

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE
STATE OF ARKANSAS**

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

December 31, 2023 and 2022

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-8
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-27
Required Supplementary Information	
Schedule of Authority's Proportionate Share of the Net Pension Liability	28
Schedule of Authority Contributions	29
Supplementary Information	
Schedules of Users and Consumption	30-31
Schedules of Insurance Coverage	32
Schedules of Water Rates	33-34
Schedules of Board of Directors	35-36
Other Required Reports	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	37-38



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fulton County Water Authority, Inc.
Public Water Authority of the State of Arkansas
Salem, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Fulton County Water Authority, Inc., as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Fulton County Water Authority, Inc.'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 Fulton County Water Authority, Inc., as of December 31, 2023 and 2022, and the changes in its 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 Fulton County Water Authority, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Fulton County Water Authority, Inc.'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.

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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 Fulton County Water Authority, 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 Fulton County Water Authority, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, Schedule of Authority's Proportionate Share of the Net Pension Liability on page 28, and Schedule of the Authority's Contributions on page 29 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 30 - 36. Our opinion on the basic financial statements do not cover the supplementary information, 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 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 July 12, 2024, on our consideration of Fulton County Water Authority, 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 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 Fulton County Water Authority, Inc.'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 Fulton County Water Authority, Inc.'s internal control over financial reporting and compliance.

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

Batesville, Arkansas
July 12, 2024

**Fulton County Water Authority, Inc.
Public Water Authority of the State of Arkansas**

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**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Management's Discussion and Analysis

Our discussion and analysis of Fulton County Water Authority, Inc. Public Water Authority of the State of Arkansas' financial performance provides an overview of the Authority's financial activities for the fiscal years ended December 31, 2023 and 2022. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

Financial Highlights

- The Authority's net position decreased by \$(254,625) from \$5,003,874 in 2022 to \$4,749,249 in 2023 as a result of this year's operations. The Authority's net position decreased by \$(137,964) from \$5,141,838 in 2021 to \$5,003,874 in 2022 as a result of the prior year's operations.
- The Authority had an operating (loss) of \$(187,346) and \$(65,976) in 2023 and 2022, respectively.
- Cash and cash equivalents decreased by \$(97,094) and increased by \$265,207 for the years ended December 31, 2023 and 2022, respectively.
- The Authority did not borrow any funds in 2023 or 2022. The Authority made principal debt payments of \$78,799 and \$75,487 in 2023 and 2022, respectively.

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 it. You can think of the Authority's net position – the difference between assets and deferred outflows of resources minus liabilities and deferred inflows of resources – 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 Financial Statements

The notes to 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 and deferred outflows of resources minus liabilities and deferred inflows of resources reported in the statements of net position on page 9. The Authority's net position decreased during fiscal year 2023 by \$(254,625) or (5.1)%.

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

Table 1			
Assets, Liabilities and Net Position			
	December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total current assets	\$ 575,599	\$ 689,209	\$ 441,149
Noncurrent assets	330,510	313,877	300,682
Capital assets - net	6,237,161	6,430,918	6,678,253
Right-of-use asset	19,163	22,226	-
Deferred outflows of resources	<u>42,927</u>	<u>64,205</u>	<u>62,371</u>
Total assets	<u>\$ 7,205,360</u>	<u>\$ 7,520,435</u>	<u>\$ 7,482,455</u>
Current liabilities	\$ 111,515	\$ 98,527	\$ 88,848
Other liabilities	208,685	198,878	95,061
Long-term debt	<u>1,934,638</u>	<u>2,016,869</u>	<u>2,095,682</u>
Total liabilities	<u>2,254,838</u>	<u>2,314,274</u>	<u>2,279,591</u>
Deferred inflow of resources	<u>201,273</u>	<u>202,287</u>	<u>61,026</u>
Net position			
Net investment in capital assets	4,220,250	4,335,208	4,507,056
Restricted expendable:			
Debt service	263,234	249,328	236,509
Unrestricted	<u>265,765</u>	<u>419,338</u>	<u>398,273</u>
Total net position	<u>4,749,249</u>	<u>5,003,874</u>	<u>5,141,838</u>
Total liabilities and net position	<u>\$ 7,205,360</u>	<u>\$ 7,520,435</u>	<u>\$ 7,482,455</u>

Operating Results and Changes in the Authority's Net Position

In 2023, the Authority's net position decreased by \$(254,625) or (5.1)%. This decrease is made up of very different components, as shown in table 2 which follows:

