

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
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**HIGHWAY 71 WATER DISTRICT NO. 1 PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2023**

This section presents management's analysis of the financial condition and activities of the Highway 71 Water District No.1 Public Water Authority of the State of Arkansas (the District) for the year ended September 30, 2023.

**Financial Highlights**

Management believes the District's financial condition is stable. The District is within its debt covenants and financial policies and guidelines set by the Board of Directors. The following are key financial highlights:

- Total assets at year-end were \$4,295,606, which exceeded total liabilities of \$1,426,753, resulting in net position of \$2,868,853.
- Operating revenue amounted to \$1,820,781. This was an increase of \$110,098, or 6.4% from the prior year operating revenue of \$1,710,683.
- Operating expenses amounted to \$1,783,302. This was an increase of \$128,644, or 7.8% from the prior year operating expenses of \$1,654,658.
- Net operating income was \$37,479, representing a net decrease of \$18,546, or 33.1%, from the prior year net operating income of \$56,025.
- Non-operating expense amounted to (\$59,315). This was a decrease of \$41,809 from prior year non-operating expense of (\$17,506).
- Change in net position (total net income) amounted to (\$21,836). This was a decrease of \$60,355 from prior year change in net position of \$38,519.

**Overview of Annual Financial Report**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance.

The financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the District on an accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year, as well as information as to how the net position changes during the year.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The statement of cash flow presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

**HIGHWAY 71 WATER DISTRICT NO. 1 PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2023**

**Summary of Organization and Business**

The District provides retail water services to 2,562 customers within Crawford County, Arkansas.

The facilities of the District include water system lines and equipment acquired or contracted at a cost of \$6,398,832 of which \$3,552,719 has been depreciated.

The operating and capital expenditures are incurred to repair, replace, or extend existing service facilities to meet customer service requirements, as well as to meet EPA requirements. The operating expenses are funded by customer revenue, and the acquisition and construction of capital assets are funded by USDA Rural Development loans and bank financing.

**General Trends and Significant Events**

The number of customers serviced by the District increased during the year from 2,541 to 2,562.

**Financial Condition**

The District's financial condition is sound. Total unrestricted net position as of September 30, 2023, was \$851,600, restricted net position was \$339,155, and net position invested in capital assets net of related debt was \$1,678,098.

**Results of Operations**

**Operating Revenue compared to Operating Expenses:**

Operating revenues for the years ended September 30, 2023 and 2022 were \$1,820,781 and \$1,710,683, respectively. Operating expenses for the years ended September 30, 2023 and 2022 were \$1,783,302 and \$1,654,658, respectively.

**Net Operating Income:**

Net operating income was \$37,479 and \$56,025 for the years ended September 30, 2023 and 2022, respectively.

**Capital Assets and Long-Term Debt**

The investment in property and equipment increased by \$453,611 for the year ended September 30, 2023, of which \$6,716 was for office equipment improvements, \$426,788 was for water system improvements, and \$20,107 was for construction in progress.

Total debt of \$1,168,015 to net capital assets of \$2,846,113 was 41.0% for the year ended September 30, 2023.

**Final Comments**

The District has maintained its mission of providing affordable, efficient, and reliable water utility services.

**HIGHWAY 71 WATER DISTRICT NO. 1 PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2023**

**Contacting the Fund's Financial Management**

This financial report is designed to provide our users, the general public, and granting agencies with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If there are questions about this report or need for additional financial information arises, contact the Highway 71 Water District No.1 Public Water Authority, 8014 N. Hwy, Alma, Arkansas, 72921.

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
Highway 71 Water District No.1  
Public Water Authority of the State of Arkansas  
Alma, Arkansas**

### **Qualified Opinion**

We have audited the accompanying financial statements of **Highway 71 Water District No.1 Public Water Authority of the State of Arkansas** (the District) as of and for the years ended **September 30, 2023 and 2022**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of **September 30, 2023 and 2022**, and the changes in the financial position thereof for the year 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 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 the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Matter Giving rise to the Qualified Opinion**

Management has not adopted Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the District. Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources, and deferred inflows of resources for defined benefit pension plans have an actuarial study to determine the effect on net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

#### **Member of:**

\*American Institute of Certified Public Accountants  
\*Governmental Audit Quality Center

