

LAWRENCE COUNTY REGIONAL WATER DISTRICT

Audited Financial Statements

For the Years Ended December 31, 2023 and 2022

Thomas, Speight & Noble
Certified Public Accountants
915 Townsend Dr.
Pocahontas, AR 72455
(870) 892-2575

Lawrence County Regional Water District
Audited Financial Statements
and Supplementary Information

For the Year Ended December 31, 2023, and 2022

Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Financial Statements:	
Statement of Financial Position.....	4
Statement of Revenues, Expenses, and Changes in Net Position.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-14
Supplementary Information:	
Schedule of Cash in Depositories	15
Schedule of Insurance in Force.....	16
Schedule of Current Usage Information (UNAUDITED).....	17
INDEPENDENT AUDITORS' REPORT REQUIRED BY <i>GOVERNMENT</i> <i>AUDITING STANDARDS:</i>	
Report on Compliance & on Internal Control Over Financial Reporting.....	18-19
Schedule of Findings and Questioned Costs.....	20



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lawrence County Regional Water District

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Lawrence County Regional Water District as of and for the years ended December 31, 2023, and 2022, and the related notes to the financial statements, which collectively comprise Lawrence County Regional Water District 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 of Lawrence County Regional Water District, as of December 31, 2023, and 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Lawrence County Regional Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lawrence County Regional Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lawrence County Regional Water District's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County Regional Water District's basic financial statements. The accompanying combining and comparative financial statements and schedules listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and, except for that portion marked "**UNAUDITED**" was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "**UNAUDITED**" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Matters

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2024, on our consideration of Lawrence County Regional Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lawrence County Regional Water District'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 Lawrence County Regional Water District's internal control over financial reporting and compliance.

Thomas. Speight & Noble. CPAs

Pocahontas, Arkansas

July 12, 2024

Lawrence County Regional Water District
Statements of Net Position
December 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 454,995	\$ 491,243
Customer accounts receivable	142,078	136,529
Unbilled revenues	80,148	77,042
Inventory	62,895	54,036
Total current assets	740,116	758,850
 NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	2,548,533	1,435,456
Capital assets	14,926,201	14,512,353
Less accumulated depreciation	(7,964,926)	(7,689,020)
Total non-current assets	9,509,808	8,258,789
 TOTAL ASSETS	 \$ 10,249,924	 \$ 9,017,639
 <u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 17,468	\$ 40,400
Accrued payroll taxes	9,494	8,239
Accrued interest	14,804	15,702
Accrued compensation	3,437	2,304
Compensated absences	19,127	14,445
Current portion of long-term debt	281,847	260,367
Total current liabilities	346,177	341,457
 LONG-TERM DEBT, net of current portion	 5,112,858	 4,201,706
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	218,901	218,929
 TOTAL LIABILITIES	 5,677,936	 4,762,092
 NET POSITION		
Net investment in capital assets	1,566,570	2,361,260
Restricted for debt service	2,329,632	1,216,527
Unrestricted	675,786	677,760
Total net position	4,571,988	4,255,547
 TOTAL LIABILITIES AND NET POSITION	 \$ 10,249,924	 \$ 9,017,639

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

Lawrence County Regional Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water sales	\$ 1,563,670	\$ 1,532,311
Penalties charged	28,799	34,312
Other income	51,860	47,673
State funding	217,929	-
Total operating revenue	1,862,258	1,614,296
OPERATING EXPENSES		
Water purchases	110,242	82,879
Salaries and wages	356,005	340,419
Taxes & Licenses	27,158	25,049
Utilities	155,978	182,737
Truck & travel expense	64,784	54,201
Office supplies & postage	38,633	29,791
Repairs and maintenance	42,262	10,253
Supplies	79,683	97,112
Professional fees	22,400	18,210
Depreciation	322,122	315,686
Uniforms	20,182	16,933
Miscellaneous expense	11,376	7,952
Insurance	171,290	144,554
Directors' fees	8,800	8,500
Health department fees	14,655	15,574
Bad debt	10,654	(16,158)
Total operating expenses	1,456,224	1,333,692
OPERATING INCOME (LOSS)	406,034	280,604
NON-OPERATING REVENUES (EXPENSES)		
Interest income	65,643	16,458
Gain on sale of assets	32,284	22,741
Interest expense	(97,022)	(102,749)
Bond issue cost	(90,498)	(6,930)
Total non-operating revenues (expenses)	(89,593)	(70,480)
CHANGE IN NET POSITION	316,441	210,124
NET POSITION AT BEGINNING OF YEAR	4,255,547	4,045,423
NET POSITION AT END OF YEAR	\$ 4,571,988	\$ 4,255,547

