Beaver Water District of

Washington and Benton Counties

Independent Auditors' Report with Financial Statements and Supplemental Information

For the Years Ended September 30, 2023 and 2022



Beaver Water District of Washington and Benton Counties Financial Statements September 30, 2023 and 2022

Independent Auditors' Report Management's Discussion and Analysis	
Financial Statements	
Statements of Net Position	. 10
Statements of Revenues, Expenses, and Changes in Net Position	. 11
Statements of Cash Flows	. 12
Notes to Financial Statements	. 13
Supplemental Information	
Schedules of Unrestricted Cash and Investments	
Schedules of Restricted Cash and Investments	. 24
Single Audit Financial Statements	
Independent Auditors' 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	. 25
Independent Auditors' Report on Compliance for Each Major Program and On Internal Control	
Over Compliance Required by the Uniform Guidance	. 27
Schedule of Expenditures of Federal Awards	. 30
Notes to Schedule of Expenditures of Federal Awards	. 31
Schedule of Findings and Questioned Costs	. 32
Summary Schedule of Prior Audit Findings	. 33



INDEPENDENT AUDITORS' REPORT

To the Board of Directors Beaver Water District of Washington and Benton Counties Lowell, Arkansas

Opinion

We have audited the accompanying financial statements of the governmental activities of Beaver Water District of Washington and Benton Counties 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Beaver Water District of Washington and Benton Counties, as of September 30, 2023 and 2022, and the respective changes in financial position, and cash flows there of 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 Beaver Water District of Washington and Benton Counties 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.

Management's Responsibility 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.

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Auditors' Responsibility

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 the management's discussion and analysis on pages 4-8 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.

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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 opinions on the financial statements that collectively comprise the Beaver Water District of Washington and Benton Counties basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2024, on our consideration of Beaver Water District of Washington and Benton Counties' 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.

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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 Beaver Water District of Washington and Benton Counties' internal control over financial reporting and compliance.

Abacus CPAS,uc

Springfield, Missouri January 10, 2024

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The following is a discussion and analysis of Beaver Water District's financial performance for the years ending September 30, 2023, and 2022. This analysis, in conjunction with the District's financial statements and notes to financial statements, provides a complete analysis of those statements.

FINANCIAL HIGHLIGHTS

FY 2022 to FY 2023

- The District's Total Net Position increased by \$12.9 million or 6.5%.
- Operating Revenues increased by \$3.7 million or 10.9%.
- Operating Expenses, before depreciation, increased \$2.2 million or 12.4%.
- Operating Income totaled \$11,430,781 in FY 2023.
- Property, Plant and Equipment, net of depreciation, increased \$2.4 million or 2.2%.
- Related to debt on the Western Corridor Pipeline, long-term debt increased by \$3.6 million or 193.7%.

FY 2021 to FY 2022

- The District's Total Net Position increased by \$7.5 million or 4.0%.
- Operating Revenues increased by \$3.6 million or 11.8%.
- Operating Expenses, before depreciation, increased \$3.2 million or 21.4%.
- Operating Income totaled \$9,994,858 in FY 2022.
- Property, Plant and Equipment, net of depreciation, decreased \$1.9 million or 1.8%.
- Long-term debt, net of current portion, decreased by \$4.4 million or 70.3%.

DISTRICT HIGHLIGHTS

FY 2022 to FY 2023

- The District's Long-Term Financial Plan was updated in May 2023 and the District's Board determined an 8 cent (5.5%) rate increase would be adopted for fiscal year 2024, beginning October 1, 2023. The updated rate for FY 2024 is \$1.54 per thousand gallons sold.
- The District was awarded a Drinking Water Revolving Loan by the Arkansas Natural Resources Commission in the amount of \$125,686,157. That application was approved for the purpose of funding the Western Corridor Pipeline Expansion Project. As of September 30, 2023, the accumulated expenses on the pipeline project totaled \$3,671,716.
- Water sales increased by 1.7 billion gallons year over year, an increase of 7.2%, setting a new sales record for the District. Sales were higher to three customer cities, including a 3.2% increase to Fayetteville, a 10.0% increase to Springdale and a 17.2% increase to the City of Bentonville.
- Acquisition of easements and property for the Western Corridor facilities continued.

