,009
September	3,110,243	1,012
October	3,309,686	1,010
November	2,277,968	1,011
December	2,775,564	1,006
January	3,329,002	991
February	2,719,367	984
March	2,632,432	997
Total	<u>36,778,398</u>	
Monthly Average	<u>3,064,867</u>	<u>1,003</u>

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Prior Year Supplemental Schedule of Customers and Gallons Sold
March 31, 2024

<u>Month</u>	<u>Gallons Sold</u>	<u>Water Customers</u>
April	2,602,126	985
May	2,730,536	993
June	4,099,663	998
July	4,021,339	995
August	3,973,028	1,014
September	2,839,260	1,008
October	3,124,118	1,014
November	2,997,505	1,005
December	2,736,984	1,000
January	4,051,607	989
February	2,660,076	985
March	2,477,745	995
Total	<u>38,313,987</u>	
Monthly Average	<u>3,192,832</u>	<u>998</u>

See Independent Auditor's Report.

HIGHLAND PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Supplemental Schedule of Board of Directors
March 31, 2025 and 2024

March 31, 2025

President:	Raymond Hicks
Vice-President:	Garry Duhme
Secretary/Treasurer:	Levita Phillips
Members:	Joyce Ramsdell Boyd McMasters Jonathan Gotte

March 31, 2024

President:	Raymond Hicks
Vice-President:	Garry Duhme
Secretary/Treasurer:	Levita Phillips
Members:	Joyce Ramsdell Boyd McMasters Jonathan Gotte



Welch, Couch & Company, PA Certified Public Accountants

Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA
M. Garrett McSpadden, CPA | Allen E. Brinkman, 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
Highland Public Water Authority of the State of Arkansas
2025 Hwy 62/412
Highland, Arkansas

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 Highland Public Water Authority of the State of Arkansas, as of and for the year ended March 31, 2025, and the related notes to the financial statements, which collectively comprise Highland Public Water Authority of the State of Arkansas' basic financial statements and have issued our report thereon dated May 21, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland Public Water Authority of the State of Arkansas' 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 Highland Public Water Authority of the State of Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Public Water Authority of the State of Arkansas' 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 did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as item # 2025-01 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Public Water Authority of the State of Arkansas' 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*.

Highland Public Water Authority of the State of Arkansas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Highland Public Water Authority of the State of Arkansas' response to the findings identified in our audit and described in the accompanying schedule of findings and management responses. Highland Public Water Authority of the State of Arkansas' 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 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.

Welch, Couch & Company, P.C.
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
May 21, 2025

Highland Public Water Authority of The State of Arkansas

Schedule of Findings and Management Responses

March 31, 2025

Financial Statement Findings

Significant Deficiency

2025-01 – Segregation of Duties

Condition: Our review of the Authority's internal control structure disclosed that primarily due to the limited number of accounting personnel which effectively precludes an adequate segregation of duties, there are inherent limitations in the Authority's controls in this regard. While we realize that the Authority does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be practicable from a cost/benefit standpoint, we are required as a part of our professional responsibilities to report this condition.

Criteria: Internal controls should be in place to eliminate the simultaneous functions of authorization, physical custody of assets and recording of transactions.

Cause: There are a small number of people responsible for the financial transactions of the Authority.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Recommendation: When possible, such activities should be split between employees with reconciliations and other key accounting data verified by management.

Response: Highland Public Water Authority of the State of Arkansas has a limited number of accounting personnel available to perform its accounting and reporting responsibilities. We will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties. Therefore, the Authority has designated board members to review and approve cash disbursements and review financial reports.