Table 2			
Revenues, Expenses, and Changes in Net Position			
	Years Ended December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues			
Water sales, net	\$ 572,262	\$ 514,428	\$ 491,241
Other fees	49,545	56,347	34,063
Total operating revenues	<u>621,807</u>	<u>570,775</u>	<u>525,304</u>
Operating expenses			
Salaries and wages	103,180	94,213	89,195
Employee benefits	56,173	43,446	29,495
Utilities	53,853	56,543	52,178
Contract labor	45,629	53,018	23,490
Travel and reimbursement expense	-	123	200
Taxes and fees	7,274	7,669	8,749
Water supplies	4,727	4,490	6,180
Professional fees	16,946	16,279	16,042
Repairs and maintenance	226,525	70,371	30,425
Transportation expense	9,674	9,427	9,333
Billing fees	2,043	1,222	916
Telephone	877	720	720
Insurance expense	18,452	17,391	15,409
Postage	7,844	5,536	4,956
Office supplies	3,537	2,395	3,416
Rent expense	4,304	4,292	-
Advertising	-	61	-
Miscellaneous	1,683	1,810	607
Depreciation expense	246,432	247,745	247,454
Total operating expenses	<u>809,153</u>	<u>636,751</u>	<u>538,765</u>
Operating (loss)	(187,346)	(65,976)	(13,461)
Nonoperating revenues (expenses)	<u>(67,279)</u>	<u>(71,988)</u>	<u>(84,587)</u>
(Decrease) in net position	(254,625)	(137,964)	(98,048)
Net position - beginning of year	<u>5,003,874</u>	<u>5,141,838</u>	<u>5,239,886</u>
Net position - end of year	<u>\$ 4,749,249</u>	<u>\$ 5,003,874</u>	<u>\$ 5,141,838</u>

Operating Revenues and Expenses

The Authority's total operating revenues increased by 8.9% from \$570,775 in 2022 to \$621,807 in 2023. Total operating revenues increased by 8.7% from \$525,304 in 2021 to \$570,775 in 2022.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses primarily consist of interest expense on long-term debt. Interest expense was \$80,572 and \$83,380 in 2023 and 2022, respectively.

The Authority's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At December 31, 2023 and 2022, the Authority had \$6,237,161 and \$6,430,918, respectively; invested in a broad range of capital assets (net of accumulated depreciation) including buildings, water tanks and lines, and equipment. The Authority's capital asset acquisition and construction totaled \$52,675 in 2023, as compared to \$410 in 2022.

Debt

At December 31, 2023, the Authority had \$2,016,911 in debt outstanding versus \$2,095,710 at December 31, 2022.

	December 31,	
	<u>2023</u>	<u>2022</u>
Debt		
Current	\$ 82,273	\$ 78,841
Long-term	<u>1,934,638</u>	<u>2,016,869</u>
Total	<u>\$ 2,016,911</u>	<u>\$ 2,095,710</u>

Contacting the Authority's Financial Management

This financial report is designed to provide our 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 Fulton County Water Authority, Inc., P.O. Box 486, Salem, Arkansas, 72576.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Statements of Net Position

December 31, 2023 and 2022

Assets and Deferred Outflows of Resources

	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents - Notes 1 and 6	\$ 514,720	\$ 628,447
Accounts receivable, net of uncollectible accounts - Note 2	57,876	57,774
Prepaid expenses	3,003	2,988
Total current assets	575,599	689,209
Noncurrent assets - Notes 3 and 6		
Cash and savings	170,284	155,306
Certificates of deposit	160,226	158,571
Total noncurrent assets	330,510	313,877
Capital assets , net of accumulated depreciation - Note 4	6,237,161	6,430,918
Right-of-use assets - Note 9	19,163	22,226
Deferred outflows of resources - Note 7	42,927	64,205
Total assets and deferred outflows of resources	\$ 7,205,360	\$ 7,520,435

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities		
Accounts payable	\$ 19,296	\$ 10,480
Accrued expenses	3,140	2,659
Accrued interest payable	3,484	3,484
Current portion of lease liability - Note 9	3,322	3,063
Current portion of long-term debt - Note 5	82,273	78,841
Total current liabilities	111,515	98,527
Other liabilities		
Customer deposits - Note 5	65,350	64,050
Net pension obligation - Note 7	127,494	115,665
Lease liability, net of current portion - Note 9	15,841	19,163
Total other liabilities	208,685	198,878
Long-term debt , net of current portion - Note 5	1,934,638	2,016,869
Total liabilities	2,254,838	2,314,274
Deferred inflows of resources		
Deferred revenue - Note 8	200,000	200,000
Deferred pension inflows - Note 7	1,273	2,287
Total deferred inflows of resources	201,273	202,287
Net position		
Net investment in capital assets	4,220,250	4,335,208
Restricted expendable:		
Debt service	263,234	249,328
Unrestricted	265,765	419,338
Total net position	4,749,249	5,003,874
Total liabilities, deferred inflow of resources and net position	\$ 7,205,360	\$ 7,520,435

