

WASHINGTON WATER AUTHORITY
Farmington, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022
and
INDEPENDENT AUDITOR'S REPORT

WASHINGTON WATER AUTHORITY
Farmington, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022

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Arkansas Society of CPAs

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**To the Board of Directors of
Washington Water Authority
Farmington, Arkansas**

INDEPENDENT AUDITOR'S REPORT

Qualified Opinions

We have audited the accompanying financial statements of the Washington Water Authority, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Washington Water Authority's basic financial statements as listed on the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Washington Water Authority as of December 31, 2023 and 2022, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Washington Water Authority, and to meet our other ethical responsibilities, in accordance with 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 qualified opinion.

Matter Giving Rise to the Qualified Opinion

Management has not changed its method of accounting for pensions during the year ended December 31, 2023, by not adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. Accounting principles generally accepted in the United States of America require that the method of accounting be changed for GASB Statement No. 68. The amount by which this departure would affect the assets, net position, and revenues of the Washington Water Authority has not been determined.

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; 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 the Washington Water Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

11225 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791 •

jtberry@berryassociatescpa.com

2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919

PO Box 2485 • Madison, MS 39130 • 601-683-0119

**To the Board of Directors of
Washington Water Authority
Farmington, Arkansas**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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 the Washington Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Washington Water Authority's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

**To the Board of Directors of
Washington Water Authority
Farmington, Arkansas**

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washington Water Authority's basic financial statements. The Supplementary Information Required by the USDA Rural Development is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information Required by the USDA Rural Development is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information Required by the USDA Rural Development is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2024 on our consideration of the Washington Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Washington Water Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington Water Authority's internal control over financial reporting and compliance.

Berry & Associates

BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
October 30, 2024

WASHINGTON WATER AUTHORITY
STATEMENTS OF NET POSITION
December 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,374,678	\$ 2,340,433
Accounts receivable	600,341	503,350
Other receivables	348,933	-
Supplies inventory	362,253	327,777
Prepaid expenses	14,343	17,120
Total current assets	<u>3,700,548</u>	<u>3,188,680</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash	1,952,362	1,845,122
Total restricted assets	<u>1,952,362</u>	<u>1,845,122</u>
CAPITAL ASSETS		
Capital assets, net of depreciation	31,778,623	32,465,908
Net capital assets	<u>31,778,623</u>	<u>32,465,908</u>
OTHER ASSETS		
Utility deposits	335	335
Total other assets	<u>335</u>	<u>335</u>
TOTAL ASSETS	<u>\$ 37,431,868</u>	<u>\$ 37,500,045</u>

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

WASHINGTON WATER AUTHORITY
STATEMENTS OF NET POSITION (Continued)
December 31, 2023 and 2022

LIABILITIES AND NET POSITION

	2023	2022
CURRENT LIABILITIES		
Accounts payable	\$ 279,861	\$ 397,490
Payroll liabilities payable	11,065	2,461
Accrued expenses	36,235	88,017
Total current liabilities	<u>327,161</u>	<u>487,968</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest payable	105,055	113,026
Current portion of long-term debt	900,100	873,600
Meter deposits	642,755	596,415
Sewer payable	158,183	103,078
Total current liabilities payable from restricted assets	<u>1,806,093</u>	<u>1,686,119</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	<u>10,262,471</u>	<u>11,162,535</u>
TOTAL LIABILITIES	<u>12,395,725</u>	<u>13,336,622</u>
NET POSITION		
Net investment in capital assets	20,616,052	20,429,773
Restricted	928,694	883,440
Unrestricted	<u>3,491,397</u>	<u>2,850,210</u>
Total net position	<u>25,036,143</u>	<u>24,163,423</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,431,868</u>	<u>\$ 37,500,045</u>

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

WASHINGTON WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water sales	\$ 6,713,616	\$ 6,369,986
Connections and other fees	<u>505,087</u>	<u>729,811</u>
Total operating revenues	<u>7,218,703</u>	<u>7,099,797</u>
OPERATING EXPENSES		
Cost of water	2,792,033	2,709,751
Contract labor	288,021	-
Insurance	88,245	86,218
Materials and supplies	227,353	453,761
Mileage and truck expenses	88,206	79,744
Miscellaneous	27,477	21,990
Office supplies and postage	167,722	126,544
Payroll taxes	68,934	66,846
Professional services	180,211	104,560
Employee benefits	169,272	229,084
Pension expense	125,798	135,771
Depreciation	1,439,441	1,449,202
Maintenance and repairs	340,576	491,539
Salaries	777,003	873,105
Uniforms	9,420	9,337
Utilities and telephone	<u>204,255</u>	<u>197,419</u>
Total operating expenses	<u>6,993,967</u>	<u>7,034,871</u>
OPERATING INCOME	<u>224,736</u>	<u>64,926</u>
NONOPERATING REVENUE (EXPENSES)		
Other income	761,439	380,511
Interest income	89,337	13,175
Interest expense	(359,914)	(383,962)
Bad debt recovery (expense)	522	(8,143)
Gain on disposal of capital assets	<u>156,600</u>	<u>29,260</u>
Net nonoperating income	<u>647,984</u>	<u>30,841</u>
CHANGE IN NET POSITION	<u><u>\$ 872,720</u></u>	<u><u>\$ 95,767</u></u>