\*Arkansas Society of Certified Public Accountants

\*Oklahoma Society of Certified Public Accountants

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are condition or events, considered in the aggregate that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information 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 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***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Additional Comments required by Rural Development are the responsibility of management and were derived from and relate 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 Additional Comments required by Rural Development are 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 **February 27, 2024**, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Hubbs & Whitehead, CPAs**  
**Van Buren, Arkansas**

**February 27, 2024**



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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  
Highway 71 Water District No.1  
Public Water Authority of the State of Arkansas  
Alma, Arkansas**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Highway 71 Water District No.1 Public Water Authority of the State of Arkansas** (the District) as of and for the year ended **September 30, 2023**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated **February 27, 2024**.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

**Member of:**

\*American Institute of Certified Public Accountants  
\*Governmental Audit Quality Center

\*Arkansas Society of Certified Public Accountants

\*Oklahoma Society of Certified Public Accountants

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

**Highway 71 Water District No.1 Public Water Authority of the State of Arkansas' Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hubbs & Whitehead, CPAs  
Van Buren, Arkansas

February 27, 2024

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2023 AND 2022**

**ASSETS**

	<b>2023</b>	<b>2022</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Unrestricted cash and cash equivalents	\$ 797,001	\$ 1,066,439
Restricted cash and cash equivalents	339,155	264,497
Accounts receivable, net of allowance for doubtful accounts of \$11,276 and \$12,239, respectively	164,742	171,347
Inventories	<u>148,595</u>	<u>65,453</u>
 Total Current Assets	 <u>1,449,493</u>	 <u>1,567,736</u>
 <b>CAPITAL ASSETS</b>		
Construction in progress	61,579	41,472
Land	28,081	28,081
Buildings	169,994	169,994
Water tank	1,112,268	1,112,268
Water system	4,597,209	4,573,723
Office equipment	96,069	90,348
Vehicles and equipment	<u>333,632</u>	<u>333,632</u>
	6,398,832	6,349,518
Less: accumulated depreciation	<u>(3,552,719)</u>	<u>(3,703,545)</u>
 Total Capital Assets	 <u>2,846,113</u>	 <u>2,645,973</u>
 Total Assets	 <u><u>\$ 4,295,606</u></u>	 <u><u>\$ 4,213,709</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2023 AND 2022**  
**LIABILITIES AND NET POSITION**