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

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Water sales (net of provision of bad debts of \$-0- in 2023 and \$18,119 in 2022)	\$ 572,262	\$ 514,428
Other fees	49,545	56,347
Total operating revenues	<u>621,807</u>	<u>570,775</u>
Operating expenses		
Salaries and wages	103,180	94,213
Employee benefits	56,173	43,446
Utilities	53,853	56,543
Contract labor	45,629	53,018
Travel and reimbursement expense	-	123
Taxes and fees	7,274	7,669
Water supplies	4,727	4,490
Professional fees	16,946	16,279
Repairs and maintenance	226,525	70,371
Transportation expense	9,674	9,427
Billing fees	2,043	1,222
Telephone	877	720
Insurance expense	18,452	17,391
Postage	7,844	5,536
Office supplies	3,537	2,395
Rent expense - Note 9	4,304	4,292
Advertising	-	61
Miscellaneous	1,683	1,810
Depreciation expense	246,432	247,745
Total operating expenses	<u>809,153</u>	<u>636,751</u>
Operating (loss)	<u>(187,346)</u>	<u>(65,976)</u>
Nonoperating revenues (expenses)		
Interest income	6,101	2,431
Insurance proceeds	2,506	5,748
Sublease income - Note 9	3,186	3,213
Grant income	1,500	-
Interest expense	(80,572)	(83,380)
Total nonoperating revenues (expenses)	<u>(67,279)</u>	<u>(71,988)</u>
Decrease in net position	(254,625)	(137,964)
Net position - beginning of year	<u>5,003,874</u>	<u>5,141,838</u>
Net position - end of year	<u>\$ 4,749,249</u>	<u>\$ 5,003,874</u>

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

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Receipts from customers	\$ 621,705	\$ 573,939
Payments to suppliers	(394,567)	(247,030)
Payments to employees	(126,779)	(115,675)
Other receipts (payments)	1,300	2,400
Net cash provided by operating activities	<u>101,659</u>	<u>213,634</u>
Cash flows from capital and related financing activities:		
Grant proceeds	1,500	200,000
Acquisition and construction of capital assets	(52,675)	(410)
Insurance proceeds received	2,506	5,748
Principal payments on long-term debt	(78,799)	(75,487)
Interest paid on long-term debt	(80,572)	(83,922)
Net cash (used in) provided by capital and related financing activities	<u>(208,040)</u>	<u>45,929</u>
Cash flows from investing activities:		
Interest income	6,101	2,431
Sublease income	3,186	3,213
Net cash provided by investing activities	<u>9,287</u>	<u>5,644</u>
Net (decrease) increase in cash and cash equivalents	(97,094)	265,207
Cash and cash equivalents - beginning of year	<u>942,324</u>	<u>677,117</u>
Cash and cash equivalents - end of year	<u>\$ 845,230</u>	<u>\$ 942,324</u>
Reconciliation of cash to the statements of net position		
Cash in current assets	\$ 514,720	\$ 628,447
Cash in noncurrent assets	330,510	313,877
Total cash	<u>\$ 845,230</u>	<u>\$ 942,324</u>
Supplemental disclosure		
Interest paid	<u>\$ 80,572</u>	<u>\$ 83,922</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Statements of Cash Flows (Cont.)

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (187,346)	\$ (65,976)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	246,432	247,745
Net changes in:		
Accounts receivable	(102)	3,164
Prepaid insurance	(15)	788
Deferred outflows	21,278	(1,834)
Accounts payable	8,816	3,529
Accrued expenses	481	303
Customer deposits	1,300	2,400
Deferred inflows from pension	(1,014)	(58,739)
Pension liability	11,829	82,254
	<u>11,829</u>	<u>82,254</u>
Net cash provided by operating activities	\$ 101,659	\$ 213,634

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

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

Fulton County Water Authority, Inc. Public Water Authority of the State of Arkansas was incorporated as a water authority on October 24, 2008, by the Arkansas Secretary of State to construct, operate and maintain a rural water system. Prior to October 24, 2008, the Authority was incorporated as a nonprofit corporation under the name of Fulton County Water Association.

The Authority supplies fresh water to approximately 1,027 active customers in the Fulton County, Arkansas area.

Measurement Focus and Basis of Accounting

The Authority utilizes enterprise fund accounting through which revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows.

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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include bank checking, savings accounts, and certificate of deposits with original maturity of three months or less.

Accounts Receivable

Water revenue is recorded based upon customer billings and no provision has been made for the accrual of revenue from water used but not billed. The collectability of the Authority's receivables is dependent upon the customer's ability to honor their obligations. However, each customer has a deposit with the Authority which is held as security for up to the amount of the deposit for their unpaid balance. Accounts receivable is shown net of an allowance for uncollectible accounts. The allowance is based off of allowing for a 100% of accounts over 60 days past due. The allowance for doubtful accounts totaled \$55,786 and \$55,786 at December 31, 2023 and 2022, respectively. The Authority had bad debt expense totaling \$-0- for the year ended December 31, 2023, and \$18,119 for the year ended December 31, 2022.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

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

Capital Assets

Capital assets costing more than \$1,000 and that have useful lives of more than one year are stated 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 five to fifty 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 against earnings when incurred.

Noncurrent Assets

Restricted assets include amounts restricted for customer deposits, debt service reserve, and depreciation reserve.

Accounts Payable

Accounts payable consist of various trade accounts which are generally payable within thirty (30) days.

Accrued Interest Payable

Accrued Interest payable represents interest due to the United States Department of Agriculture on bonds and notes payable.

Accrued Expenses

Accrued expenses consist primarily of accrued payroll tax and sales tax.

Customer Deposits

Customer deposits are liabilities payable to the water customers as a requirement to obtain services.

Long-Term Debt

At December 31, 2023 and 2022, long-term debt consisted of principal amounts due to the United States Department of Agriculture. See note 5 for further details.

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

Leases

Right-of-Use Asset (ROU) – this asset is recognized at the lease commencement date and represents the Authority's right to use an underlying asset for the lease term. ROU assets are measured at the initial value of the lease liability. Amortization of the ROU asset is recorded on a straight-line basis over the shorter of the useful life or the lease term.

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Notes to Financial Statements

December 31, 2023 and 2022

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

Leases (Cont.)

Lease Liability – this represents the Authority's obligation to make lease payments arising from leases other than short-term leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments is discounted based on a borrowing rate determined by the Authority. Short-term leases, those with a maximum period of 12 months, are expensed as incurred.

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.

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 Net Position:

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, or 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 do 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 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.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

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 result from exchange transactions associated with providing water utility services. Operating expenses are all expenses incurred to provide water utility services, other than financing costs.

Advertising Costs

The Authority expenses all advertising and promotional costs as incurred. Advertising expense for the years ending December 31, 2023 and 2022 were \$-0- and \$61, respectively.

New Accounting Pronouncements

The GASB had issued the following statement which was adopted by the Authority in 2022:

- GASB Statement No. 87, *Leases*, this statement's objective is to align the accounting and financial reporting of lease transactions more closely with their economic substance. The statement is based on the underlying principle that leases are financings of the right to use an underlying asset for a period of time. It eliminated the current distinction between operating and capital leases by treating all leases as financings. The implementation of this statement was the recognition of the operating lease right-of-use asset and the liability for operating leases.

Note 2 – Accounts Receivable

The Authority grants credit to its customers for water sales. The collectability of the Authority's accounts receivable is dependent upon the customers' ability to honor their obligations for their water bill. However, the Authority holds a security deposit for up to \$50 of their unpaid account balance.

	<u>2023</u>	<u>2022</u>
Trade accounts receivable	\$ 113,662	\$ 113,560
Less: Allowance for uncollectible accounts	<u>(55,786)</u>	<u>(55,786)</u>
Net accounts receivable	<u>\$ 57,876</u>	<u>\$ 57,774</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Notes to Financial Statements
December 31, 2023 and 2022**

Note 3 – Noncurrent Assets

Restricted funds are established in accordance with long-term debt requirements of the USDA Rural Development. The Authority also maintains separate accounts for customer deposits and funds that were required to be collected in advance of undertaking its expansion projects.

The balances in the restricted accounts at December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Cash and savings accounts		
Phase III connection fees	\$ 33,573	\$ 33,406
Regular customers	29,987	27,408
Phase V Construction	12,289	12,140
Phase IV short lived asset reserve	94,435	82,351
Total cash and savings accounts	<u>170,284</u>	<u>155,305</u>
Certificates of deposit		
Regular customer CD	25,000	25,000
Phase I reserve CD	56,370	55,532
Phase III reserve CD	45,656	45,431
Phase IV reserve CD	33,200	32,609
Total certificates of deposit	<u>160,226</u>	<u>158,572</u>
Total restricted cash and cash equivalents	<u>\$ 330,510</u>	<u>\$ 313,877</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Notes to Financial Statements
December 31, 2023 and 2022**

Note 4 – Capital Assets and Depreciation

Capital asset additions, retirements and balances for the years ended December 31, 2023 and 2022 were as follows:

	<u>Balance 12/31/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	<u>Balance 12/31/2023</u>
Capital assets not being depreciated:					
Land	\$ 13,652	\$ -	\$ -	\$ -	\$ 13,652
Construction in progress	9,755	-	-	-	9,755
Total capital assets not being depreciated	<u>23,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,407</u>
Capital assets being depreciated:					
Buildings	17,126	-	-	-	17,126
Wells, tanks and lines	10,053,680	-	-	-	10,053,680
Office equipment	530	-	-	-	530
Tools and equipment	120,459	-	-	-	120,459
Transportation equipment	32,507	52,675	-	-	85,182
Total capital assets being depreciated	<u>10,224,302</u>	<u>52,675</u>	<u>-</u>	<u>-</u>	<u>10,276,977</u>
Less: accumulated depreciation for:					
Buildings	(6,513)	(428)	-	-	(6,941)
Wells, tanks and lines	(3,674,738)	(241,387)	-	-	(3,916,125)
Office equipment	(530)	-	-	-	(530)
Tools and equipment	(102,504)	(3,739)	-	-	(106,243)
Transportation equipment	(32,506)	(878)	-	-	(33,384)
Total accumulated depreciation	<u>(3,816,791)</u>	<u>(246,432)</u>	<u>-</u>	<u>-</u>	<u>(4,063,223)</u>
Total capital assets being depreciated, net	<u>6,407,511</u>	<u>(193,757)</u>	<u>-</u>	<u>-</u>	<u>6,213,754</u>
Capital assets, net	<u>\$ 6,430,918</u>	<u>\$ (193,757)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,237,161</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 4 – Capital Assets and Depreciation (Cont.)

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	<u>Balance 12/31/2022</u>
Capital assets not being depreciated:					
Land	\$ 13,652	\$ -	\$ -	\$ -	\$ 13,652
Construction in progress	9,345	410	-	-	9,755
Total capital assets not being depreciated	<u>22,997</u>	<u>410</u>	<u>-</u>	<u>-</u>	<u>23,407</u>
Capital assets being depreciated:					
Buildings	17,126	-	-	-	17,126
Wells, tanks and lines	10,053,680	-	-	-	10,053,680
Office equipment	530	-	-	-	530
Tools and equipment	120,459	-	-	-	120,459
Transportation equipment	32,507	-	-	-	32,507
Total capital assets being depreciated	<u>10,224,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,224,302</u>
Less: accumulated depreciation for:					
Buildings	(6,083)	(430)	-	-	(6,513)
Wells, tanks and lines	(3,431,162)	(243,576)	-	-	(3,674,738)
Office equipment	(530)	-	-	-	(530)
Tools and equipment	(98,765)	(3,739)	-	-	(102,504)
Transportation equipment	(32,506)	-	-	-	(32,506)
Total accumulated depreciation	<u>(3,569,046)</u>	<u>(247,745)</u>	<u>-</u>	<u>-</u>	<u>(3,816,791)</u>
Total capital assets being depreciated, net	<u>6,655,256</u>	<u>(247,745)</u>	<u>-</u>	<u>-</u>	<u>6,407,511</u>
Capital assets, net	<u>\$ 6,678,253</u>	<u>\$ (247,335)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,430,918</u>

Note 5 – Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Authority's noncurrent liabilities for December 31, 2023 and 2022 follows:

<u>Long-Term Debt</u>	<u>Balance at 12/31/22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/23</u>	<u>Amount Due Within One Year</u>
(A) USDA - 91-03	\$ 416,904	\$ -	\$ (33,154)	\$ 383,750	\$ 34,800
(B) USDA - 91-04	359,946	-	(15,707)	344,239	16,429
(C) USDA - 91-10	522,064	-	(12,957)	509,107	13,500
(D) USDA - 91-08	111,435	-	(2,763)	108,672	2,879
(E) USDA - 91-12	41,098	-	(964)	40,134	994
(F) USDA - 91-14	644,263	-	(13,254)	631,009	13,671
Total long-term debt	<u>\$ 2,095,710</u>	<u>\$ -</u>	<u>\$ (78,799)</u>	<u>\$ 2,016,911</u>	<u>\$ 82,273</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

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

<u>Long-Term Debt</u>	<u>Balance at 12/31/21</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/22</u>	<u>Amount Due Within One Year</u>
(A) USDA - 91-03	\$ 448,448	\$ -	\$ (31,544)	\$ 416,904	\$ 33,151
(B) USDA - 91-04	374,968	-	(15,022)	359,946	15,707
(C) USDA - 91-10	534,501	-	(12,437)	522,064	12,955
(D) USDA - 91-08	114,087	-	(2,652)	111,435	2,763
(E) USDA - 91-12	42,034	-	(936)	41,098	964
(F) USDA - 91-14	657,159	-	(12,896)	644,263	13,301
Total long-term debt	<u>\$ 2,171,197</u>	<u>\$ -</u>	<u>\$ (75,487)</u>	<u>\$ 2,095,710</u>	<u>\$ 78,841</u>

The terms and due dates of the Authority's long-term debt at December 31, 2023 and 2022 follows:

- (A) **U.S. Department of Agriculture**, original balance \$899,809, monthly payments of \$4,437, including interest at 5%, secured by property and equipment, maturing August 2040.
- (B) **U.S. Department of Agriculture**, original balance \$573,400, monthly payments of \$2,632, including interest at 4.5%, secured by property and equipment, maturing June 2037.
- (C) **U.S. Department of Agriculture**, original balance \$656,000, annual interest only due February 15, 2008, and February 15, 2009, monthly payments of principal and interest of \$2,854 beginning March 15, 2009, including interest at 4.125%, secured by property and equipment, maturing February 2047.
- (D) **U.S. Department of Agriculture**, original balance \$140,000, annual interest only payments due February 15, 2008, and February 15, 2009, monthly payments of principal and interest of \$7,308 beginning March 15, 2009, including interest at 4.125%, secured by property and equipment, maturing February 2047.
- (E) **U.S. Department of Agriculture**, original balance \$50,000, monthly payments of principal and interest of \$182 beginning December 15, 2011, including interest at 3%, secured by property and equipment, maturing December 2050.
- (F) **U.S. Department of Agriculture**, original balance \$725,000, monthly payments of principal and interest of \$2,587 beginning April 14, 2016, including interest at 2.75%, secured by property and equipment, maturing January 2053.

The Authority is required to have \$159,372 in debt service reserve and \$93,664 in short-lived asset reserve as of December 31, 2023.

