

LEE COUNTY
WATER ASSOCIATION, INC
FINANCIAL STATEMENTS (AUDITED)
OCTOBER 31, 2023 and 2022

MEYER & WARD, P.A.
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P.O. BOX 1045
WYNNE, AR 72396

LEE COUNTY WATER ASSOCIATION, INC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lee County Water Association, Inc.
Marianna, AR 72360

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Lee County Water Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of October 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee County Water Association, Inc. as of October 31, 2023 and 2022, and the changes in its net assets 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 Lee County Water Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Lee County Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 Lee County Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lee County Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2024, on our consideration of the Lee County Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County Water Association, Inc.'s internal control over financial reporting and compliance.

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August 16, 2024

LEE COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash on hand and in banks	\$ 519,810	\$ 509,870
Accounts receivable	115,883	110,837
Unbilled accounts receivable	30,857	30,768
Prepaid expenses	3,151	2,836
Total Current Assets	<u>669,701</u>	<u>654,311</u>
RESTRICTED ASSETS		
Cash in banks	258,158	255,694
Accrued interest receivable	570	96
Certificates of deposit	110,946	110,463
Total Restricted Assets	<u>369,674</u>	<u>366,253</u>
PROPERTY, PLANT & EQUIPMENT		
Land	35,943	35,943
Utility plant in service	5,614,048	5,586,942
Buildings	109,959	109,959
Office furniture	24,570	24,570
Equipment - other	619,121	619,121
Computer equipment	58,014	58,014
Transportation equipment	196,431	139,713
	<u>6,658,086</u>	<u>6,574,262</u>
Less: Accumulated Depreciation	<u>(4,011,733)</u>	<u>(3,828,694)</u>
Net Property, Plant and Equipment	<u>2,646,353</u>	<u>2,745,568</u>
OTHER ASSETS		
Deposits	<u>397</u>	<u>397</u>
TOTAL ASSETS	<u><u>\$ 3,686,125</u></u>	<u><u>\$ 3,766,529</u></u>

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

LEE COUNTY WATER ASSOCIATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 OCTOBER 31, 2023 and 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 18,101	\$ 30,829
Accounts payable	22,562	30,432
Garbage and sewer collections payable	45,143	45,054
Accrued interest	575	717
Accrued and withheld payroll liabilities	1,219	532
Total Current Liabilities	<u>87,600</u>	<u>107,564</u>
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer meter deposits	<u>135,738</u>	<u>133,684</u>
	<u>135,738</u>	<u>133,684</u>
 LONG-TERM DEBT, less current portion	 <u>310,130</u>	 <u>325,717</u>
 NET ASSETS		
Net assets, without restrictions	<u>3,152,657</u>	<u>3,199,564</u>
Total Net Assets	<u>3,152,657</u>	<u>3,199,564</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 3,686,125</u>	 <u>\$ 3,766,529</u>

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

LEE COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF ACTIVITY
OCTOBER 31, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
OPERATING REVENUES:				
Water sales	\$ 741,808		\$ 741,808	\$ 729,018
Collection fees	31,674		31,674	31,868
Penalties	7,948		7,948	10,074
Inspection fees and other income	9,066		9,066	13,681
Reclassifications and net assets released from restrictions	-	-	-	-
	<u>790,496</u>	<u>-</u>	<u>790,496</u>	<u>784,641</u>
OPERATING EXPENSES:				
Advertising	189		189	552
Bad Debts	-		-	1,654
Cost of water purchased	185,958		185,958	194,127
Depreciation	183,039		183,039	176,085
Directors fees	6,750		6,750	7,500
Dues and permits	1,487		1,487	1,200
Fuel	25,635		25,635	23,024
Insurance	30,508		30,508	25,569
Payroll taxes and fringe	41,295		41,295	41,861
Professional fees	21,650		21,650	21,650
Salaries	215,246		215,246	202,223
Miscellaneous	7,121		7,121	9,249
Office supplies and postage	21,326		21,326	18,300
Operating supplies	22,766		22,766	30,123
Repairs and maintenance	44,324		44,324	31,319
Telephone	10,260		10,260	10,072
Travel	598		598	403
Utilities	6,471		6,471	8,091
Total Operating Expenses	<u>824,623</u>	<u>-</u>	<u>824,623</u>	<u>803,002</u>
Income from Operations	<u>(34,127)</u>	<u>-</u>	<u>(34,127)</u>	<u>(18,361)</u>
OTHER INCOME AND (EXPENSES)				
Interest expense	(15,238)		(15,238)	(15,574)
Interest income	2,458		2,458	1,860
Net Other Income (and Expense)	<u>(12,780)</u>	<u>-</u>	<u>(12,780)</u>	<u>(13,714)</u>
Change in net assets	(46,907)		(46,907)	(32,075)
Net Assets at Beginning of Year	3,199,564		3,199,564	3,231,639
Net Assets at End of Year	<u>\$ 3,152,657</u>	<u>\$ -</u>	<u>\$ 3,152,657</u>	<u>\$ 3,199,564</u>