FY 2021 to FY 2022

• The District's Long-Term Financial Plan was updated in May 2022 and the District's Board determined a 5 cent (3.5%) rate increase would be adopted for fiscal year 2023, beginning October 1, 2022. The updated rate for FY 2023 is \$1.46 per thousand gallons sold.

- The District paid off the 2010 Bonds with a final payment of \$4,438,192 and subsequently applied to the Arkansas Natural Resources Commission for a Drinking Water Revolving Loan in the amount of \$125,686,157. That application was subsequently approved for the purpose of funding the Western Corridor Pipeline Expansion Project.
- Water sales increased by 2.1 billion gallons year over year, an increase of 9.4%, setting a new sales record for the District. Sales were higher to three customer cities, including a 9.0% increase to Fayetteville, a 7.0% increase to Springdale and a 22.1% increase to the City of Bentonville.
- Acquisition of easements and property for the future Western Corridor facilities continued.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis, the Financial Statements, and Required Supplementary Information. The Notes to Financial Statements contain additional details related to information contained in the Financial Statements.

The Financial Statements of the District present information based on the accrual basis of accounting, which is the method normally used by private sector companies. The Statement of Net Position provides information on the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position provides information on the District's revenues and expenses for the fiscal years ending September 30, 2023 and 2022. This statement can determine whether the District recovered all costs and expenses, primarily through water sales to its customers, and the financial standing and credit worthiness of the District.

The third financial statement is the Statement of Cash Flows, which provides information on the District's cash receipts, cash payments, and changes in cash related to investment activity, financing activity, and capital asset acquisition.

ASSETS

Total Assets increased by a net of \$18.6 million (9.2%) during the Fiscal Year ended September 30, 2023. This increase is primarily comprised of an increase in Current Assets of \$21.1 million, combined with an increase of \$2.4 million in Property, Plant, and Equipment, related to acquisition of land for the western corridor pipeline, initial construction of the western corridor pipeline and pump station, and approximately \$5.6 million depreciation of historical assets.

The increase in Current Assets was primarily the result of funding capital reserves for future capital costs and investment of those funds in cash, cash equivalents and long-term investments with maturities longer than one year. Capital reserves are necessary to ensure the District has the capacity to meet the cost of meeting future demands for water, replacing aging assets, and providing sufficient cash reserves to fund operating and capital costs to comply with state and federal regulations.

LIABILITIES

Total Liabilities increased \$5.7 million or 175.4% related to an increase in accounts payable and the application to the Arkansas Natural Resources Commission (ANRC) for a Drinking Water State Revolving Fund (SRF) Loan in the amount of \$125,686,157. That application was subsequently approved for the purpose of funding the Western Corridor Pipeline Expansion Project.

The District held a 'AA+' bond rating from Standard and Poor's rating service when the Series 2010 Bonds were issued. To obtain the ANRC State Revolving Loan, the District was required to set aside a depreciation reserve equal to 5% of annual revenues. As of September 30, 2023, the District's Depreciation Fund had a balance of \$2,040,173.

REVENUES

Operating Revenues, which consist primarily of water sales to the District's customer cities of Fayetteville, Springdale, Rogers, and Bentonville, Arkansas, increased by \$3.7 million or 10.9%. Non-operating Revenues increased by approximately \$3.9 million. This category is comprised of investment income, net increase or decrease in fair market value of investments, and miscellaneous income. Investment income on the District's short and long-term investments increased by \$579 thousand due to increasing rates of return experienced during FY 2023. Unrealized gains on investments also increased by \$3.1 million related to improved market values of the underlying investments.