The Authority has \$263,234 and \$249,329 in cash and cash equivalents at December 31, 2023 and 2022, respectively, that are set aside to meet these reserve requirements. All debt reserve requirements were met as of December 31, 2023 and 2022.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

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

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

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	82,273	77,099	159,372
2025	85,967	73,405	159,372
2026	89,760	69,612	159,372
2027	93,738	65,634	159,372
2028	97,898	61,474	159,372
2029 - 2033	501,960	239,316	741,276
2034 - 2038	378,178	152,832	531,010
2039 - 4043	282,603	90,117	372,720
2044 - 2048	254,384	38,069	292,453
2049 - 2053	147,327	10,507	157,834
2054 - 2055	2,822	2	2,824
Total	\$ 2,016,910	\$ 878,067	\$ 2,894,977

Note 6 – Significant Concentration of Credit Risk

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region.

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 of 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 a risk that in the event of a bank failure, the Authority'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 December 31, 2023, the Authority's carrying amount of deposits was \$845,230. The bank balance was \$848,286. This balance was covered by FDIC insurance of \$536,690 and pledged collateral of \$311,596. At December 31, 2022, the Authority's carrying amount of deposits was \$942,324. The bank balance was \$942,757. This balance was covered by FDIC insurance of \$534,734 and pledged collateral of \$408,023.

Interest rate risk – the Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – the Authority does not have a formal policy that limits exposure to credit risk.

Concentration of credit risk – the Authority places no limit on the amount it may invest in any one issuer.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 6 – Significant Concentration of Credit Risk (Cont.)

The carrying amounts of deposits are included in the Authority's balance sheets as follows:

	<u>2023</u>	<u>2022</u>
Deposits	\$ 845,230	\$ 942,324
Total	\$ 845,230	\$ 942,324
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 514,720	\$ 628,447
Noncurrent assets	330,510	313,877
Total	\$ 845,230	\$ 942,324

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest income	\$ 6,101	\$ 2,431

Note 7 – Retirement Plan - APERS

The Water Authority contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing, multiple-employer, defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this system. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Secretary of the Department of Finance and Administration, two members who retired from the system appointed by the President Pro Tempore of the Senate, and two members who retired from the system appointed by the Speaker of the House of Representatives.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 7 – Retirement Plan – APERS (Cont.)

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 36 months average compensation (60 months for members hired on or after July 1, 2022), times the member's years of service.

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of actual service,
- at any age with 28 years credited service,
- at age 55 with 35 years of credited service for sheriff and public safety members.

Members are eligible for reduced benefits at any age with at least 25 years but less than 28 years of actual service or at age 55 with five years of actual service.

The plan also provides for disability and survivor benefits. A cost-of-living adjustment of 3% of the current benefit is added each year. For members hired on or after July 1, 2022, the cost-of-living adjustment is the lesser of 3% or the percentage change in the Consumer Price Index for Urban Wage Earnings and Clerical Workers (CPI-W).

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005, are not required to make contributions to APERS. Members who began service on or after July 1, 2005, are required to contribute 5% of their salary. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches the maximum 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.08% of compensation for the fiscal year ended June 30, 2023. In some cases, an additional contribution is required for elected officials.

The Authority's contributions to APERS for the years ending December 31, 2023 and 2022, was \$16,089 and \$14,479, respectively, equal to the required contribution for the year.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 7 – Retirement Plan – APERS (Cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Pension Inflows

At December 31, 2023 and 2022, the Authority reported a liability of \$127,494 and \$115,665, respectively, for its proportionate share of the net pension liability.

The collective net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. As of June 30, 2023 and 2022, the Authority's proportion was 0.0044% and 0.0043%, respectively.

For the years ended December 31, 2023 and 2022, the Authority recognized pension expense of \$48,182 and \$36,160, respectively. At December 31, 2023 and 2022, the Authority's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Difference between expected and actual experience	\$ 7,197	\$ 2,776	\$ (700)	\$ (1,396)
Net difference between projected and actual investment earnings on pension plan investments	15,869	24,400	-	-
Changes of assumptions	5,994	-	-	-
Changes in proportion and differences between employer contributions and share of contributions	5,317	29,328	(573)	(891)
Contribution subsequent to the measurement date	8,550	7,701	-	-
Total	\$ 42,927	\$ 64,205	\$ (1,273)	\$ (2,287)

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Notes to Financial Statements
December 31, 2023 and 2022**

Note 7 – Retirement Plan – APERS (Cont.)

\$8,550 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Amount</u>
2024	\$ 10,933
2025	3,567
2026	19,673
2027	<u>(1,069)</u>
Total	<u>\$ 33,104</u>

Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return*	7.15%
Salary Increases	3.25% – 9.85%
Wage Inflation Rate	3.25%
Discount Rate	7.00%
Mortality Rate Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

* Net of investment and administrative expenses

All other actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2022, and were applied to all prior periods included in the measurement.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 7 – Retirement Plan – APERS (Cont.)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2023 – 2032 were based upon capital market assumptions provided by the plan’s investment consultant. For each major asset class included in the plan’s current asset allocation as of June 30, 2023, these best estimates are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.19%
International equity	24%	6.77%
Real assets	16%	3.34%
Absolute return	5%	3.36%
Domestic fixed	<u>18%</u>	<u>1.79%</u>
Total	<u><u>100%</u></u>	

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the participating employers’ net pension liability, calculated using the current discount rate, as well as what the participating employers’ net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

	<u>1% Lower 6.00%</u>	<u>Discount Rate 7.00%</u>	<u>1% Higher 8.00%</u>
Net pension liability	<u>\$ 203,216</u>	<u>\$ 127,494</u>	<u>\$ 65,108</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Notes to Financial Statements

December 31, 2023 and 2022

Note 8 – Deferred Revenue

Advances from grants received prior to year-end for which the related expenses have not been incurred are recorded as deferred revenue. At December 31, 2023, the Authority had deferred revenue of \$200,000 for the American Rescue Plan Act (ARPA) for Phase V construction grant.