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

LEE COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
OCTOBER 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (46,907)	\$ (32,075)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	183,039	176,085
(Increase) decrease in accounts receivable	(5,046)	5,521
(Increase) decrease in unbilled accounts receivable	(89)	126
(Increase) decrease in prepaid expenses	(315)	(410)
Increase (decrease) in accounts payable	(7,870)	6,497
Increase (decrease) in other current liabilities	89	13,563
Increase (decrease) in interest payable	(142)	(82)
Increase (decrease) in accrued and withheld payroll taxes	687	(21,685)
Increase (decrease) in customer deposits	2,054	2,911
Total adjustments	172,407	182,526
Net cash provided (used) by operating activities	125,500	150,451
Cash flows from investing activities:		
Cash payments for the purchase of equipment	(83,824)	(369,413)
Transfers to restricted assets	(3,421)	(3,640)
Net cash provided (used) by investing activities	(87,245)	(373,053)
Cash flows from financing activities		
Principal payments on long-term debt	(28,315)	(38,825)
Net cash provided (used) by financing activities	(28,315)	(38,825)
Net increase (decrease) in cash and cash equivalents	9,940	(261,427)
Cash and cash equivalents, beginning of year	509,870	771,297
Cash and cash equivalents, end of year	519,810	509,870
Interest paid	\$ 15,380	\$ 15,656

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

LEE COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 and 2022

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION – Lee County Water Association, Inc. (the Association) is a non-profit corporation organized to provide water and sewer services to its members. The Association serves rural residents in Lee, Monroe, Phillips, and St. Francis counties in Eastern Arkansas.

BASIS OF ACCOUNTING – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

FINANCIAL STATEMENT PRESENTATION – The Association is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions or without donor restrictions.

ACCOUNTS RECEIVABLE – Accounts Receivable is presented at estimated net realizable value. The specific charge – off method is used to record bad debt expense. No material difference results from use of the specific charge off method instead of allowance method as required by generally accepted accounting principles. Accounts receivable results from water and sewer services provided to consumers. Accounts receivable is collateralized by customer deposits.

PROPERTY AND EQUIPMENT – Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized while minor replacements, maintenance, and repairs, which do not improve or extend the life of such assets, are charged to operations as incurred. Depreciation is provided by the straight - line method over the estimated useful lives of the assets. The estimated useful lives range are 5 – 7 years for office furniture, computer equipment and transportation equipment, 10 to 20 years for buildings and improvements, and 30 to 50 years for the water plant.

CASH AND CASH EQUIVALENTS –The Association considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

SALES TAX – The Association is subject to sales tax on their water sales. Revenues are presented net of sales taxes.

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

RISK MANAGEMENT – The Association minimizes risks through purchase of commercial insurance.

INCOME TAXES – The Association is exempt from federal income taxes under Section 501 (c) 12 of the Internal Revenue Service Code and did not conduct any business activities inconsistent with that exemption.

CONTRIBUTIONS – Contributions are classified as with donor restrictions or without donor restrictions.

Contributions of long-lived assets are recorded at fair value.

LEE COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 and 2022

NOTE B – ACCUMULATED DEPRECIATION:

The following is a summary of accumulated depreciation by class of assets:

	2023	2022
Utility plant in service	\$ 3,244,435	\$ 3,110,207
Building	109,525	109,525
Furniture and equipment	466,552	422,749
Computer equipment	57,789	57,789
Transportation equipment	133,432	128,424
	\$ 4,011,733	\$ 3,828,694

NOTE C – RESTRICTED ASSETS:

Restricted funds consist of the following amounts:

	2023	2022
Cash:		
Customer's deposit reserve	\$ 93,129	\$ 90,916
Construction	13,422	13,398
Debt Service	151,607	151,380
	\$ 258,158	\$ 255,694
Certificates of Deposit:		
Debt Service Reserve	\$ 50,425	\$ 50,212
Meter Deposits	55,492	55,240
Depreciation	5,029	5,011
	\$ 110,946	\$ 110,463

The customer's deposit reserve is established to cover the Association's liability for customer deposits, of \$ 135,738 at October 31, 2023 and \$ 133,684 at October 31, 2022.