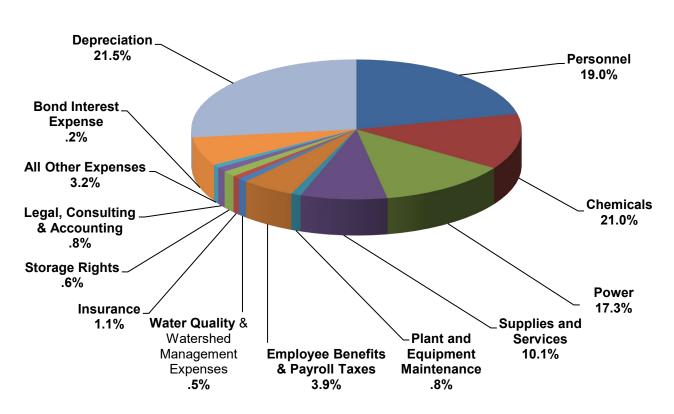
EXPENSES

Total Operating Expenses, before depreciation, increased by \$2.2 million or 12.3%, reflecting the material increase in the major categories of chemicals and power and power generation costs. A few categories warrant analysis and discussion, as follows:

Chemical costs increased \$1.2 million, or 26.7%, due to producing 7.2% more water, plus expected price increases in some of our primary chemicals. The chemicals that had the highest dollar and percentage increases included caustic soda at an additional \$188,081 (19% increase), chlorine at \$261,545 (48% increase), alum at \$303,249 (30%), lime at \$86,076 (43%) and fluoride at \$177,247 (72%). The Environmental Protection Agency (EPA) promulgated new rules under authority contained in the Safe Drinking Water Act related to disinfection by-products, which are compounds created when organic matter contained in the raw source water reacts with the disinfectant (normally chlorine) used to kill bacteria. Ferrous sulfate quenches chlorite, a disinfection by-product resulting from the use of chlorine dioxide as a pre-oxidant. Feeding chlorine dioxide as an alternative pre-oxidant reduces the formation of disinfection by-products in the finished water, which will assist the District, and its customer cities, in meeting the Stage II Disinfection By-Products Rule.

In FY 2023 power costs increased by \$391 thousand or 9.4%, reflecting an increase in the price of diesel fuel, the production of 7.2% more water, and an increase in the unit cost of electricity from Carroll Electric Cooperative Corporation (CECC). The additional power costs were once again offset by continued savings from our successful load-shedding program.

The following chart gives a visual illustration of each expense category as a percentage of the District's total expenses. This chart shows that depreciation, personnel costs, power, chemicals, and supplies and services are the largest expense items, which account for 88.8% of the District's total expenses.



Total Expenses

RESERVE FUNDING

It is vital that the District look to the future to anticipate operational needs, debt service requirements, and capital expenditure needs to ensure the viability of the District. All utilities are facing extensive infrastructure improvements to replace aging assets, maintain compliance with new regulations, and provide additional capacity as demand increases. Therefore, the District must fund reserves for the future replacement and refurbishment requirements for existing assets, and future capital improvements. The District must have in place the capacity and financial resources to accomplish our mission of sustainably providing our customers with safe, economical drinking water.

LONG TERM DEBT

On April 30, 2003, the District issued additional water revenue bonds with a par value of \$57,390,000. The District received \$56 million, net of issuance costs and debt service reserve funding, for use in the design, construction, and improvements to the District's water treatment facilities. Those projects were completed in FY 2009 and added treatment capacity of 60 million gallons per day, resulting in total capacity of 140 million gallons per day. On August 5, 2010, the District issued the 2010 Series Refunding Bonds with a par value of \$41,345,000 to prefund the previous 2003 Series Bonds.

On August 1, 2013, Standard and Poor's affirmed its 'AA+' long-term rating on the District's series 2010 water refunding revenue bonds. The 2010 bonds were refunded a year early in December 2021, saving \$160,000 in bond interest expense.

On February 16, 2023, the District entered into a bond purchase agreement with the Arkansas Natural Resources Commission and the Arkansas Development Finance Authority for the purpose of obtaining funding for the construction of the Western Corridor Treated Water Pipeline Project. This project includes the acquisition, construction, equipping and installation of a 60" pipeline to transmit treated water to the future pump station which will serve as an additional connection point for the District's customer cities. The Bond shall bear interest at the rate of 0.75% per annum with an additional 1.0% service fee payable on each April 15th and October 15th after the bond is issued. The first principal payment shall be payable on October 15, 2026, and installments will be payable each April 15th and October 15, 2046.

LONG RANGE FINANCIAL PLAN & RATES

As a means of assessing infrastructure and long-range financial needs, the District annually develops a financial plan, which estimates future revenues, operating expenses, and capital requirements for replacement, refurbishment, and expansion of District facilities. The Long-Range Financial Plan is used to forecast future reserve requirements and scheduling of rate increases. As directed by the Board, the plan is reevaluated on an annual basis for the purposes of forecasting the District's financial position and adjusting rates.

The District's Long-Term Financial Plan was updated In May 2023 and the District's Board determined that an 8-cent rate increase would be adopted for fiscal year 2024, beginning October 1, 2023. That increase is in keeping with the Board's philosophy of small rate increases over time, versus large increases from time to time. Such a philosophy protects the District's customer cities from unforeseen increases in the BWD wholesale rate.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, creditors, and other interested parties with an overview of the District's financial operations and conditions. Should you desire additional information, you may contact the Beaver Water District at P.O. Box 400, Lowell, Arkansas, 72745.

Beaver Water District of Washington and Benton Counties Statements of Net Position September 30, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	\$ 45,785,552	\$ 29,973,897
Cash and cash equivalents - restricted	3,247,340	¢ 2,9,13,091 3,012,906
Investments	50,382,702	50,501,430
Investments - restricted	4,960,632	50,501,150
Accounts receivable	3,700,482	3,375,297
Accrued interest receivable	42,466	20,484
Accrued interest receivable - restricted	10,413	20,101
Prepaid expenses	189,170	310,681
Inventory	19,558	19,558
Other current assets	520	236
Total Current Assets	108,338,835	87,214,489
Non-Current Assets		
Investments		5,000,000
Capital assets, net of accumulated depreciation	112,124,888	109,679,345
Total Non-Current Assets	112,124,888	114,679,345
Total From Current Assets	112,124,000	114,017,343
Total Assets	\$ 220,463,723	\$ 201,893,834
Liabilities and Net P	osition	
Current Liabilities		
Accounts payable	\$ 2,889,366	\$ 906,182
Accrued expenses	480,554	394,985
Current portion of long-term debt	76,016	74,018
Total Current Liabilities	3,445,936	1,375,185
Long-Term Debt, Net of Current Portion	5,448,977	1,855,091
Total Liabilities	8,894,913	3,230,276
Net Position		
Invested in capital assets, net of related debt	106,599,895	107,750,236
Restricted	8,218,385	3,012,906
Unrestricted	96,750,530	87,900,416
Total Net Position	211,568,810	198,663,558
Total Liabilities and Net Position	\$ 220,463,723	\$ 201,893,834

Beaver Water District of Washington and Benton Counties Statements of Revenues, Expenses, and Changes in Net Position For the Years Ended September 30, 2023 and 2022