Note 9 – Leases

The Authority has entered into a building lease agreement under a non-cancelable lease for 60 months for \$350 per month that commenced on May 1, 2019 and ends on April 30, 2024. The Authority has the option to renew the lease for an additional 60 months. The Authority has recognized a right-to-use asset for \$19,163 at December 31, 2023.

The future minimum lease payments under this lease agreement including the renewal are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 3,322	\$ 980	\$ 4,302
2025	3,384	816	4,200
2026	3,557	643	4,200
2027	3,739	461	4,200
2028	3,931	269	4,200
2029	1,230	22	1,252
Total	<u>\$ 19,163</u>	<u>\$ 3,191</u>	<u>\$ 22,354</u>

The Authority has entered into a sublease for 50% of the building under a non-cancelable lease for 60 months for a monthly rate of \$175 plus 50% of charges for water, sewer, electricity, and gas that commenced on May 1, 2019 and ends on April 30, 2024. The lessee has the option to renew the lease for an additional 60 months. Sublease income (including utilities reimbursement) was \$3,186 and \$3,213 in the years ending December 31, 2023 and 2022, respectively.

Note 10 – Compensated Absences

It is the Authority's policy to accumulate earned but unused vacation benefits. Because the number of Authority employees is small, management does not expect the accrued vacation to be material and, therefore, it is not recorded.

Note 11 – Subsequent Events

Management has evaluated subsequent events through July 12, 2024, 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.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Schedule of Water Authority's Proportionate Share of
The Net Pension Liability**

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Authority's proportion of the net pension liability (asset)	0.0044%	0.0043%	0.0043%	0.0039%
Authority's proportionate share of the net pension liability (asset)	\$ 127,494	\$115,666	\$33,411	\$110,903
Authority's covered-employee payroll	\$ 103,180	\$94,213	\$89,195	\$88,062
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	123.56%	122.77%	37.46%	125.94%
Plan fiduciary net position as a percentage of the total pension liability	77.94%	78.31%	93.57%	75.38%

Ten years worth of data will be presented as it is available.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Schedule of Water Authority's Contributions

	December 31, <u>2023</u>	December 31, <u>2022</u>	December 31, <u>2021</u>	December 31, <u>2020</u>
Contractually required contributions	\$ 16,089	\$14,479	\$13,295	\$11,557
Contributions in relation to the contractually required contribution	<u>(16,089)</u>	<u>(14,479)</u>	<u>(13,295)</u>	<u>(11,557)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Authority's covered-employee payroll	\$ 103,180	\$94,213	\$89,195	\$88,062
Contributions as a percentage of covered-employee payroll	15.59%	15.37%	14.91%	13.12%

Ten years worth of data will be presented as it is available.

Methods and assumptions used to determine fiscal year 2023 contribution rates:

Actuarial Cost Method	Entry Age Normal
Inflation	3.25% wage inflation
Salary Increases	3.25% to 9.85% including inflation
Investment Rate of Return	7.15%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Based on the RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.

SUPPLEMENTARY INFORMATION

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedule of Users and Consumption
Year Ended December 31, 2023

<u>Month</u>	<u>Consumption (in Gallons)</u>	<u>Active Users</u>
January	5,709,261	1,014
February	4,714,907	1,013
March	3,359,765	1,016
April	4,352,773	1,017
May	4,427,925	1,019
June	5,683,380	1,021
July	5,692,398	1,024
August	6,081,697	1,032
September	4,759,993	1,038
October	5,037,951	1,044
November	4,691,229	1,042
December	4,013,949	1,048
Total consumption	<u>58,525,228</u>	
Monthly average	<u>4,877,102</u>	<u>1,027</u>

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Schedule of Users and Consumption (Cont.)

Year Ended December 31, 2022

<u>Month</u>	<u>Consumption (in Gallons)</u>	<u>Active Users</u>
January	4,058,706	1,073
February	4,948,368	1,071
March	4,709,086	1,074
April	3,800,160	1,078
May	3,889,685	1,081
June	5,793,804	1,083
July	7,654,335	1,085
August	5,994,024	1,087
September	5,216,849	1,095
October	4,526,950	1,016
November	5,358,058	1,015
December	4,106,092	1,016
Total consumption	60,056,117	
Monthly average	5,004,676	1,065

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

**Schedules of Insurance Coverage
December 31, 2023 and 2022**

For the Year Ended December 31, 2023:

<u>Company</u>	<u>Description of Policy</u>	<u>Amount of Coverage</u>
Employers Mutual Casualty Company	02/21/23 thru 02/21/24 Commercial Property Blanket (real and personal)	\$ 2,161,465
	Commercial Liability	\$ 1,000,000 per occurrence \$ 2,000,000 aggregate
	Automobile Liability	\$ 1,000,000
	Worker's Compensation	\$ 500,000
	Director's & Officers Liability	\$ 1,000,000
	Employee Theft	\$ 160,000
	Cyber Coverage	\$ 50,000 annual aggregate

For the Year Ended December 31, 2022:

<u>Company</u>	<u>Description of Policy</u>	<u>Amount of Coverage</u>
Employers Mutual Casualty Company	02/21/22 thru 02/21/23 Commercial Property Blanket (real and personal)	\$ 2,057,706
	Commercial Liability	\$ 1,000,000 per occurrence \$ 2,000,000 aggregate
	Automobile Liability	\$ 1,000,000
	Worker's Compensation	\$ 500,000
	Director's & Officers Liability	\$ 1,000,000
	Employee Theft	\$ 160,000
	Cyber Coverage	\$ 50,000 annual aggregate

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedules of Current Usage Rates
For the Year Ended December 31, 2023

Residential 3/4" Water Rates

From 0 to 1,000 gallons	\$ 29.50 minimum charge
From 1,000 to 5,000 gallons	\$ 5.75 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.75 per 1,000 gallons
Over 10,000 gallons	\$ 3.25 per 1,000 gallons

Commercial/Farm 1" Water Rates

From 0 to 1,000 gallons	\$ 32.50 minimum charge
From 1,000 to 5,000 gallons	\$ 5.75 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.75 per 1,000 gallons
Over 10,000 gallons	\$ 3.25 per 1,000 gallons

Commercial/Farm 2" Water Rates

From 0 to 1,000 gallons	\$ 42.00 minimum charge
From 1,000 to 5,000 gallons	\$ 5.75 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.75 per 1,000 gallons
Over 10,000 gallons	\$ 3.25 per 1,000 gallons

New Water Connection Fees

<u>3/4" Meter</u>	<u>1" Meter</u>	<u>2" Meter</u>
\$1,019.08	\$1,242.46	\$2,093.83

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedules of Current Usage Rates (Cont.)

For the Year Ended December 31, 2022

Residential 3/4" Water Rates

From 0 to 1,000 gallons	\$ 27.50 minimum charge
From 1,000 to 5,000 gallons	\$ 5.50 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.50 per 1,000 gallons
Over 10,000 gallons	\$ 3.00 per 1,000 gallons

Commercial/Farm 1" Water Rates

From 0 to 1,000 gallons	\$30.50 minimum charge
From 1,000 to 5,000 gallons	\$ 5.50 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.50 per 1,000 gallons
Over 10,000 gallons	\$ 3.00 per 1,000 gallons

Commercial/Farm 2" Water Rates

From 0 to 1,000 gallons	\$40.00 minimum charge
From 1,000 to 5,000 gallons	\$ 5.50 per 1,000 gallons
From 5,000 to 10,000 gallons	\$ 3.50 per 1,000 gallons
Over 10,000 gallons	\$ 3.00 per 1,000 gallons

New Water Connection Fees

<u>3/4" Meter</u>	<u>1" Meter</u>	<u>2" Meter</u>
\$1,019.08	\$1,242.46	\$2,093.83

FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS

Schedule of Board of Directors

December 31, 2023

Jerry Estes, President P.O. Box 968 Salem, AR 72576	870-421-6286
Ted York, Vice President P.O. Box 940 Salem, AR 72576	870-895-3157
Randall Tyler, Secretary P.O. Box 493 Salem, AR 72576	870-895-3674
Jim Bicker 3119 Bexar Rd Salem, AR 72576	870-458-2049
Russell McBride 2248 Heart Rd Glencoe, AR 72539	870-710-0155

All Board members are elected to lifetime terms.

**FULTON COUNTY WATER AUTHORITY, INC.
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**

Schedule of Board of Directors (Cont.)

December 31, 2022

Jerry Estes, President P.O. Box 968 Salem, AR 72576	870-421-6286
Ted York, Vice President P.O. Box 940 Salem, AR 72576	870-895-3157
Randall Tyler, Secretary P.O. Box 493 Salem, AR 72576	870-895-3674
Jim Bicker 3119 Bexar Rd Salem, AR 72576	870-458-2049
Russell McBride 2248 Heart Rd Glencoe, AR 72539	870-710-0155

All Board members are elected to lifetime terms.



Welch, Couch & Company, PA Certified Public Accountants

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

Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Fulton County Water Authority, Inc.
Public Water Authority of the State of Arkansas
Salem, Arkansas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fulton County Water Authority, Inc., as of and for the years ended December 31, 2023 and 2022, and the related notes to the 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 Fulton County Water Authority, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fulton County Water Authority, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Fulton County Water Authority, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Fulton County Water Authority, Inc.'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 or significant deficiencies may exist that were not identified.

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

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

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

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

-37-

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton County Water Authority, Inc.'s financial statements are free of 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*.

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

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

Batesville, Arkansas
July 12, 2024