NOTE C – RESTRICTED ASSETS (CONT'D):

The Association is required to maintain depreciation and debt service reserves pursuant to terms of USDA loan agreements.

On October 31, 2023, the Association was required to have debt service reserves of \$ 36,132. On October 31, 2023 the Association was in compliance with USDA reserve requirements.

On October 31, 2022, the Association was required to have debt service reserves of \$ 56,076. On October 31, 2022 the Association was in compliance with USDA reserve requirements.

LEE COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 and 2022

NOTE D – LONG –TERM DEBT:

Notes Payable at October 31, consists of the following:

	2023	2022
6 % Note Payable to USDA, due in monthly installments of \$ 1,662 through 2023, secured by pledge of future revenues	\$ -	\$ 7,457
4.50% Note Payable to USDA due in monthly installments of \$ 2,398 through 2038, secured by pledge of future revenues	311,858	326,248
4.5 % Note Payable to USDA, due in monthly installments of \$ 99 through 2040, secured by pledge of future revenues	13,856	14,407
4.375% Note Payable to USDA, due in monthly installments of \$ 514 through 2024, secured by pledge of future revenues	2,517	8,434
Less current maturities	(18,101)	(30,829)
Long-term debt, net of current maturities	\$ 310,130	\$ 325,717

A schedule of the future payments required is as follows:

For years ending October 31,	Principal	Interest	Total
2024	\$ 18,101	\$ 14,386	\$ 32,487
2025	16,340	13,624	29,964
2026	17,091	12,873	29,964
2027	17,876	12,088	29,964
2028	18,665	11,299	29,964
Thereafter	240,158	58,404	298,562
	\$ 328,231	\$ 122,674	\$ 450,905

LEE COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 and 2022

NOTE E – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Association’s investment policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation Insurance. The Association’s deposits are categorized to give an indication of the level of risk assumed by the entity on October 31, 2023. The categories are described as follows:

Category 1 – Insured or collateralized by the entity or by its agent in the entity’s name.

Category 2 – Collateralized with securities held by the pledging institution’s trust department or by its agent in the Association’s name.

Category 3 – Uncollateralized.

On October 31, 2023 Cash deposits categorized by level of risk are:

	Category		
	1	2	3
Carrying Amount			
<u>\$ 888,914</u>	<u>\$ 285,724</u>	<u>\$ 603,190</u>	<u>\$ -</u>

On October 31, 2022, cash deposits categorized by level of risk:

	Category		
	1	2	3
Carrying amount			
<u>\$ 876,027</u>	<u>\$ 295,039</u>	<u>\$ 580,988</u>	<u>\$ -</u>

NOTE F – NUMBER OF CUSTOMERS

Active customers at year-end October 31, 2023 were 1551, and October 31, 2022 was 1571.

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report. No events were noted as requiring disclosure.

LEE COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 and 2022

NOTE H – RETIREMENT PLAN

The Association maintains a Simple-IRA plan for the benefit of employees who have more than one year of service. Total retirement expense for the years ending October 31, 2023 and 2022 were \$ 2,493 and \$ 2,311.

NOTE I- LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures. The Organization's financial assets available within one year of the balance sheet date for general expenditures are:

Cash	\$	519,810
Accounts Receivable		115,883
Unbilled Accounts Receivable		<u>30,857</u>
	\$	<u>666,550</u>

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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
Lee County Water Association, Inc.
Marianna, AR 72360

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lee County Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of October 31, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 16, 2024.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See finding #23-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lee County Water Association Inc.'s - Response to Findings

Lee County Water Association Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. This response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

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Certified Public Accountants
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August 16, 2024

LEE COUNTY WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS
OCTOBER 31, 2023

#23-01 Segregation of Duties

CONDITION: Lee County Water Association, Inc. 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 transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

EFFECT: Inadequate segregation of duties reduces Lee County Water Association, Inc.'s internal control over financial reporting, processing of transactions, and safeguarding of assets. Potential effects of inadequate segregation of duties are errors and fraudulent activity occurring without detection.

RECOMMENDATION: Lee County Water Association, Inc.'s board of directors and management should continue to review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees.

RESPONSE: The Board and Management will review existing job descriptions and segregate responsibilities to the extent practical given the number of employees.