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

Lawrence County Regional Water District
Statement of Cash Flows
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,853,574	\$ 1,588,352
Cash payments to suppliers for goods and services	(808,633)	(675,615)
Cash payments to employees	(350,190)	(323,669)
Net cash provided by (used in) operating activities	694,751	589,068
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(262,368)	(252,912)
Interest payments on long-term debt	(97,920)	(104,172)
Debt proceeds	1,195,000	-
Cost of bond issuance	(90,498)	(6,930)
Proceeds from sale of assets	51,534	48,523
Purchases of capital assets	(479,314)	(97,494)
Net cash provided by (used in) financing activities	316,434	(412,985)
Cash flows from investing activities:		
Interest received	65,643	16,458
Redemption of certificate of deposit	-	-
Net cash provided by (used in) investing activities	65,643	16,458
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	1,076,829	192,541
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,926,699	1,734,158
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,003,528	\$ 1,926,699
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 406,034	\$ 280,604
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	322,122	315,686
(Increase)/Decrease In:		
Customer accounts receivable	(5,549)	(30,760)
Prepaid insurance	-	3,428
Inventory	(8,859)	(12,758)
Unbilled revenues	(3,106)	(6,708)
Utility deposits	-	210
Increase/(Decrease) In:		
Accounts payable	(22,932)	7,785
Accrued payroll taxes	1,255	3,516
Accrued compensation	1,133	2,304
Compensated absences	4,682	14,445
Customer deposits	(28)	11,316
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 694,751	\$ 589,068

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

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The Lawrence County Regional Water District (LCRWD) was organized as a public nonprofit organization on December 18, 1979, in accordance with the provisions of Title 21 and Chapter 14 of the Arkansas Code of 1956 Annotated. The purpose of LCRWD is to provide safe, high quality water services to our community, while maintaining a standard of excellence in customer service and environmental conservation. LCRWD is not included in any other governmental reporting entity, as defined by *Governmental Accounting and Financial Reporting Standards*.

The LCRWD serves all residents of Lawrence County and sections of Craighead and Randolph Counties. The LCRWD is governed by a board of directors consisting of three qualified voters residing in Craighead County, four qualified voters residing in Randolph County, and five qualified voters residing in Lawrence County. Election of officers is by majority vote of the members of the board present at the election. No board member shall receive compensation, whether in form of a salary or per diem.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The LCRWD uses the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled revenues are recorded at year end.

Measurement Focus and Financial Statement Preparation

The term “measurement focus” is used to denote what is being measured and reported in the LCRWD operating statement. The LCRWD is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the LCRWD is better or worse off economically as a result of events and transactions of the period.

The LCRWD adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.” Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same statement of net position component as unspent proceeds.
- Restricted—This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Customer Accounts Receivable

LCRWD uses the direct write-off method for accounting for bad debts. Water charges receivable as shown in the balance sheets are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

**Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Capital Assets

Fixed assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water and Sewer Systems	50 Years
Buildings	40 Years
Vehicles & Equipment	5-10 Years

Inventory

Inventory, consisting of supplies and materials, is stated at the lower of cost or market using the first-in first-out method.

Compensated Absences

Vested or accumulated vacation, sick leave, and compensatory time are recorded as an expense and liability as the benefits accrue to employees and are included as part of accrued compensation on the statements of financial position.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Use of FASB Pronouncements

LCRWD uses Financial Accounting Standards Board (FASB) pronouncements that do not conflict with pronouncements of the Government Accounting Standards Board (GASB).

Cash and Cash Equivalents

For the purpose of the statements of cash flows, LCRWD considers all and highly liquid investments with an original maturity of twelve months or less to be cash equivalents.

Restricted assets

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

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 2: CAPITAL ASSETS

As summary of changes in capital assets for the years ended December 31, 2023, and 2022 are as follows:

	<u>Balance</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2023</u>
Capital assets not being depreciated:				
Land	\$ 60,410	\$ -	\$ -	\$ 60,410
Total capital assets not being depreciated	<u>60,410</u>	<u>-</u>	<u>-</u>	<u>60,410</u>
Other capital assets				
Buildings	230,868	12,000	-	242,868
Water plant	13,518,998	291,067	-	13,810,065
Vehicles & equipment	702,077	126,246	65,466	762,857
Construction in progress	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total other assets at historical cost	<u>14,451,943</u>	<u>479,313</u>	<u>65,466</u>	<u>14,865,790</u>
Less accumulated depreciation for:				
Buildings	(124,587)	(6,257)	-	(130,844)
Water plant	(6,997,215)	(276,261)	-	(7,273,476)
Vehicles & equipment	<u>(567,218)</u>	<u>(39,603)</u>	<u>(46,216)</u>	<u>(560,605)</u>
Total accumulated depreciation	<u>(7,689,020)</u>	<u>(322,121)</u>	<u>(46,216)</u>	<u>(7,964,925)</u>
Total capital assets, being depreciated, net	<u>6,762,923</u>	<u>157,192</u>	<u>19,250</u>	<u>6,900,865</u>
Total capital assets, net	<u>\$ 6,823,333</u>	<u>\$ 157,192</u>	<u>\$ 19,250</u>	<u>\$ 6,961,275</u>

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 2: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 60,410	\$ -	\$ -	\$ 60,410
Total capital assets not being depreciated	60,410	-	-	60,410
Other capital assets				
Buildings	230,868	-	-	230,868
Water plant	13,513,720	5,278	-	13,518,998
Vehicles & equipment	659,061	92,216	49,200	702,077
Total other assets at historical cost	14,403,649	97,494	49,200	14,451,943
Less accumulated depreciation for:				
Buildings	(118,555)	(6,032)	-	(124,587)
Water plant	(6,722,183)	(275,032)	-	(6,997,215)
Vehicles & equipment	(556,014)	(34,622)	(23,418)	(567,218)
Total accumulated depreciation	(7,396,752)	(315,686)	(23,418)	(7,689,020)
Total capital assets, being depreciated, net	7,006,897	(218,192)	25,782	6,762,923
Total capital assets, net	<u>\$ 7,067,307</u>	<u>\$ (218,192)</u>	<u>\$ 25,782</u>	<u>\$ 6,823,333</u>

NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, LCRWD's deposits may not be returned to it. LCRWD's deposit policy for custodial risk is compliant with bond requirements. Due to the dollar amounts of cash deposits and investments, and the limits of the Federal Deposit Insurance Corporation (FDIC), LCRWD was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end December 31, 2023. At year end December 31, 2023, LCRWD had bank deposits in the amount of \$3,038,209. However, cash at these institutions exceeded federally insured limits and pledged securities by \$1,386,613 as of December 31, 2023. As a result, LCRWD evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4: RISK MANAGEMENT AND LITIGATION

LCRWD is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: LONG-TERM DEBT

Long-term debt on December 31, 2023, consisted of the following:

	2023	2022
1991 Water Revenue Bond issue – USDA, 5.000%, \$230,000; principal and interest payable monthly beginning July 28, 1991; matures November 28, 2030	78,501	87,869
Arkansas Department of Transportation, 0.000%, \$20,204; principal payable annually beginning August 18, 2018; matures August 18, 2029	10,204	14,204
Water Revenue Refunding Bonds, Series 2021 – Regions Bank 2.150%, \$4,604,000; principal payable annually and interest payable semi-annually beginning May 1, 2022; maturing November 1, 2037.	4,111,000	4,360,000
Water Revenue Refunding Bonds, Series 2023 – First National Bank 3.750%, \$1,195,000; principal payable annually and interest payable semi-annually beginning May 15, 2024; maturing November 1, 2053.	1,195,000	-
	\$ 5,394,705	\$ 4,462,073

All bonds are secured by revenues and water system of LCRWD.

Maturities and analysis of long-term debt changes to LCRWD’s long-term debt are as follows:

	2023	2022
Total long-term debt at beginning of year	\$ 4,462,073	\$ 4,714,985
Note payable retirements	(262,368)	(252,912)
Debt proceeds	1,195,000	-
Total long-term debt at the end of the year	5,394,705	4,462,073
Less: current portion	(281,847)	(260,367)
Long-term debt, net of current portion	\$ 5,112,858	\$ 4,201,706

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: LONG-TERM DEBT (Continued)

Maturities of long-term debt on December 31, 2022, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	281,847	137,675	419,522
2025	292,350	138,308	430,658
2026	303,880	131,438	435,318
2027	310,436	124,226	434,662
2028	316,022	116,854	432,876
2029-2033	1,638,170	471,595	2,109,765
2034-2038	1,467,000	275,648	1,742,648
Thereafter	785,000	329,000	1,114,000
	<u>\$ 5,394,705</u>	<u>\$ 1,724,744</u>	<u>\$ 7,119,449</u>

Interest expenses were \$97,022 for the year ended December 31, 2023, and \$102,749 for the year ended December 31, 2022.