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

**WASHINGTON WATER AUTHORITY
STATEMENTS OF NET POSITION
For the Year Ended December 31, 2023**

	<u>2023</u>	<u>2022</u>
NET POSITION AT BEGINNING OF YEAR	\$ 24,163,423	\$ 24,067,656
Change in net position for the year	<u>872,720</u>	<u>95,767</u>
NET POSITION AT END OF YEAR	<u><u>\$ 25,036,143</u></u>	<u><u>\$ 24,163,423</u></u>

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

WASHINGTON WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 7,121,712	\$ 7,054,313
Cash payments to supplies	(5,263,337)	(4,346,427)
Cash payments to employees	(777,003)	(873,105)
Net cash provided by operating activities	<u>1,081,372</u>	<u>1,834,781</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(73,800)	(210,590)
Proceeds from disposal of capital assets	161,900	29,260
Payments on construction work in progress	(683,656)	(571,781)
Principal payments on long-term debt	(873,562)	(851,135)
Proceeds from long-term debt	-	8,298
Non-operating revenue received	761,439	380,511
Interest payments on long-term debt	(367,885)	(391,809)
Net cash used by capital and related financing activities	<u>(1,075,564)</u>	<u>(1,607,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in meter deposits payable	46,340	26,354
Interest received	89,337	13,175
Net cash provided by investing activities	<u>135,677</u>	<u>39,529</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>141,485</u>	<u>267,064</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,185,555</u>	<u>3,918,491</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 4,327,040</u></u>	<u><u>\$ 4,185,555</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 224,736	\$ 64,926
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,439,441	1,449,202
Provision for bad debt recovery (expense)	522	(8,143)
(Increase) Decrease in:		
Accounts receivable	(96,991)	(37,341)
Inventory	(34,476)	(66,610)
Prepaid expenses	2,777	5,387
Other receivables	(348,933)	511,430
Increase (Decrease) in:		
Accounts payable	(117,631)	(93,971)
Retainage payable	-	(6,406)
Sewer payable	55,105	7,347
Payroll liabilities	8,604	(515)
Accrued expenses payable	(51,782)	9,475
	<u>856,636</u>	<u>1,769,855</u>
Net cash provided by operating activities	<u><u>\$ 1,081,372</u></u>	<u><u>\$ 1,834,781</u></u>

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

WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Rural Development Authority (RDA) of Washington County, Arkansas was created in accordance with Act 172 of the Acts of Arkansas of 1963, and pursuant to an order of the County Court of Washington County Arkansas in March, 1966. The purpose of Washington Water Authority (the "Authority") is to acquire, construct, own and operate facilities for the development, storage, and utilization of water for agricultural, domestic, industrial, and community purposes on a mutual basis by residents of a rural area in the western portion of Washington County that do not have access to adequate and proper supplies of water. Washington Water Authority was reorganized as a product of the RDA in April 1988. The purpose of the Authority is to act as an agent of the RDA, and has no rights other than those set forth by RDA. It operates under the same rules and regulations as that of the parent organization. The Authority may not incur indebtedness and may not expend more than 20% of its reserve funds without the approval of the RDA.

Basis of Presentation and Accounting

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Authority has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Restricted Assets

Certain proceeds of the Authority's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements, are classified as restricted assets on the Statements of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Authority are also considered restricted.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

**WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Asset	Years
Water lines	40
Storage facilities	40
Buildings	30-40
Equipment	3-10
Furniture and fixtures	7
Leasehold Improvements	5-40

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

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

**WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted."

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Board of Directors adopts an annual budget for the Authority. The budget of the Authority is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at fiscal year-end.

Income Taxes

The Authority is a political subdivision of the State of Arkansas and is exempt from income taxes.

Receivables

The Authority has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of December 31, 2023 management had determined that minimal additional accounts needed to be written off. Bad debt expense for the years ended December 31, 2023 and 2022 was \$0 and \$9,910, respectively.

