

**INDEPENDENCE - JACKSON REGIONAL WATER
USERS ASSOCIATION, INC.
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Independence - Jackson Regional Water Users Association, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Independence - Jackson Regional Water Users Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Independence - Jackson Regional Water Users Association, Inc. as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of 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 Independence - Jackson Regional Water Users Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 combined 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 Independence-Jackson Regional Water Users Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Independence-Jackson Regional Water Users Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, on our consideration of Independence - Jackson Regional Water Users Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Independence - Jackson Regional Water Users Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independence - Jackson Regional Water Users Association, Inc.'s internal control over financial reporting and compliance.

Whitmire, Robinson & Co., CPA
Batesville, AR
April 27, 2023

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

	Assets		
		2022	2021
Current Assets			
Cash in banks and on hand		\$91,590	\$111,041
Accounts receivable, net of allowance for doubtful accounts of \$2,177 and \$2,177		79,108	85,411
Unbilled revenue		95,319	105,790
Accrued interest receivable		256	256
Inventory (Note 1)		30,583	32,490
Total Current Assets		296,856	334,988
Noncurrent Assets			
Restricted Assets			
CD - meter deposit account		24,685	24,454
CD - debt reserve		202,649	201,355
Total Restricted Assets		227,334	225,809
Capital Assets			
Land and land improvements		65,938	65,938
Other capital assets, net accumulated depreciation		4,449,216	4,679,049
Total Capital Assets		4,515,154	4,744,987
Other Assets			
Utilities and other deposits		350	350
Co Bank patronage		21,714	17,816
Total Other Assets		22,064	18,166
Total Noncurrent Assets		4,764,552	4,988,962
Total Assets		\$5,061,408	\$5,323,950

See notes to financial statements.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION (Cont.)
SEPTEMBER 30, 2022 AND 2021

	Liabilities and Net Assets	
	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	\$28,026	\$28,973
Payroll and other taxes payable	11,173	12,229
Accrued interest payable	2,332	5,462
Accrued vacation	9,360	13,359
Accrued insurance expense	3,514	2,728
Current maturities of long-term debt	<u>105,071</u>	<u>100,674</u>
Total Current Liabilities	<u>159,476</u>	<u>163,425</u>
Meter Deposits	80,696	74,959
Long-term Debt, Net of Current Maturities	<u>1,494,624</u>	<u>1,598,549</u>
Total Liabilities	<u>1,734,796</u>	<u>1,836,933</u>
Net Assets - Without Donor Restrictions		
Undesignated	3,099,278	3,261,208
Board designated	<u>227,334</u>	<u>225,809</u>
Total Net Assets - Without Donor Restrictions	<u>3,326,612</u>	<u>3,487,017</u>
Total Liabilities and Net Assets	<u><u>\$5,061,408</u></u>	<u><u>\$5,323,950</u></u>

See notes to financial statements.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Changes in Net Assets - Without Donor Restrictions		
Operating Income		
Water sales	\$739,081	\$686,924
Connection charges	2,570	3,625
Late payment penalties	12,813	12,105
Miscellaneous income	104	9311
Total Operating Income	<u>754,568</u>	<u>711,965</u>
Operating Expenses		
Program expenses	829,285	755,758
Management and general	30,351	24,871
Total Operating Expenses	<u>859,636</u>	<u>780,628</u>
Net Income (Loss) From Operations	<u>(105,068)</u>	<u>(68,663)</u>
Nonoperating Revenue (Expense)		
Patronage capital refund	12,568	13,496
Grant	-0-	59,689
Other Income - Interest	1,524	4,402
Other Expense - Interest	(69,429)	(75,778)
Total Nonoperating Revenue (Expense)	<u>(55,337)</u>	<u>1,809</u>
Changes in Net Assets - Without Donor Restrictions	<u>(160,405)</u>	<u>(66,854)</u>
Net Assets - Without Donor Restrictions,		
Beginning of Year	<u>3,487,017</u>	<u>3,553,871</u>
Net Assets - Without Donor Restrictions, End of Year	<u><u>\$3,326,612</u></u>	<u><u>\$3,487,017</u></u>

See notes to financial statements.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSE
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

**Year Ended September 30,
2022:**

	Program Services	Management and General	Total
Salaries	\$183,461		\$183,461
Utilities	119,735	\$3,902	123,637
Chemicals	25,327		25,327
Operating supplies	50,846		50,846
Repairs	67,054		67,054
Automobile and truck expense	48,778		48,778
Telephone and telemeter	7,368		7,368
Office Supplies and postage	4,827	5,450	10,277
Insurance	38,044	10,853	48,897
Legal and Accounting	-0-	5,500	5,500
Uniforms	3,000		3,000
Payroll taxes	14,688		14,688
Miscellaneous	14,713	2,915	17,628
Depreciation	251,444	1,731	253,175
Total Expenses	<u>\$829,285</u>	<u>\$30,351</u>	<u>\$859,636</u>

**Year ended September 30,
2021:**

Salaries	\$161,942		\$161,942
Utilities	91,316	\$4,805	96,121
Chemicals	23,524		23,524
Operating Supplies	45,007		45,007
Repairs	52,950		52,950
Automobile and truck expense	42,679		42,679
Telephone and telemeter	7,061		7,061
Office supplies and postage	4,896	3,146	8,042
Insurance	28,852	8,324	37,176
Legal and accounting		4,950	4,950
Uniforms	4,890		4,890
Payroll taxes	12,739		12,739
Bad debts and returned checks	5,767		5,767
Miscellaneous	19,600	1,760	21,360
Depreciation	254,535	1,885	256,420
Total Expenses	<u>\$755,758</u>	<u>\$24,870</u>	<u>\$780,628</u>

See notes to financial statements.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in Net Assets	(\$160,405)	(\$66,854)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	253,175	256,420
Change in operating assets and liabilities:		
Non-cash patronage dividends	(3,898)	(4,171)
Accounts receivables	6,303	(22,722)
Unbilled revenue	10,471	12,576
Inventory	1,907	(8,596)
Accounts payable	(947)	13,292
Accrued expenses	(2,344)	
Accrued and withheld payroll taxes	(1,056)	4,397
Accrued payroll/vacation	(3,999)	(2,718)
Net Cash Provided by Operating Activities	<u>99,207</u>	<u>181,624</u>
Cash Flows from Investing Activities		
Purchases of capitalized equipment	(23,342)	(152,530)
Customer deposits	5,737	2,201
Net Cash (Used) by Investing Activities	<u>(17,605)</u>	<u>(150,329)</u>
Cash Flows from Financing Activities		
Principal payments of long-term debt	(99,528)	(95,315)
Net Cash (Used) by Financing Activities	<u>(99,528)</u>	<u>(95,315)</u>
Net Decrease in Cash	(17,926)	(64,020)
Cash and Cash Equivalents, Beginning of Year	336,850	400,870
Cash and Cash Equivalents, End of Year	<u>\$318,924</u>	<u>\$336,850</u>
Supplementary Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$72,559</u>	<u>\$76,817</u>

See notes to financial statements.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies

a. Organization

Independence - Jackson Water Users Association, Inc. is a nonprofit water utility formed in 1985 to construct, maintain, and operate a private water system for supplying water to its members.

b. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

c. Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes there in are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate amounts from net assets without donor restrictions for specific purposes. The Board of Directors has designated a total of \$227,334 and \$225,809 of the net assets without donor restriction for these purposes at September 30, 2022 and 2021, respectively.

	<u>2022</u>	<u>2021</u>
Debt reserve	\$202,649	\$201,355
Meter deposits	\$24,685	\$24,454

Net Assets with Donor Restrictions - Net assets subject to donor - (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies (continued)

d. Method of Accounting

The Association maintains its records on the accrual basis for financial purposes.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Association's principal ongoing operations. The principal operating revenues of the Association are charges to customers water sales. Operating expenses for the Association include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

e. Use of Estimates

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

f. Concentrations

The Association grants credit for water sales to its members, all of whom are located in the immediate geographic area, on terms which are usual for a water utility. The collectibility of the Association's receivables is dependent upon its member's ability to honor their water bill obligations. However, each member has a deposit with the Association which is held as security.

g. Cash Equivalents

For the purpose of the statement of cash flows, the Association considers all highly liquid debt instruments that are not restricted funds and with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies (continued)

h. Accounts Receivable

Accounts receivable related to water billing are shown net of an allowance for doubtful accounts. Credit extended to customers is generally uncollateralized. Accounts are due the 6th of each month. Past due accounts are charged a 10% late fee. It is the Association's policy to disconnect services on the 16th. Customers are required to make a deposit, and deposits can be offset against the receivable.

Accounts receivable consist of credit extended to users in the normal course of business. Independence - Jackson Regional Water Users Association, Inc. uses the allowance method to account for uncollectible accounts receivable. Management performs ongoing credit evaluations of its accounts. Those considered uncollectible are reserved for through the allowance accounts. The policy for determining when receivables are post due or delinquent is based on how recently payments have been received. Management uses significant judgment in estimating uncollectible amounts. While management believes that Independence - Jackson Regional Water Users Association, Inc.'s processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to any allowance recorded by Independence - Jackson Regional Water Users Association, Inc.

i. Revenue Recognition

Revenue from water sales is recognized at the time the water is delivered to the customer. Water revenues are determined based on monthly meter readings. Any water used between billing date and the end of the month is estimated based on the applicable portion of the billing of the following month. Revenues from connections and any other revenue is recognized at the point of service.