	<b>2023</b>	<b>2022</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 59,126	\$ 108,491
Employee deductions payable	357	410
Payroll taxes payable	887	887
Accrued interest payable	8,694	1,232
Accrued compensated absences	13,211	11,135
Sales tax payable	10,303	10,366
Current portion of notes payable	<u>83,260</u>	<u>37,285</u>
 Total Current Liabilities	 <u>175,838</u>	 <u>169,806</u>
 <b>NONCURRENT LIABILITIES</b>		
Plumbing inspection deposits payable	2,525	2,825
Meter deposits payable	163,635	160,705
Notes payable, net	<u>1,084,755</u>	<u>989,684</u>
 Total Noncurrent Liabilities	 <u>1,250,915</u>	 <u>1,153,214</u>
 Total Liabilities	 <u>1,426,753</u>	 <u>1,323,020</u>
 <b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,678,098	1,619,004
Restricted	339,155	264,497
Unrestricted	<u>851,600</u>	<u>1,007,188</u>
 Total Net Position	 <u>2,868,853</u>	 <u>2,890,689</u>
 Total Liabilities and Net Position	 <u><u>\$ 4,295,606</u></u>	 <u><u>\$ 4,213,709</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
<b>OPERATING REVENUES</b>		
Water sales, net of provision for bad debts	\$ 1,761,347	\$ 1,648,626
Service charges	13,145	13,342
Customer contributions	14,330	11,308
ADH service fee income	12,215	12,205
Meter fees	15,000	19,200
Miscellaneous income	4,744	6,002
	<u>1,820,781</u>	<u>1,710,683</u>
<b>Total Operating Revenues</b>	<u>1,820,781</u>	<u>1,710,683</u>
<b>OPERATING EXPENSES</b>		
Water purchases	700,179	721,219
Repairs and maintenance	135,987	82,796
ADH service fees	10,375	12,080
Salaries	330,598	279,947
Electricity	93,016	84,959
Other utilities	1,568	1,231
Security expense	577	469
Office expense	33,144	23,999
Professional fees	17,943	16,434
Postage	14,843	12,919
Insurance	54,844	44,553
Employee insurance	76,661	74,243
Telephone	14,104	12,960
Vehicle expense	33,021	29,987
Miscellaneous expense	-	1,044
Depreciation	202,434	200,168
Uniforms	2,267	2,833
Dues and meetings	2,856	2,326
Payroll taxes	25,960	22,025
APERS expense	32,925	28,466
	<u>1,783,302</u>	<u>1,654,658</u>
<b>Total Operating Expenses</b>	<u>1,783,302</u>	<u>1,654,658</u>
<b>OPERATING INCOME</b>	<u>37,479</u>	<u>56,025</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest income	27,026	5,774
Gain (loss) on disposal of capital assets	(51,041)	-
Lease income	16,816	20,507
Debt issuance cost	(6,143)	-
Interest expense	(45,973)	(43,787)
	<u>(59,315)</u>	<u>(17,506)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(59,315)</u>	<u>(17,506)</u>
<b>CHANGE IN NET POSITION</b>	(21,836)	38,519
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,890,689</u>	<u>2,852,170</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,868,853</u>	<u>\$ 2,890,689</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 1,767,952	\$ 1,664,132
Cash payments to suppliers for goods and services	(1,266,936)	(1,035,615)
Cash payments to employees for services	(365,599)	(311,204)
	<u>135,417</u>	<u>317,313</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>27,026</u>	<u>5,774</u>
	<u>27,026</u>	<u>5,774</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to capital assets	(453,615)	(113,682)
Proceeds from issuance of debt	300,849	-
Principal paid on long-term debt	(165,946)	(84,250)
Lease payments	-	(301)
Interest paid	(38,511)	(44,468)
	<u>(357,223)</u>	<u>(242,701)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(194,780)	80,386
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,330,936</u>	<u>1,250,550</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,136,156</u>	<u>\$ 1,330,936</u>
<b>UNRESTRICTED CASH AND CASH EQUIVALENTS</b>	\$ 797,001	\$ 1,066,439
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<u>339,155</u>	<u>264,497</u>
	<u>\$ 1,136,156</u>	<u>\$ 1,330,936</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023	2022
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS</b>		
<b>FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 37,479	\$ 56,025
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation	202,434	200,168
Lease income	16,816	20,507
Change in:		
Accounts receivable	6,605	15,506
Inventories	(83,142)	(35,782)
Accounts payable	(49,365)	55,169
Employee deductions payable	(53)	60
Accrued compensated absences	2,076	2,791
Sales tax payable	(63)	(1,026)
Plumbing inspection deposits payable	(300)	1,175
Meter deposits payable	2,930	2,720
<b>Total adjustments</b>	<b>97,938</b>	<b>261,288</b>
<b>Net Cash Flows From Operating Activities</b>	<b>\$ 135,417</b>	<b>\$ 317,313</b>

See Independent Auditor's Report and Notes to the Financial Statements.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Note 1: Summary of Significant Accounting Policies**

Highway 71 Water District No. 1 Public Water Authority of the State of Arkansas ("The District") was organized on June 4, 2008 to provide suitable water to and for the benefit of members of the general public, commercial, industrial and other users in the City of Alma, Arkansas and the surrounding communities.

***Financial Reporting***

The accounts of the District 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 District's assets, liabilities, net position, 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 activity; or (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 District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net position. Net position (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.

***Basis of Accounting***

The District's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred. Operating revenues in the enterprise fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

***Cash Equivalents***

For purposes of the statements of cash flows, the District considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents as of September 30, 2023 and 2022 were \$243,433 and \$239,337, respectively.



**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

***Accounts Receivable***

The District establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$11,276 and \$12,239 respectively, as of September 30, 2023 and 2022.

***Inventory***

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories consist primarily of water meters, pipes, valves and related supplies.