LCRWD's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and executed or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

LCRWD's bond agreement with Regions Bank discloses that if an event of default occurs, the Trustee may, and upon the written request of the owner of their Series 2021 Bond, shall, by proper suit, compel the performance of the duties of the officials of the LCRWD under the laws of the State of Arkansas. And in the case of a default in the payment of the principal of and interest on the Series 2021 Bond, the Trustee may, and upon written request of the owner of the Series 2021 Bond, shall apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of LCRWD and the owner of the Series 2021 Bond with power to charge and collect rates sufficient to provide for the payment of the expenses of operation and maintenance and to pay the Series 2021 Bond and interest outstanding and to apply revenues in conformity with the laws of the State and with this resolution. When all payment defaults have been cured, the custody and operation of the System shall revert to LCRWD. "Event of default" is defined as (1) if LCRWD fails to pay the owner of the Series 2021 Bond when due any fee or expense incurred in connection with the issuance of the Series 2021 Bond, subject to any limitations thereon; (2) any representation, warranty, certification or statement made by LCRWD in connection with the issuance of the Series 2021 Bond shall prove to have been incorrect in any material respect when made; (3) a final unappealable judgment or order for the payment of money in excess of \$5,000,000 payable from Revenues is rendered against LCRWD and such judgment or order shall continue unsatisfied and unstayed for a period of 60 days; (4) default by LCRWD in the payment of debt service on the USDA Senior Bond R-2, the Series 2021 Bond, additional parity bonds or subordinate lien obligations when due or within any applicable grade period; (5) the occurrence of any event under any document executed in connection with additional parity bonds or subordinate lien obligations that results in or would entitle the obligee thereof or a trustee on behalf of such obligee to pursue any remedies against LCRWD.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: LONG-TERM DEBT (Continued)

LCRWD's bond agreement with First National Bank discloses that if an event of default occurs, or if the District defaults in any Bond Fund requirement or in the performance of any of the other covenants contained in the Resolution, the Trustee may, and upon the written request of the registered owners of not less than 10% in principal amount of the then outstanding Series 2023 Bonds, shall, by proper suit, compel, by mandamus or otherwise, the performance of the duties of the officials of the District under the laws of Arkansas. And in the case of a default in the payment of the principal of and interest on any of the Series 2023 Bonds, the Trustee may and upon written request of the registered owners of not less than 10% in principal amount of the then outstanding Series 2023 Bonds, shall apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of the District and the registered owners of the Series 2023 Bonds with power to charge and collect (or by mandatory injunction or otherwise to cause to be charged and collected) rates sufficient to provide for the payment of the expenses of operation, maintenance and repair and to pay any Series 2023 Bonds and interest outstanding and to apply Revenues in conformity with the laws of the State and with the Resolution. When all defaults in principal and interest payments have been cured, the custody and operation of the System shall revert to the District.

NOTE 6: BOND REQUIREMENTS

LCRWD must maintain certain requirements after receiving bonds from Regions Bank and the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The USDA issued the 5.000% 1991 Water Revenue Bond Fund in the amount of \$230,000 on June 28, 1991. LCRWD was required to deposit the sum of \$113 monthly into the Revenue Bond Fund beginning July 1993 until June 28, 2003, when a reserve goal of \$13,548 was reached.

Regions Bank issued the 2.150% 2021 Water Revenue Refunding Bonds in the amount of \$4,604,000 on October 29, 2021. LCRWD is required to deposit a sum equal to one-sixth (1/6) of the next installment of interest on the outstanding bonds plus one-twelfth (1/12) of the next installment of principal on the outstanding bonds.

First National Bank issued the 3.750% 2023 Water Revenue Refunding Bonds in the amount of \$1,195,000 on November 28, 2023. LCRWD is required to deposit a sum equal to one-sixth (1/6) of the next installment of interest on the outstanding bonds plus one-twelfth (1/12) of the next installment of principal on the outstanding bonds.

These funds with deposits in excess of the amounts insured by FDIC must be secured by bonds or other direct or fully guaranteed obligations of the United States of America.

NOTE 7: LEASES

LCRWD occasionally rents equipment for use in maintaining and repairing water system assets. All rentals are operating leases and require no minimum future rentals. In addition, radio equipment is leased on an annual basis.