Water revenue is recorded based on customer billings.

j. Inventory

Inventory consists of replacement parts and chemicals and has been recorded at the lower of cost or net realizable value.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies (continued)

k. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation of the cost of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. Depreciation expense for the years ended September 30, 2022 and 2021 was \$253,175 and \$256,420. The policy of Independence - Jackson Regional Water Users Association, Inc. is to capitalize all assets in excess of \$500.

l. Income Taxes

The Association is exempt from income taxes under IRS Code Section 501(c)(12).

The Association is subject to taxation in the United States and the State of Arkansas. As of September 30, 2022, the Association's tax years September 30, 2019, 2020, and 2021 are subject to examination by tax authorities. With few exceptions, as of September 30, 2022, the Association is no longer subject to U. S. Federal or state examinations by tax authorities for years before September 30, 2019.

m. Regulatory Environment

Any rate increase must be authorized by the Association's Board of Directors. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act, and the Arkansas Department of health.

n. Insurance

The Association is exposed to various risks of loss related to property and casualty losses. It is the policy of Independence - Jackson Regional Water Users Association, Inc. to purchase commercial insurance including workers' compensation, for the risks of loss to which it is exposed. Under this arrangement, the Association assumes the risk for the amount of loss where risk management principles and prior loss experience indicate a premium savings greater than exposures assumed.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies (continued)

o. Functional Allocation of Expenses

The costs of providing the programs and supporting service activities have been directly charged. Management and general costs consist of audit expenses and other administrative expenses.

Note 2 - Restricted Cash

Funds held as restricted assets at September 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Debt reserve - USDA	\$29,520	\$29,028
Debt reserve Co-Bank T02	80,000	80,000
Debt reserve Co-Bank T03	14,000	14,000
Debt reserve Co-Bank T04	37,000	37,000
Debt reserve Co-Bank T01	13,000	13,000
Short-lived asset reserve	29,129	28,327
Meter deposits	24,685	24,454
	<u>\$227,334</u>	<u>\$225,809</u>

The Loan Resolution Security Agreement with USDA requires that the Association establish a debt service reserve that includes \$246 per month in addition to the required monthly payment until \$29,520 has been accumulated; then the additional payment shall not be required.

In accordance with Co-Bank Loan Resolution Security Agreements, the Association is required, for each mortgage payable, to set aside a debt service reserve.

Short-lived Asset Reserve

Funds of \$29,129 are shown as restricted for short lived asset reserve. The Association also maintains unrestricted cash for the remaining amount of \$91,360 for a total of \$120,489. The required amount for the short lived asset reserve at September 30, 2022 is \$189,108. Short-lived asset reserve is not adequate as of September 30, 2022, deficient amount of \$68,619.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 3 - Property, Plant and Equipment

The components of property, plant, and equipment as of September 30, 2022 are as follows:

	October 1, 2021	Additions	Deletions	September 30, 2022
Utility Plant	\$9,289,173	\$21,712		\$9,310,885
Equipment and fixtures	222,780	1,630		224,410
Land	50,198			50,198
Land improvements	15,740			15,740
Software	14,768			14,768
Totals	9,592,659	23,342		9,616,001
Accumulated depreciation	(4,847,672)	(253,175)		5,100,847
Utility Plant, net	<u>\$4,744,987</u>	<u>(\$229,833)</u>		<u>\$4,515,154</u>

The components of property, plant, and equipment as of September 30, 2021 are as follows:

	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2021
Utility Plant	\$9,144,875	\$144,298		\$9,298,173
Equipment and fixtures	215,587	7,193		222,780
Land	50,198			50,198
Land improvements	15,740			15,740
Software	14,768			14,768
Totals	9,441,168	151,491		9,592,659
Accumulated depreciation	(4,591,252)	(256,420)		(4,847,672)
Utility Plant, net	<u>\$4,849,916</u>	<u>(\$104,931)</u>		<u>\$4,744,987</u>

Note 4 - Concentrations of Credit Risk

The Association's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Association maintains its cash accounts primarily with banks located in Batesville, Arkansas. The total cash balances are insured by the FDIC up to \$250,000 per bank. At September 30, 2022, the Association's carrying amount of deposits was \$318,923, and the bank balance was \$341,843. Of the bank balance, \$341,843 was insured by the FDIC and/or collateralized.