***Income Taxes***

The District is a not-for-profit organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. As a result, no provision for current or deferred income tax liability is recognized in the District's books and records. The District evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes* (formerly FASB Interpretation 48 (FIN 48) *Accounting for Uncertainty in Income Taxes*. This standard requires certain disclosures about uncertain tax positions. When tax returns are filed, it is probable that most tax positions would be sustained upon examination by taxing authorities. However, it is also possible that some positions use the provisions of ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the District would be presented in other expenses in the statement of revenues, expenses and changes in net position. Management does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. The Board has filed all applicable tax returns. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the District has no open examinations with either the Internal Revenue Service or state taxing authorities.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

***Capital Assets and Depreciation***

Capital assets include property, plant and equipment and are valued at historical costs. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses as incurred. Renewals and substantial betterments are capitalized. The District capitalizes assets with an initial cost greater or equal to \$1,000 and an estimated useful life greater than one year. Depreciation of capital assets is computed on the straight-line method over the estimated useful lives of the assets, which range from three to seventy-five years. As of September 30, 2023 and 2022, the District had fully depreciated assets still in service of approximately \$604,000 and \$575,000, respectively.

***Net Position Classifications***

Net position is classified and displayed in the following three components:

*Invested in capital assets, net of related debt* – Consists of 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.

*Restricted net position* – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

*Unrestricted net position* – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for the purposes for which both restricted and unrestricted net position is available, the Board’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

***Compensated Absences***

Employees of the District are entitled to paid vacation and sick days off depending on length of service. The amounts reflected as accrued compensated absences represent the unused sick and vacation time as of September 30.

***Subsequent Events***

Management has evaluated subsequent events through February 27, 2024, the date the financial statements were available to be issued.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Note 2: Deposits in Financial Institutions**

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with provisions of state law. Arkansas law requires collateralization of all deposits by federal depository insurance (FDIC) and/or qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. Agencies. The District's deposits were all fully insured or collateralized as of September 30, 2023.

Cash consisted of the following as of September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unrestricted cash		
Petty cash	\$ 200	\$ 200
System upgrade reserve savings	508,837	454,855
Customer online payment account	94,186	122,155
Vehicle/equipment reserve savings	61,771	47,360
Operations and maintenance	75,412	387,684
Plumbing inspection deposit savings account	56,595	54,185
	<u>\$ 797,001</u>	<u>\$ 1,066,439</u>
Restricted cash		
Meter deposit savings account	\$ 18,944	\$ 18,904
Meter deposit certificate of deposit	128,502	126,269
Debt service certificate of deposit	7,046	6,924
Tank construction account	231	231
Meter Replacement Cost	72,039	-
Old Graphic & Cattlement construction	4,508	6,025
Debt service certificate of deposit	84,362	83,036
Depreciation reserve certificate of deposit	23,523	23,108
	<u>\$ 339,155</u>	<u>\$ 264,497</u>

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Note 3: Capital Assets**

Changes in capital assets consist of the following:

	October 1, 2022	Additions	Retirements	September 30, 2023
Construction in progress	\$ 41,472	\$ 20,107	\$ -	\$ 61,579
Land and buildings	198,075	-	-	198,075
Office equipment	90,348	6,716	995	96,069
Vehicles and equipment	333,632	-	-	333,632
Water system	5,685,991	426,788	403,302	5,709,477
Total	<u>\$ 6,349,518</u>	<u>\$ 453,611</u>	<u>\$ 404,297</u>	<u>\$ 6,398,832</u>

  

	October 1, 2021	Additions	Retirements	September 30, 2022
Construction in progress	\$ 178,590	\$ 20,581	\$ 157,699	\$ 41,472
Land and buildings	191,793	6,282	-	198,075
Office equipment	90,348	-	-	90,348
Vehicles and equipment	333,632	-	-	333,632
Water system	5,441,474	244,517	-	5,685,991
Total	<u>\$ 6,235,837</u>	<u>\$ 271,380</u>	<u>\$ 157,699</u>	<u>\$ 6,349,518</u>

Depreciation expense for the years ended September 30, 2023 and 2022 were \$202,434 and \$200,168, respectively.

**Note 4: Concentrations of Credit Risk and Major Suppliers**

The District has no formal policy on managing credit risk. Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District provides water services to commercial and residential users within the northwest Arkansas area. At September 30, 2023 and 2022, the District had accounts receivable of \$164,742 and \$171,347, respectively.

The District purchases all of its water from the City of Fort Smith.