	2023	2022
Operating Revenues		
Water sales	\$ 37,600,002	\$ 33,886,319
Total Operating Revenue	37,600,002	33,886,319
Total Operating Revenue	51,000,002	55,000,515
Operating Expenses		
Personnel	4,971,447	5,241,598
Chemicals	5,494,863	4,337,175
Power	4,530,029	4,139,112
Supplies and services	2,643,359	2,037,402
Plant, equipment and vehicle maintenance	200,071	212,595
Employee benefits	1,026,142	935,151
Payroll taxes	512,584	409,532
Water quality and watershed management	130,248	125,965
Insurance	276,542	144,815
Telephone and telemarketing	39,783	50,322
Association dues and fees	71,076	69,081
Travel and training	282,191	273,247
Storage rights	148,423	135,483
Directors fees and management	8,512	3,737
Legal and accounting	203,238	178,560
Depreciation and amortization	5,630,713	4,650,661
Total Operating Expenses	26,169,221	22,944,436
Operating Income	11,430,781	10,941,883
Other Income (Expense)		
Investment income	837,134	257,496
Unrealized gain / (loss)	650,023	(2,437,568)
Interest expense and related fees	(52,067)	(275,682)
Investment expense	(620)	(79)
Miscellaneous income	40,001	
Total Other Income (Expense)	1,474,471	(2,455,833)
Increase in Net Position	12,905,252	8,486,050
Net Position, Beginning of Year	198,663,558	190,177,508
Net Position, End of Year	\$ 211,568,810	\$ 198,663,558

Beaver Water District of Washington and Benton Counties Statements of Cash Flows For the Years Ended September 30, 2023 and 2022

Cash Flows from Operating Activities\$ 37,274,532\$ 33,729,Cash paid for:Payroll and related expenses(6,424,603)(6,524,Goods and services(11,775,217)(11,796,Water storage expense(148,423)(135,Net Cash Provided by Operating Activities18,926,28915,273,Cash Flows from Capital and Related Financing Activities3,639,902Principal payments on long-term debt(44,018)(8,260,Interest paid on long-term debt(45,293)(394,Purchases of capital assets(8,043,030)(4,419,Net Cash (Used in) Capital and Related Financing Activities(10,751,011)(13,074,Cash Flows from Investing Activities(10,751,011)(1,500,Purchase of investments(10,751,011)(1,500,	777) 251) 483) 237 525)
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	000)
Proceeds from sale of investments 11,558,511 4,257,	256
Investment income 804,739 264,	
Net Cash Provided by Investing Activities1,612,2393,022,	
Net Increase in Cash and Cash Equivalents16,046,0895,220,	561
Cash and Cash Equivalents, Beginning of Year 32,986,803 27,766,	243
Cash and Cash Equivalents, End of Year \$49,032,892 \$32,986,	803
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income \$ 11,430,781 \$ 10,941,	883
Depreciation 5,630,713 4,650,	661
Changes in assets and liabilities:	
Accounts receivable (325,185) (156,	571)
Prepaid expenses 121,511 (140,	155)
Other current assets (284)	4
Accounts payable 1,983,184 (84,	089)
Accrued expenses 85,569 61,	504
Net Cash Provided by Operating Activities\$ 18,926,289\$ 15,273,	237
Supplemental Information	
Cash paid for interest \$ 45,293 \$ 394,	

1. <u>Summary of Significant Accounting Policies</u>

This summary of significant accounting policies is presented to assist in understanding Beaver Water District of Washington and Benton Counties' (the District) financial statements. The financial statements and notes are representations of the District's management, which is responsible for its integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization and Reporting Entity

The Beaver Water District of Washington and Benton Counties (the District) was created on July 17, 1959, under the provisions of Act 114, Arkansas Acts of 1957, in order to establish a nonprofit, regional water distribution district for Washington and Benton counties. The District's governmental powers are exercised through a six-member Board of Directors.

Basis of Accounting and Measurement Focus

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charged to customers for water sales. Operating expenses for the District include the costs 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.

Budget Comparison

The District is not legally required to adopt a budget for the enterprise fund. Therefore, budget comparison information is not included in the District's financial statements.