NOTE 8: FAIR VALUE OF FINANCIAL INSTRUMENTS

The LCRWD has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, notes payable, etc.) none of which are held for trading purposes. The LCRWD estimates that the fair value of all financial instruments on December 31, 2023, and 2022 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The estimated fair value amounts have been determined by the LCRWD using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the LCRWD could realize in a current market exchange.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 9: STATE FUNDING

On July 28, 2023, and August 29, 2023, the Arkansas Department of Transportation reimbursed LCRWD a total of \$217,929 on a major repair project to relocate water lines on Arkansas Highways 230 and 412. The entirety of the funds was spent on the project.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 12, 2024, the date on which the financial statements were available to be issued.

Lawrence County Regional Water District
Schedule of Cash in Depositories
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue	\$ 454,795	\$ 491,044
Meter deposit	268,151	263,068
Debt service & depreciation reserve accounts	14,680	14,237
Construction fund	2,200,485	1,098,711
Bond sinking fund	65,217	59,439
Total cash in depositories	<u>\$ 3,003,328</u>	<u>\$ 1,926,499</u>
Revenue Accounts:		
First national bank	\$ 389,716	\$ 435,010
First national bank - capital improvements	59,782	50,737
Payroll clearing	5,297	5,297
Total revenue accounts	<u>454,795</u>	<u>491,044</u>
Meter Deposit Accounts:		
Regions bank	186,826	183,253
Regions bank - CD	30,001	29,072
Regions bank - renters CD	18,751	18,170
First national bank - renters deposit CD	32,573	32,573
Total meter deposit accounts	<u>268,151</u>	<u>263,068</u>
Debt Service & Depreciation Reserve Accounts:		
Regions bank (rural development)	14,680	14,237
Construction Fund:		
Regions bond construction fund	1,095,883	1,098,711
First national bank construction fund	1,104,602	-
Total construction fund accounts	<u>2,200,485</u>	<u>1,098,711</u>
Bond Sinking Fund:		
Regions bank bond sinking fund	65,217	59,439
Total cash in depositories	<u>\$ 3,003,328</u>	<u>\$ 1,926,499</u>

**Lawrence County Regional Water District
 Schedule of Insurance in Force
 December 31, 2023**

<u>Description/Policy Number</u>	<u>Expiration Date</u>	<u>Carrier</u>
\$5,000 Arkansas Hwy Dept. Bond Policy #S281696	1/31/2024	Risk Services of AR
Commercial Package including: Policy #2X81035-21 Commercial Package Property Liability Inland Marine Automobile Government Crime; Fidelity Workers' Compensation Umbrella Linebacker	1/21/2024	EMC Insurance Co.

**Lawrence County Regional Water District
 Schedule of Current Usage Information
 For the Years Ended December 31, 2023 and 2022**

Water Usage Rates effective January 1, 2023

\$23.25 First 1,000 gallons \$5.35 Per 1,000 gallons	<u>All Classes of Water Users</u> First 1,000 gallons Each additional 1,000 gallons
---	---

	<u>Number of Users and Billed Usage</u>			
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
January	3081	3027	15,385,680	12,439,820
February	3083	3027	11,984,030	11,586,120
March	3092	3021	11,471,810	9,565,800
April	3092	3021	12,276,890	10,459,400
May	3104	3024	11,544,080	11,364,120
June	3114	3045	18,750,740	15,404,570
July	3111	3045	16,981,100	22,717,170
August	3122	3050	15,107,610	16,275,880
September	3117	3057	14,029,530	13,250,910
October	3125	3057	13,138,470	13,877,790
November	3136	3064	10,837,780	22,647,920
December	3129	3082	10,955,810	10,502,270



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
Northeast Arkansas Public Water Authority of the State of 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 Lawrence County Regional Water District (LCRWD), as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise LCRWD's basic financial statements and have issued our report thereon dated July 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LCRWD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LCRWD's internal control. Accordingly, we do not express an opinion on the effectiveness of LCRWD's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a material weakness.

2023-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. LCRWD's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend that the financial accounting duties be segregated among employees to the extent possible.

Management responded and indicated that accounting duties related to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LCRWD'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 determination of financial statement amounts. 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.

LCRWD's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the LCRWD's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. LCRWD'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 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.

Thomas, Speight & Nolle, CPAs

Pocahontas, Arkansas

July 12, 2024

Lawrence County Regional Water District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Any material weakness(es) identified?

Yes No

Any significant deficiency(ies) identified?

Yes No

Any noncompliance material to financial statements noted?

Yes No

Section II - Financial Statement Findings

Finding: 2023-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: Lawrence County Regional Water District does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

Effect: Inadequate segregation of duties reduces the District's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: The District's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

Views of responsible officials and planned corrective actions: Additional employees for the purpose of improving internal controls would not be cost-beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly.