

WESTERN GREENE COUNTY REGIONAL WATER DISTRICT

Audited Financial Statements

For the Year Ended November 30, 2022

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Western Greene County Regional Water District
Audited Financial Statements

For the Year Ended November 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Commission
Western Greene County Regional Water District

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Western Greene County Regional Water District (the "District") as of and for the years ended November 30, 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, the financial statements referred to above present fairly, in all material respects of Western Greene County Regional Water District, as of November 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Required Supplementary Information

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 Auditing Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2023, 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 grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

August 31, 2023

Western Greene County Regional Water District
Statements of Net Position
November 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$	579,419
Accounts receivable-customers		85,795
Reserve for bad debts		2,365
Total current assets		667,579

NON-CURRENT ASSETS

Restricted cash and cash equivalents		386,067
Utility deposits		550
Capital asset, net of accumulated depreciation		3,388,393
Total non-current assets		3,775,010

TOTAL ASSETS	\$	4,442,589
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$	22,430
Payroll liabilities		620
Accrued interest payable		896
Other liabilities		13,629
Compensated absences		32,542
Current portion of long-term debt		110,472
Total current liabilities		180,589

LONG-TERM DEBT, net of current portion		2,206,520
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LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Customer deposits		205,148
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TOTAL LIABILITIES		2,592,257
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NET POSITION

Net investment in capital assets		1,071,401
Restricted for debt service		168,638
Restricted for depreciation reserve		53,806
Unrestricted		556,487
Total net position		1,850,332

TOTAL LIABILITIES AND NET POSITION	\$	4,442,589
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Western Greene County Regional Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended November 30, 2022

	2022
OPERATING REVENUES	
Water Sales	\$ 976,032
Connection Fees	30,910
Other income	44,318
Total operating revenue	1,051,260
OPERATING EXPENSES	
Advertising	903
Bank charges	35
Chemicals	85,874
Contract labor	49,027
Continuing education and seminars	100
Depreciation	256,900
Directors fees	920
Dues and subscriptions	5,762
Employee benefits	55,637
Insurance	37,148
Licenses and registration	2,083
Line locate service fees	1,830
Maintenance and repairs	74,241
Meals and entertainment	7,442
Meter reading services	43,984
Miscellaneous	6,209
Office supplies	7,865
Pest control	255
Postage	12,303
Professional fees	7,796
Retirement plan	5,420
Supplies	112,975
Taxes	21,488
Telephone	14,061
Travel and meetings	3,967
Utilities	75,044
Vehicle expense	36,664
Wages	279,027
Total operating expenses	1,204,960
OPERATING INCOME (LOSS)	(153,700)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	1,613
Interest expense	(93,372)
Non-operating revenues (expenses)	(91,759)
CHANGE IN NET POSITION	(245,459)
NET POSITION, NOVEMBER 30, 2021	2,095,791
NET POSITION, NOVEMBER 30, 2022	\$ 1,850,332

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

**Western Greene County Regional Water District
Statements of Cash Flows
For the Year Ended November 30, 2022**

	2022
Cash flows from operating activities:	
Cash receipts from customers	\$ 1,100,203
Cash payments to suppliers for goods and services	(689,026)
Cash payments to employees	(277,222)
Net cash provided by (used in) operating activities	133,955
Cash flows from non-capital financing activities:	
Change in customer meter deposits	10,767
Net cash provided by (used in) non-capital financing activities	10,767
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(84,337)
Interest payments on long-term debt	(93,372)
Proceeds on long-term debt	55,400
Purchases of capital assets	(91,096)
Net cash provided by (used in) financing activities	(213,405)
Cash flows from investing activities:	
Interest received	1,613
Net cash provided by (used in) investing activities	1,613
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(67,070)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,032,556
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 965,486
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (153,700)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	256,900
(Increase)/Decrease In:	
Customer accounts receivable	(3,580)
Inventory	26,459
Prepaid Insurance	1,212
Increase/(Decrease) In:	
Accounts payable	15,711
Accrued interest payable	375
Accrued compensation	(385)
Payroll taxes payable	(1,804)
Other liabilities	(7,232)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 133,955

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

Western Greene County Regional Water District
Notes to the Financial Statements
November 30, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The Western Greene County Regional Water District (the “District”) was created in 1979. The District is a nonprofit, regional water distribution district serving primarily the rural areas of Western Greene County, Arkansas. The system serves around 2,700 customers.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of 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 District’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resource measurement focus and the accrual basis of accounting. The basis of accounting determines when transactions and economic events are reflected in financial statements and measurement focus identifies which transactions and events should be recorded. The measurement focus of an enterprise fund is an economic resources measurement focus, the objectives of which are the determination of an operating income, changes in financial position and cash flow. Under an economic resource measurement focus, all assets, deferred inflows (outflows) of resources and liabilities are reported. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred.

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

When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the District’s policy to apply the expense to restricted net position to the extent such are available and then to unrestricted net position.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all cash balance on hand, demand deposits, money market accounts and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. The District uses the direct write-off method to record bad debt; as of November 30, 2022, there was no total write-off for bad debt expense.

Capital Assets

Capital assets consist of property, plant and equipment which are stated at historical cost or at estimated cost, if actual historical cost information is not available. Contributed assets are recorded at their estimated fair value at the time of contribution. The District defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. 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 reported as non-operating revenues or expenses. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred. Interest cost related to constructing property, plant and equipment is capitalized as part of the related asset when applicable.

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Structure and improvements	15-40 years
Equipment	3-10 years

Western Greene County Regional Water District
Notes to the Financial Statements
November 30, 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Revenue Recognition

Revenue for water supply, treatment and distributions services are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the District's financial statements include an estimate of charges for services provided, but unbilled at year end.

Use of Estimates

The preparation of financial statements in accordance with GAAP required management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

The useful lives of assets comprising utility plant in service are significant estimates used to determine the amount of depreciation expenses and the net book value of utility plant in services reported in the District's financial statements.

Net Position

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 improvement of those assets.

Restricted – This component of net positions 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 net assets – This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets”.

Taxes

The District is exempt from federal income taxes under the Internal Revenue Service code and is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Commission adopts an annual budget for the District. The budget is adopted under a cash basis and does not include depreciation, certain capital expenses, and certain non-operating income and expense items. All annual appropriations lapse at year-end.

Customer Deposits

All new residential and commercial customers are required to place a utility deposit with the District. The customer's deposit is returned once all outstanding balances are finalized on the customer's account.

Compensated Absences

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

NOTE 2: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. In accordance with Arkansas State statutes, the District requires full collateralization of cash balances above the Federal Deposit Insurance Corporation (FDIC) insurance limits. At November 30, 2022, the District had bank deposits in the amount of \$977,135. Cash at one of these institutions exceeded federally insured limits and pledged securities as of November 30, 2022, \$477,135 was uninsured/collateralized.

Western Greene County Regional Water District
Notes to the Financial Statements
November 30, 2022

NOTE 3: RESTRICTED CASH

Restricted assets consist of cash reserves restricted by debt covenants and required customer meter deposits.

The following is a summary of the restricted cash and cash equivalents as of November 30, 2022:

	2022
Current-Restricted	
Customer Meter Deposits	163,622
Noncurrent-Restricted	
Bond reserve accounts	222,445
Total	\$ 386,067

NOTE 4: CERTIFICATE OF DEPOSITS

As of November 30, 2022, the District's certificated of deposit balance was \$342,204, of the total amount \$177,413 is unrestricted and \$164,791 is restricted for customer meter deposits.

NOTE 5: CAPITAL ASSETS

As summary of changes in capital assets for the year ended November 30, 2022 are as follows:

	Balance 11/30/2021	Additions	Deletions	Balance 11/30/2022
Non-depreciable				
Land	\$ 43,119	\$ -	\$ -	\$ 43,119
Depreciable:				
System lines, tank and improvements	8,874,676	1,908	-	8,876,584
Equipment and vehicles	563,068	89,189	-	652,257
	9,437,744	91,097	-	9,528,841
Less: accumulated depreciation	(5,926,666)	(256,900)	-	(6,183,566)
Depreciable assets	3,511,078	(165,803)	-	3,345,275
Capital assets, net	\$ 3,554,197	\$ (165,803)	\$ -	\$ 3,388,394

NOTE 6: LONG-TERM LIABILITIES

As summary of long-term debt for the year ended November 30, 2022 are as follows:

	Date of Issue	Maturity Date	Rate of Interest	Principal Amount	Outstanding as of 11/30/2022
First National Bank	7/27/2018	7/27/2043	3.75%	2,500,000	2,215,739
First National Bank	3/11/2022	10/31/2023	3.00%	25,000	22,998
Ally Financial	10/15/2020	9/15/2027	6.99%	36,375	26,887
Chrysler Capital	9/7/2021	10/7/2023	7.99%	37,980	24,553
De Lage Landem	3/6/2022	2/6/2027	5.17%	30,400	26,815
				2,629,755	2,316,992

The first loan to First National Bank is collateralized by a second lien position on all accounts receivable, furniture, fixtures, equipment, inventory, and filing as an abundance of caution of 8 real estate legal descriptions containing water towers. The second loan to First National Bank is collateralized by a certificate of deposit. The loans to Ally Financial, Chrysler Capital, and De Lage Landem are collateralized by 2020 Ford F150, 2021 Dodge Ram, and 2022 vacuum excavator, respectively.

Western Greene County Regional Water District
Notes to the Financial Statements
November 30, 2022

NOTE 6: LONG-TERM LIABILITIES (Continued)

Maturities and analysis of long-term debt changes to the District's long-term debt are as follows:

	2022
Total long-term debt at beginning of year	\$ 2,345,929
Note payable issued	55,400
Note payable retirement	(84,337)
Total long-term debt at the end of year	2,316,992
Less: current portion	(110,472)
Long-term debt, net of current portion	\$ 2,206,520

Maturities of long-term debt on November 30, 2022, are as follows:

	Principal	Interest	Total
2023	\$ 110,472	\$ 86,407	\$ 196,879
2024	91,251	82,630	173,881
2025	95,204	78,677	173,881
2026	99,314	74,565	173,879
2027	97,188	70,300	167,488
Thereafter	1,823,563	584,621	2,408,184
	\$ 2,316,992	\$ 977,200	\$ 3,294,192

Debt Service Reserve

On July 27, 2018, the District entered into a loan with First National Bank for \$2,500,000. The debt covenant with First National Bank requires the District to maintain a debt service fund and a debt service reserve fund. The debt service fund is required to maintain an amount equal to one monthly payment of \$12,858. The debt service reserve fund is required to maintain an amount equal to one year of payments of \$154,294. At November 30, 2022, the District has sufficiently reserved the required deposits.

NOTE 7: RETIREMENT PLAN

The District offers a defined contribution plan for all full time employees and contracts with a private company who maintains the account. The defined contribution plan, is a simple IRA and the benefits depend solely on amounts contributed to the plan plus investment earnings. The District matches an amount up to 3% of the employee's base salary. Employees are entitled only to the funds deposited by them and on their behalf; therefore, there is no unfunded liability. The District's contribution to the plan was \$5,420 for the year ended November 30, 2022.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District has purchased insurance to address these risks. There has been no significant reduction in the District's coverage during the year ended November 30, 2022.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 31, 2023, the date on which the financial statements were available to be issued.



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 Commission
Western Greene County Regional Water District

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 Western Greene County Regional Water District (the "District"), as of and for the year ended November 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2023.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The District's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend that the financial accounting duties be segregated among employees to the extent possible.

Management responded and indicated that accounting duties related to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels and will continue to mitigate the deficiency with increased oversight by the governing body.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Management's response to the findings identified in our audit is described above. Management'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas
August 31, 2023