Date of Management's Review

Subsequent events have been evaluated through October 30, 2024, which is the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS:

All funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Authority's name. At December 31, 2023, deposits were adequately insured.

NOTE 3 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 4 – CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2023 is as follows:

	Balance 12/31/22	Additions	Retirements and transfers	Balance 12/31/23
Land	\$ 485,488	\$ -	\$ -	\$ 485,488
Buildings	184,990	-	-	184,990
Water Lines	52,531,090	1,041,683	-	53,572,773
Storage Facilities	2,076,240	-	-	2,076,240
Equipment	1,774,775	-	(206,418)	1,568,357
Furniture and Fixtures	86,726	14,041	(15,262)	85,505
Leasehold Improvements	204,533	22,472	(8,030)	218,975
Construction in Progress	571,781	683,656	(1,004,395)	251,042
	<u>57,915,623</u>	<u>1,761,852</u>	<u>(1,234,105)</u>	<u>58,443,370</u>
Less Accumulated Depreciation	(25,449,715)	(1,439,441)	224,409	(26,664,747)
Total Net Capital Assets	<u>\$ 32,465,908</u>	<u>\$ 322,411</u>	<u>\$ (1,009,696)</u>	<u>\$ 31,778,623</u>

A summary of changes in capital assets for the year ended December 31, 2022 is as follows:

	Balance 12/31/21	Additions	Retirements and transfers	Balance 12/31/22
Land	\$ 485,488	\$ -	\$ -	\$ 485,488
Buildings	184,990	-	-	184,990
Water Lines	52,193,405	337,685	-	52,531,090
Storage Facilities	2,076,240	-	-	2,076,240
Equipment	1,907,462	36,038	(168,725)	1,774,775
Furniture and Fixtures	82,578	4,148	-	86,726
Leasehold Improvements	186,812	17,721	-	204,533
Construction in Progress	185,002	571,781	(185,002)	571,781
	<u>57,301,977</u>	<u>967,373</u>	<u>(353,727)</u>	<u>57,915,623</u>
Less Accumulated Depreciation	(24,169,238)	(1,449,202)	168,725	(25,449,715)
Total Net Capital Assets	<u>\$ 33,132,739</u>	<u>\$ (481,829)</u>	<u>\$ (185,002)</u>	<u>\$ 32,465,908</u>

WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 5 – LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
Loan payable to Arkansas Development Finance Authority, due in semi-annual installments of \$76,984, including interest at 0% and a service fee at .5%, beginning October 2020 through April 2030. (1)	\$ 983,501	\$ 1,131,995
Revenue bond payable to USDA, due in monthly installments of \$4,597, including interest at 3%, beginning January 2014 through December 2051. (2)	1,042,930	1,066,424
2018 Series Refunding Revenue bond payable to Bank OZK, due in varying monthly installments, including interest at a variable rate, beginning March 2019 through September 2033. (1)	9,130,000	9,830,000
Financing lease payable to Total Document Solutions, Inc., due in monthly installments of \$146, beginning August 2022 through August 2027. (1)	<u>6,140</u>	<u>7,716</u>
	11,162,571	12,036,135
Less: Current Portion	<u>(900,100)</u>	<u>(873,600)</u>
Long-Term Portion	<u>\$ 10,262,471</u>	<u>\$ 11,162,535</u>

(1) The loan/bond/financing lease has no restrictive covenants.

(2) The revenue bonds have restrictive covenants including the requirement to begin accumulating a debt service reserve in monthly installments of \$460, with a minimum funding requirement of \$55,164, beginning January 2014 and a short-lived asset reserve in the monthly installments of \$7,720 while the bonds are outstanding.

The annual maturities of long-term debt at December 31, 2023, are as follows:

	Principal	Interest	Total
2024	\$ 900,100	\$ 348,029	\$ 1,248,129
2025	926,500	321,834	1,248,334
2026	953,100	294,584	1,247,684
2027	984,239	266,501	1,250,740
2028	1,009,700	237,197	1,246,897
2029-2033	5,624,300	688,018	6,312,318
2034-2038	173,600	102,220	275,820
2039-2043	201,600	74,220	275,820
2044-2048	234,200	41,620	275,820
2049-2051	155,232	7,514	162,746
	<u>\$ 11,162,571</u>	<u>\$ 2,381,737</u>	<u>\$ 13,544,308</u>

WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 5 – LONG-TERM DEBT (continued):

Long-term liability activity for the year ended December 31, 2023 is as follows:

	Balance 12/31/22	Additions	Retirements	Balance 12/31/23	Due Within One Year
Long Term Debt					
Water Revenue Bonds	\$ 10,896,425	\$ -	\$ (723,494)	\$ 10,172,931	\$ 749,200
Loans	1,131,995	-	(148,494)	983,501	149,200
Financing leases	7,716	-	(1,577)	6,139	1,700
	<u>\$ 12,036,136</u>	<u>\$ -</u>	<u>\$ (873,565)</u>	<u>\$ 11,162,571</u>	<u>\$ 900,100</u>

Long-term liability activity for the year ended December 31, 2022 is as follows:

	Balance 12/31/21	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Water Revenue Bonds	\$ 11,599,225	\$ -	\$ (702,800)	\$ 10,896,425	\$ 723,500
Loans	1,279,748	-	(147,753)	1,131,995	148,500
Financing leases	-	8,298	(582)	7,716	1,600
	<u>\$ 12,878,973</u>	<u>\$ 8,298</u>	<u>\$ (851,135)</u>	<u>\$ 12,036,136</u>	<u>\$ 873,600</u>

The Authority has pledged future water customer revenues, net of specified operating expenses, to repay \$11,162,571 in revenue bonds/loans/financing leases. Proceeds from the bonds/loans/financing leases were used for building of the Authority's water system and purchase of equipment. Principal and interest on the bonds/loans/financing leases are payable through 2051, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$873,565 and \$367,885, respectively. Principal and interest paid in the year ended December 31, 2022 were \$851,135 and \$391,809, respectively.

NOTE 6 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 5).

The following is a list of the restricted cash at December 31:

	2023	2022
Meter deposits	\$ 624,247	\$ 580,911
Cash held in trust	399,421	377,432
Other restricted funds	928,694	886,779
	<u>\$ 1,952,362</u>	<u>\$ 1,845,122</u>

**WASHINGTON WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 7 – ARKANSAS PUBLIC EMPLOYEE RETIREMENT PENSION PLAN:

Plan Description. The 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. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. 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, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Beginning July 1, 2022, the contribution rates shall be increased in increments of .25% per fiscal year, not to exceed 7%. The contributory rate was increased to 5.50% as of July 1, 2023. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Authority's contributions to APERS for the years ending December 31, 2023 and 2022 were \$125,798 and \$135,771, respectively, equal to the required contributions for the year.

NOTE 8– COMMITMENTS:

The Authority started a Hwy 265 Watermain Replacement project during the year ended December 31, 2022. The Authority has entered into a contract with a construction contractor for the amount of \$1,130,105. As of December 31, 2023, this project was complete. With approved change orders, the Authority incurred costs of \$967,445 with this contractor.

In December 2023, the Authority awarded a contractor a \$933,485 contract on the Goose Creek Road Line Relocate project. The project did not start as of December 31, 2023 and is currently delayed.

In December 2023, the Authority awarded a contractor a \$1,074,995 contract on the Highway 170 Water Main Relocate project, which is a cost share project with the AR Highway and Transportation Department.



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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 of
Washington Water Authority
Farmington, 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 the Washington Water Authority (the "Authority"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 30, 2024.

Report on Internal Control Over Financial Reporting

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

**Board of Directors
Washington Water Authority
Page 2**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying list of findings as items 2023-001.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Finding and Responses. The Authority's 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Berry & Associates". The signature is written in a cursive, flowing style.

Berry & Associates
Little Rock, Arkansas
October 30, 2024

**WASHINGTON WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2023**

2023-001 Compliance –Loan Covenants

Criteria: The Authority was not in compliance with the loan covenants established by USDA Rural Development.

Condition: Loan covenants with USDA Rural Development requires a debt service reserve in the amount \$55,164 be established and maintained until the loan is paid in full.

Cause: The existing debt service reserve was closed and combined with operating funds.

Effect or Potential Effect: Without having the proper reserve accounts, the Authority risks having the ability to pay for any major repair, and is not in compliance with the loan covenant.

Recommendation: We recommend that the Authority reestablish the debt service reserve account and fully fund.

View of Responsible Officials: The Authority concurs with the recommendation.

**WASHINGTON WATER AUTHORITY
SUPPLEMENTARY INFORMATION REQUIRED BY THE USDA RURAL DEVELOPMENT
For The Year Ended December 31, 2023**

WATER RATE SCHEDULE:

Authority has approximately 7,125 water customers connected to the system as of December 31, 2023. The current water rate schedule is presented as follows:

				Rate Effective January 25, 2022	
0	to	1,000	Gallons	\$	*
1,001	and	over	Gallons		9.25
					Base Rate
					Per Thousand Gallons

* Each meter size has a different base rate. See below for each base rate.