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 5 - Notes Payable

Notes payable consists of the following as of September 30:

	<u>2022</u>	<u>2021</u>
4.00% Note payable to U. S. Dept. Of Agriculture, dated August 12, 2011, interest only until August 12, 2012, monthly installments thereafter (including principal and interest) of \$2,458 maturing in August 2050, collateralized by plant facilities and water	\$493,965	\$503,495
3.94% Note payable to Co-Bank, issued January 30, 2017 with monthly installments of approximately \$1,154 (including principal and interest) maturing November 20, 2026 collateralized by plant facilities and personal property	53,012	64,477
4.22% Note payable to Co-Bank, issued January 30, 2017 with monthly installments of approximately \$6,336 (including principal and interest) maturing July 20, 2029, collateralized by plant facilities and personal property	449,176	504,599
4.60% Note payable to Co-Bank, issued January 30, 2017 with monthly installments of approximately \$1,131 (including principal and interest) maturing January 20, 2036, collateralized by plant facilities and personal property	134,451	141,563
4.76% Note payable to Co-Bank, issued January 30, 2017 with monthly installments of approximately \$3,257 (including principal and interest) maturing September 20, 2040, collateralized by plant facilities and personal property	<u>469,091</u>	<u>485,089</u>
Total long-term debt	1,599,695	1,699,223
Less current maturities	<u>(105,071)</u>	<u>(100,674)</u>
Long-term debt, less current maturities	<u><u>\$1,494,624</u></u>	<u><u>\$1,598,549</u></u>

Future principal maturities are as follows:

2023	\$105,071
2024	109,661
2025	114,453
2026	119,455
2027	112,698
After 2028	<u>1,038,357</u>
Total	<u><u>\$1,599,695</u></u>

INDEPENDENCE - JACKSON REGIONAL WATER USERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont.)
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

Note 6 - Compensated Absences

Independence - Jackson Regional Water Users Association, Inc.'s policy provides that employees accrue vacation at the rate of 5 days per year for the first year of employment and 10 days per year thereafter. There is no maximum carryover of accrued vacation. Accrued vacation at September 30, 2022 and 2021 was \$9,360 and \$13,359 respectively.

Note 7 - Net Assets - Without Donor Restrictions

None of the Association's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as net assets without donor restrictions.

Note 8 - Evaluation of Subsequent Events

The Association has evaluated subsequent events through April 27, 2023, the date which the financial statements were available to be issued.

Note 9 - Liquidity and Availabillity

The Association's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash	\$91,360
Accounts Receivable	\$81,285

As part of the Association's liquidity, management has a policy to structure financial assets to be available as its general expenditure. liabilities and other obligations come due.

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

To the Board of Directors
Independence - Jackson Regional Water Users Association, Inc.

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 Independence - Jackson Regional Water Users Association, Inc. (a nonprofit organization) which comprise the statement of financial position as of September 30, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independence - Jackson Regional Water Users Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independence - Jackson Regional Water Users Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

2022-1

- Criteria: A proper segregation of duties is an integral part of the control structure.
- Condition: The Association's internal control structure disclosed there are inherent limitations in the Association's controls in this regard.
- Cause: The Association does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be practical from a cost-benefit stand point.
- Effect or Potential Effect: There is not an adequate separation of duties.
- Recommendations: We recommend that this control be kept in mind when reviewing the flow of transactions and the organizational structure.
- Response: The Association is aware of the deficiency and will continue to mitigate the deficiency with increased controls and monitoring of the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence - Jackson Regional Water Users Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described below:

2022-2

- Criteria: The loan covenants USDA require short lived asset reserve in the amount of \$189,108.

Condition: Independence-Jackson Regional Water Users Association, Inc. had only \$120,489 available at September 30, 2022 for short lived asset reserve.

Cause: Independence-Jackson Regional Water Users Association, Inc. was short funds by \$68,619 of meeting the required amount of \$189,108.

Effect or Potential Effect: The Association is not in compliance with loan covenants of Rural Utility Service.

Recommendation: We recommend that funds be maintained to meet compliance requirement.

Response: The Association is aware of the non-compliance and will take measures to get in compliance.

Independence - Jackson Regional Water Users Association, Inc.'s Response to Findings

Independence - Jackson Regional Water Users Association, Inc.'s response to the findings identified in our audits is described above. Independence - Jackson Regional Water Users Association, Inc.'s response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Whitmire, Robinson & Co.
Batesville, Arkansas
April 27, 2023