Use of Estimates

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

Income Taxes

Income of the District is derived from the exercise of essential governmental functions and accrues to the District, a political subdivision of the State of Arkansas. The District is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

1. <u>Summary of Significant Accounting Policies - (continued)</u>

Comparative Data

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

Restricted Assets

Amounts designated as restricted assets have been restricted by either bond indenture, by law, by contractual obligations such as servicing bond debt or by board designation and are to be used for specified purposes such as servicing the bond debt, construction or purchase of capital assets, payment of insurance and water storage fees.

Cash Equivalents

For purposes of the Statements of Cash Flows, the District considers all unrestricted, highly liquid investments with maturity of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. In the financial statements, changes in fair value that occur during a fiscal year are recognized as investment income reported for the fiscal year. Investment income includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

The District has adopted a formal investment policy. The primary objective of the policy is to provide more suitable investment opportunities. The policy encompasses the definition of "eligible investment securities" as stated in Act 629 of the Arkansas 88th General Assembly Regular Session of 2011. An eligible investment is a direct or guaranteed obligation of the United States that is backed by the full faith and credit of the United States Government; a direct obligation of an agency, instrumentality, or government-sponsored enterprise created by an act of the United States Congress; a bond or other debt of the state, a school district, a county government, a municipal government, or an authority of a governmental entity that is issued for essential governmental purposes or is guaranteed by a state agency and has a debt rating from a nationally recognized credit rating agency of "A" or better at the time of purchase.

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for an asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for an asset or liability.

1. <u>Summary of Significant Accounting Policies - (continued)</u>

Accounts Receivable

Water usage is billed to the member cities in monthly cycles. Accounts receivable represents water usage billed but not yet collected and totals \$3,700,482 and \$3,375,297, as of September 30, 2023 and 2022, respectively. The District provides for bad debts based on the allowance method using historical experience and management's analysis of accounts. No allowance for doubtful accounts has been established, as all receivables are considered collectible.

Inventories

Inventory consists of replacement parts and crucial repair items. Inventory is carried at cost, using the lower of average cost (first in, first out) and net realizable value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to expense as incurred. The District's policy is to capitalize assets with a value of at least \$2,000.

Net Position Classifications

Net Position is classified and presented as follows:

Net Position Invested in Capital Assets, net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, law through constitutional provision or enabling legislation, or by action by the Board of Directors.

Unrestricted Net Position consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Adoption of New Accounting Standards

In 2017, the Governmental Accounting Standards Board (GASB), released GASB 87. For 2022, the Entity implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the usefulness of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

1. <u>Summary of Significant Accounting Policies - (continued)</u>

Adoption of New Accounting Standards - (continued)

The District adopted GASB No. 87, Leases, using the modified retrospective approach with October 1, 2021 as the date of initial adoption. The District elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the District to carry forward the historical lease classification. In addition, the District elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases and the useful lives of corresponding leasehold improvements as certain options to renew were not reasonably certain. Adoption of the standard did not required the District to restate amounts as of October 1, 2021.

At times, the District leases certain equipment. The determination of whether an arrangement is a lease is made at the lease's inception. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets, as of September 30, 2023 the District did not have any finance leases.

Leases

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The District uses the implicit rate when it is readily determinable, or the risk free rate. Since most of the District's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the District's incremental borrowing rate based on the information available at lease commencement. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The District's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option, generally not longer than 5 years.

2. Deposits and Investments

The aggregate carrying amount of investments as of September 30, 2023 and 2022, by major type is presented at fair value based on quoted prices in active markets (all Level 1 measurements) as follows:

September 30, 2023:

					Matu	rities in Years	5		
		Fair Value	I	ess Than 1		1-5		Over 5	
Fixed income investments	\$	10,373,179	\$	10,373,179					
Certificates of deposit		5,000,000		5,000,000		-			-
Corporate bonds		2,060,684		2,060,684					
Municipal bonds		2,880,431		2,880,431		-			-
U.S. agency obligations	_	35,029,040	_	35,029,040		-			-
	\$	55,343,334	\$	55,343,334	\$	-	\$		-
September 30, 2022:									
-					Matu	rities in Years	;		
		Fair Value	I	ess Than 1		1-5		Over 5	
Certificates of deposit	\$	5,000,000	\$		\$	5,000,000	\$		-
U.S. agency obligations		50,501,430		50,501,430		-			-
	\$	55,501,430	\$	50,501,430	\$	5,000,000	\$		-

For the securities held as investments, fair value equals quoted market prices. The investments held by the District are subject to market risk. Accordingly, the estimates presented herein are not necessarily indicative of amounts that the District could realize in a current market exchange. Investments in bonds are held through bond markets and can be traded at any time, the underlying bonds have maturities ranging from 2023 - 2048.

3. <u>Restricted Assets</u>

Restricted assets are presented on the Statements of Net Position in the following categories:

	 2023	 2022
Cash and cash equivalents - current	\$ 3,247,340	\$ 3,012,906
Investments - current	4,960,632	-
Accrued interest receivable	 10,413	
Total Restricted Reserves	\$ 8,218,385	\$ 3,012,906

Restricted cash, investments and related accounts are held for specific purposes as follows:

	 2023	2022
Depreciation fund	\$ 2,040,173	\$ 2,008,632
Storage water protection fund	2,002,833	-
Storage space fund	2,957,799	-
Contingency fund	-	1,004,274
Construction fund	1,207,167	-
Source water protection fund - accrued interest receivable	 10,413	 -
Total Restricted Reserves	\$ 8,218,385	\$ 3,012,906

4. Custodial Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Arkansas Law requires banks and savings and loan institutions to pledge collateral for balances in excess of the FDIC limit. The District's deposits were fully collateralized at September 30, 2023 and 2022.

The custodial credit risk for investments is the risk that, in the event of the failure of a counter-party (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

5. Property and Equipment

- Toperty and Equipment	 2022	Additions/ Transfers	Disposals/ Transfers	 2023
Land and land rights	\$ 10,438,020	\$ -	\$ -	\$ 10,438,020
Construction in progress	3,901,739	8,109,478	(1,071,184)	10,940,033
Intake structures	67,821,855	120,783	(10,117)	67,932,521
Water treatment plant	84,398,741	169,157	(5,124)	84,562,774
Power and generating equipment	26,172,898	344,285	(5,000)	26,512,183
Communications instrumentation	7,238,277	327,803	(3,979)	7,562,101
Office and other equipment	1,561,286	24,810	(7,847)	1,578,249
Plant equipment	 2,528,644	 51,123	(1,159)	 2,578,608
Total property and equipment	\$ 204,061,461	\$ 9,147,438	\$ (1,104,410)	\$ 212,104,489
Accumulated depreciation	 (94,382,115)	(5,630,713)	 33,224	(99,979,601)
Net property and equipment	\$ 109,679,346	\$ 3,516,725	\$ (1,071,186)	\$ 112,124,888

	 2021	Additions/ Transfers	 Disposals/ Transfers	 2022
Land and land rights Construction in progress Intake structures Water treatment plant	\$ 8,573,256 6,128,059 66,391,204 82,708,869	\$ 1,864,764 4,595,460 1,432,377 1,690,813	\$ (6,821,780) (1,726) (941)	\$ 10,438,020 3,901,739 67,821,855 84,398,741
Power and generating equipment	25,898,490	274,408	-	26,172,898
Communications instrumentation	6,138,032	1,136,854	(36,609)	7,238,277
Office and other equipment	1,397,569	178,798	(15,081)	1,561,286
Plant equipment	2,406,209	 131,686	 (9,251)	 2,528,644
Total property and equipment	 199,641,688	 11,305,160	 (6,885,388)	204,061,460
Accumulated Depreciation	 (88,960,118)	 (5,597,686)	 175,689	 (94,382,115)
Net property and equipment	\$ 110,681,570	\$ 5,707,474	\$ (6,709,699)	\$ 109,679,345

Depreciation expense for the years ended September 30, 2023 and 2022 was \$5,630,713 and \$5,597,686, respectively.