Significant losses are covered by commercial insurance for all major programs for which the District retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

**Note 5: Related Party Transactions**

As of September 30, 2023, the District had one elected board member, Denver Wimberley, who owns Wimberley Construction, Inc. Payments were made to Wimberley Construction, Inc. for work performed during the year ended September 30, 2023 and 2022 totaling \$29,533 and \$-0-, respectively.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Note 6: Notes Payable**

Notes payable of the District consist of the following:

	<u>2023</u>	<u>2022</u>
Rural Development #91-07 - issued May 15, 2003, loan in the original amount of \$555,000. Payments are made monthly in the amount of \$2,565 and includes interest of 4.625%. The loan is secured by revenues and property of the District	\$ 395,869	\$ 408,035
Rural Development #91-08 - issued May 15, 2003, loan in the original amount of \$163,700. Payments are made monthly in the amount of \$757 and includes interest of 4.625%. The loan is secured by revenues and property of the District	115,278	120,208
Rural Development #91-09 - issued October 28, 2005, loan in the original amount of \$316,000. Payments are made monthly in the amount of \$1,347 and includes interest of 4.125%. The loan is secured by revenues and property of the District	-	137,288
Rural Development Bond - issued February 25, 2016, loan in the original amount of \$511,000. Payments are made monthly in the amount of \$1,891 and includes interest of 3.125%. The loan is secured by revenues and property of the District	349,875	361,438
Government Capital Lease/Purchase - issued March 2, 2023, loan in the original amount of \$306,993. Payments are made annually in the amount of \$71,281 and includes interest of 5.20%. The loan is secured by property of the District	<u>306,993</u>	<u>-</u>
Total notes payable	1,168,015	1,026,969
Less: current portion of notes payable	<u>(83,260)</u>	<u>(37,285)</u>
Notes payable, long-term	<u>\$ 1,084,755</u>	<u>\$ 989,684</u>

**HIGHWAY 71 WATER DISTRICT NO. 1**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

Notes payable are scheduled to be repaid as follows:

Years ending September 30,	PRINCIPAL	INTEREST	TOTAL
2024	\$ 83,260	\$ 50,525	\$ 133,785
2025	87,167	46,617	133,784
2026	91,354	42,430	133,784
2027	95,747	38,038	133,785
2028	100,355	33,430	133,785
2029-2033	183,777	128,743	312,520
2034-2038	224,096	88,424	312,520
2039-2043	272,657	38,996	311,653
2044-2048	29,602	848	30,450
Total	<u>\$ 1,168,015</u>	<u>\$ 468,051</u>	<u>\$ 1,636,066</u>

Activity of the notes payable consists of the following:

	October 1, 2022	Additions	Reductions	September 30, 2023
Rural Development #91-07	\$ 408,035	\$ -	\$ 12,166	\$ 395,869
Rural Development #91-08	120,208	-	4,930	115,278
Rural Development #91-09	137,288	-	137,288	-
Rural Development #91-10	361,438	-	11,563	349,875
Water Meters 2023	-	306,993	-	306,993
Total	<u>\$ 1,026,969</u>	<u>\$ 306,993</u>	<u>\$ 165,947</u>	<u>\$ 1,168,015</u>

  

	October 1, 2021	Additions	Reductions	September 30, 2022
Rural Development #91-07	\$ 419,652	\$ -	\$ 11,617	\$ 408,035
Rural Development #91-08	123,359	-	3,151	120,208
Rural Development #91-09	195,566	-	58,276	137,288
Rural Development #91-10	372,642	-	11,207	361,438
Total	<u>\$ 1,111,219</u>	<u>\$ -</u>	<u>\$ 84,251</u>	<u>\$ 1,026,969</u>

Under the terms of the Rural Development agreements, the District was required to make monthly transfers into a debt service reserve account until the following balances were obtained to service the following loans: Loan 91-07 - \$30,780, Loan 91-08 - \$9,084, and Loan 91-10 - \$14,820. As of September 30, 2023 and 2022, the debt service reserves were fully funded through debt service reserve CDs account in the amount of \$91,408 and surpluses maintained in the operating account.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

Under the terms of the Rural Development agreements, the District was required to deposit monthly 2% of gross revenue into a depreciation reserve account until a balance of \$188,928 is accumulated. As of September 30, 2023 and 2022, the depreciation reserve account balance was fully funded. This reserve account is for major repairs to the water system and for replacements to the water system due to depreciation of the facilities.

Interest paid during the years ended September 30, 2023 and 2022 amounted to \$38,511 and \$44,468, respectively. The District was in substantial compliance with all loan covenants at September 30, 2023 and 2022.

**Note 7: Agreement to Sell Water**

The District has a contract to sell water to the Locke-Fern and Dollard Road Waterworks Public Facilities Board (Locke-Fern). The District will sell water to Locke-Fern at the rates charged by the City of Fort Smith plus utility and other costs incurred by the District to provide water to Locke-Fern, wherein the utility and other cost rates are reviewed annually by both the District and Locke-Fern. Locke-Fern will pay any surcharge for excess use that is assessed by the City of Fort Smith. The contract will extend forty years from the date of the initial water delivery.

**Note 8: Leasing Activities**

The District has an existing lease agreement with Verizon, Inc. The lease grants Verizon the nonexclusive right to install, maintain, operate and remove radio communications equipment and appurtenances on the District's water tower. The agreement also leases to Verizon a portion of the District's property for construction and occupancy of an equipment shelter or building. The lease contains an option for Verizon to renew the lease for additional terms of five years each. During March 2022, the District renewed the lease for an additional five years with payment of \$1,401 per month. At September 30, 2023, the minimum future rentals under the lease are as follows:

Years ending September 30,	
2024	\$ 16,816
2025	16,816
2026	16,816
2027	16,816
Thereafter	<u>4,203</u>
	<u>\$ 71,467</u>

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Note 9: Employee Benefits**

Effective October 1, 2017, the District approved their participation in the Arkansas Public Employees Retirement System (APERS). APERS is a cost sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly with passage of Act 177 of 1957 to provide retirement benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. The laws governing operations of APERS are set forth in Arkansas Code of 1987 Annotated and 1993 Cumulative Supplement, Title 24, Chapters 3 and 4, with related laws in Chapter 2. APERS utilizes a five year vesting schedule for all employees. As of September 30, 2023 and 2022, annual pension contributions amounted to \$32,925 and \$28,466, respectively. Management has not adopted Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The APERS actuarial firm released an estimated pension liability as of June 30, 2022 of \$350,217.



## **SUPPLEMENTARY INFORMATION**

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**ADDITIONAL COMMENTS REQUIRED BY RURAL DEVELOPMENT**  
**SEPTEMBER 30, 2023**

**WATER RATE SCHEDULE**

	<u>2023</u>	<u>2022</u>
Minimum charge - first 1,000 gallons	\$25.00	\$23.35
Per thousand - 1,001 to 4,000 gallons	7.31	7.10
Per thousand - 4,001 to 8,000 gallons	7.65	7.43
Per thousand - 8,001 to 13,000 gallons	7.82	7.60
Per thousand - over 13,000 gallons	7.82	7.60
Per month ADH fee - per users	0.40	0.40

During the years ended September 30, 2023 and 2022, the District purchased 289,672,002 and 283,305,044 gallons of water, respectively, and sold 187,829,100 and 179,320,300 gallons of water, respectively. At September 30, 2023 and 2022, the District had 2,562 and 2,541 active users, respectively.

**BOARD OF DIRECTORS**

<u>NAME</u>	<u>TITLE</u>
Randy Milam	President
Emily Rucker	Vice President
Jimmy Haggard	Secretary/ Treasurer
Lee Kubicki	Board Member
Denver Wimberley	Board Member
Stacy McCabe	Board Member
Jayson Peppas	Board Member
Warren Robertson	Board Member

**ACCOUNTING RECORDS AND CONTROL OVER PHYSICAL ASSETS**

The District's accounting records, with the exception of normal adjusting entries, are in agreement with these financial statements. The accounting records of the District are adequate. The District's control over physical assets is adequate.

**MATERIAL OR UNUSUAL ADJUSTMENTS**

The accounting records of the District incurred no unusual adjustments. Material adjustments, however not unusual in nature, included reclassification of work in process to water system accounts.

See Independent Auditor's Report.