5/8" Meter	\$ 32.50
3/4" Meter	\$ 37.50
1" Meter	\$ 42.50
1 1/2" Meter	\$ 62.50
2" Meter	\$ 72.50
3" Meter	\$ 97.50

The Authority purchases water from Benton Washington Regional Public Water Authority. Benton Washington Regional Public Water Authority began billing the Authority \$1.50 per month per meter, effective with billings due November 17, 2010. The Authority's Board of Directors approved passing this charge on to their customers.

Gallons consumed totaled approximately 1,330,377,000 for the year ended December 31, 2023.

BOARD OF DIRECTORS:

The affairs of the Authority are under the control of the Board of Directors, who are appointed by the Washington County Judge and approved by the Quorum Court of Washington County. Members of the Board of the Directors at December 31, 2023 were:

<u>Name</u>	<u>Title</u>
Butch Bartholomew	Chair
Larry Walker	Vice Chairman
Terri Lynne McNaughton	Secretary
Nathan Prince	Director
Howard Carter	Director
Brad Hardin	Director

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are not being properly maintained.

WASHINGTON WATER AUTHORITY
SUPPLEMENTARY INFORMATION REQUIRED BY THE USDA RURAL DEVELOPMENT
For The Year Ended December 31, 2023

INSURANCE IN FORCE:

	<u>Expiration Date</u>	<u>Amount of Coverage</u>
<u>Fire, lightning, extended coverage, and terrorism</u> <u>(20% co-insurance)</u>		
Real property	1/1/2024	\$ 10,903,832
Personal Property		Included with real property
<u>Automotive</u>		
Collision (\$500 deductible)	1/1/2024	A.C.V
Comprehensive (\$500 deductible)	1/1/2024	A.C.V
Liability insurance -	1/1/2024	A.C.V
Bodily injury		1,000,000
Property damage		25,000
Accidental health		25,000
Medical		5,000/25,000
Uninsured motorist protection -		
Bodily injury		1,000,000
Property damage		1,000,000
<u>Hired and Non-Owned Vehicle</u>		
Bodily injury & property damage	1/1/2024	50,000
<u>General Liability Insurance</u>		
Bodily injury	1/1/2024	1,000,000
Property damage		1,000,000
<u>Worker's Compensation</u>		
Bodily injury	1/1/2024	1,000,000
<u>Fidelity Bond</u>		
Chairman of the Board	1/1/2024	1,000,000
Treasurer		
Manager and Controller		
Notary Public Bond		
<u>Right Way Bonds</u>		
County	6/1/2023	10,000
State	5/21/2023	30,000

WASHINGTON WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2023

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
OPERATING REVENUES				
Water sales	\$ 6,913,000	\$ 6,913,000	\$ 6,713,616	\$ (199,384)
Connection and other fees	635,000	635,000	505,087	(129,913)
Total operating revenues	7,548,000	7,548,000	7,218,703	(329,297)
OPERATING EXPENSES				
Cost of water	2,906,500	2,906,500	2,792,033	114,467
Contract labor			288,021	(288,021)
Insurance	350,000	350,000	88,245	261,755
Materials and supplies	925,000	925,000	227,353	697,647
Mileage and truck expenses	71,000	71,000	88,206	(17,206)
Miscellaneous	24,000	24,000	27,477	(3,477)
Office supplies and postage	127,898	127,898	167,722	(39,824)
Payroll taxes	75,000	75,000	68,934	6,066
Professional services	112,000	112,000	180,211	(68,211)
Employee benefits	-	-	169,272	(169,272)
Pension expense	-	-	125,798	(125,798)
Depreciation	-	-	1,439,441	(1,439,441)
Maintenance and repairs	252,978	252,978	340,576	(87,598)
Salaries	913,139	913,139	777,003	136,136
Uniforms	10,000	10,000	9,420	580
Utilities and telephone	225,000	225,000	204,255	20,745
Total operating expenses	5,992,515	5,992,515	6,993,967	(1,001,452)
OPERATING INCOME (EXPENSES)	1,555,485	1,555,485	224,736	(1,330,749)
NONOPERATING REVENUE (EXPENSES)				
Other income	60,000	60,000	761,439	701,439
Interest income	8,000	8,000	89,337	81,337
Interest expense	(1,250,000)	(1,250,000)	(359,914)	890,086
Bad debt expense	-	-	522	522
Gain on disposal of capital assets	-	-	156,600	156,600
Net nonoperating revenues (expenses)	(1,182,000)	(1,182,000)	647,984	1,829,984
CHANGE IN NET POSITION	\$ 373,485	373,485	\$ 872,720	\$ 499,235