**HIGHWAY 71 WATER DISTRICT NO. 1**  
**PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED SEPTEMBER 30, 2023**

<b>OPERATING REVENUES</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Water sales, net of provision for bad debts	\$ 1,758,661	\$ 1,761,347	\$ 2,686
Service charges	13,600	13,145	(455)
Customer contributions	-	14,330	14,330
ADH service fee income	12,200	12,215	15
Meter fees	17,850	15,000	(2,850)
Miscellaneous income	3,000	4,744	1,744
<b>Total Operating Revenues</b>	<b>1,805,311</b>	<b>1,820,781</b>	<b>15,470</b>
<b>OPERATING EXPENSES</b>			
Water purchases	700,000	700,179	(179)
Repairs and maintenance	50,000	135,987	(85,987)
ADH service fees	12,200	10,375	1,825
Salaries	323,880	330,598	(6,718)
Electricity	120,000	93,016	26,984
Other utilities	1,800	1,568	232
Security expense	1,000	577	423
Office expense	25,000	33,144	(8,144)
Professional fees	25,000	17,943	7,057
Postage	14,400	14,843	(443)
Insurance	53,000	54,844	(1,844)
Employee insurance	93,000	76,661	16,339
Telephone	13,300	14,104	(804)
Vehicle expense	30,000	33,021	(3,021)
Miscellaneous expense	1,000	-	1,000
Depreciation	180,000	202,434	(22,434)
Uniforms	4,000	2,267	1,733
Dues and meetings	3,500	2,856	644
Payroll taxes	46,000	25,960	20,040
APERS expense	-	32,925	(32,925)
<b>Total Operating Expenses</b>	<b>1,697,080</b>	<b>1,783,302</b>	<b>(86,222)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>108,231</b>	<b>37,479</b>	<b>(70,752)</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Interest income	5,500	27,026	21,526
Gain on sale of capital assets	-	(51,041)	(51,041)
Lease income	16,816	16,816	-
Debt issuance cost	-	(6,143)	(6,143)
Interest expense	(55,000)	(45,973)	9,027
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(32,684)</b>	<b>(59,315)</b>	<b>(26,631)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 75,547</b>	<b>\$ (21,836)</b>	<b>\$ (97,383)</b>

See Independent Auditor's Report and Note to the Budgetary Comparison Schedule.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTE TO THE BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2023**

**Note 1: Budget**

The budget for the District is prepared on the cash basis of accounting. The original budget is approved by the District's Board of Directors.

The District's approved budget does not include a provision for deferred compensation contributions and the District's budgeted amount for repairs and supplies includes amounts budgeted for capital expenditures.

Accounts in the actual column have been grouped to show comparability with the budget line items.

See Independent Auditor's Report.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SUMMARY OF AUDITOR'S RESULTS  
YEAR ENDED SEPTEMBER 30, 2023**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses a qualified opinion on the financial statements of **Highway 71 Water District No. 1 Public Water Authority of the State of Arkansas** (the District).
2. Our audit was conducted 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.
3. One deficiency in internal control was disclosed during the audit of the financial statements and reported in Section I of the schedule of findings and responses, finding **2023-001**. This condition is reported as a material weakness.
4. No instances of noncompliance material to the financial statements of the District required to be reported in accordance with *Government Auditing Standards* are disclosed in the audit.
5. The District is in compliance with all sections of its Escrow Deposit Agreement.
6. The District's deposits in financial institutions were all either insured or collateralized as of **September 30, 2023**.
7. Additional information necessary for full disclosure is included in the audit report dated **February 27, 2023** and the audited financial statements of the District for the year ended **September 30, 2023**.

**HIGHWAY 71 WATER DISTRICT NO. 1  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2023**

**SECTION I – CURRENT YEAR**

**2023-001 Internal Control over Financial Reporting - Segregation of Duties**

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the District's assets and ensure accurate financial reporting.

Condition: The District has a limited number of employees which effectively preclude an adequate segregation of duties relating to the recording, processing, reconciling and reporting of cash and other transactions in the accounting records, as well as the safeguarding of assets.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the District should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official's Response: The District concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the District plans to make certain changes in procedures that will improve the overall lack of segregation of duties.

**SECTION II – DEFICIENCY – PRIOR YEAR**

2022-001 – Prior year findings same as current year findings.

**FINDINGS – GOVERNMENT AUDITING STANDARDS AUDIT**

**SECTION III – INTERNAL CONTROLS**

Same as Section I finding 2023-001

**SECTION IV – COMPLIANCE**

No findings