6. Long-Term Debt

Pursuant to the district's water rights obligations in Note 9 the district recognized a long term debt obligation originating in 1993. The obligation carried an original principal balance of \$3,530,803 including \$1,285,641 of capitalized interest and carries an interest rate of 2.70%. 50 annual payments of \$126,805 began in 1993.

Long-term debt, net of premiums, consists of the following:

		2022	1	Additions	Pay	ments		2023
Water rights obligation, issued 1993, secured by all assets and revenue	\$	1,929,109		-	\$	(44,018)	\$	1,885,091
State Revolving Fund, Bonds Payable 2023 Series Revenue Bond, of up to \$125,686,157, with an interest rate .75%, principal payments to begin in October 2026, secured by revenue.				3,639,902		-		3,639,902
Total	\$	1,929,109	\$	3,639,902	\$	(44,018)	\$	5,524,993
Less: Current Portion Total Long-Term Debt	\$ \$	(74,018) 1,855,091					\$ \$	(76,016) 5,448,97 7
The	futui	e maturities a	s of S	eptember 30, 2	2023 are:			
		Year		Principal				
		2024		76,016				
		2025		78,068				
		2026		2,718,051				
		2027		1,114,365				
		2028		84,561				
	2	029-2042		1,453,932				
		Total	\$	5,524,993				

Interest expense and related fees during the years ended September 30, 2023 and 2022 totaled \$52,067 and \$275,682, respectively.

7. <u>Water Sales</u>

The District has contracts with the cities of Fayetteville, Springdale, Rogers and Bentonville whereby the cities agree to buy water. Water sales were as follows for the years ended September 30, 2023 and 2022.

		2023				2022			
	((GA in 000's)		Amount	((GA in 000's)		Amount	
Fayetteville	\$	7,912,500	\$	11,552,250	\$	7,664,398	\$	10,806,801	
Springdale		7,602,419		11,099,532		6,909,377		9,742,222	
Rogers		3,723,969		5,436,995		3,898,257		5,496,542	
Bentonville		6,514,538		9,511,225		5,560,818		7,840,754	
Total	\$	25,753,426	\$	37,600,002	\$	24,032,850	\$	33,886,319	

Effective Date	Rate per Million Gallons	Effective Date	Rate per Million Gallons
1967	\$ 180	10/01/10	\$ 1,220
09/01/77	270	10/01/11	1,240
09/01/82	320	10/01/12	1,260
11/01/85	370	10/01/15	1,290
12/01/86	410	10/01/16	1,310
02/01/89	610	10/01/17	1,340
02/01/90	810	10/01/18	1,360
12/01/86	1,010	10/01/19	1,380
02/01/89	1,160	10/01/21	1,410
02/01/90	1,180	10/01/22	1,460
01/01/09	1,200		

8. <u>Retirement Plan</u>

The District sponsors an Employment Retirement Income Security Act of 1974 (ERISA) Section 404(c) plan. Employees with one year of service are eligible to participate. The District contributes up to 200% of the employees' contribution up to a maximum of 3% of compensation for the employee's contribution. Employees are vested 100% in the District's contributions at the beginning of the quarter following the quarter they begin employment.

The District's plan contributions for the years ended September 2023 and 2022 were \$274,559 and \$267,442, respectively.

9. <u>Commitments and Contingencies</u>

Water Storage Expense

On June 16, 1960, the District entered into a contract with the United States of America for water storage in Beaver Reservoir (supplemented August 12, 1970). The District has the right to utilize 31,000 acre-feet of storage space in the reservoir below elevation 1,120 feet m.s.l. for the initial storage of municipal and industrial water supply and to make withdrawals to the extent the space will provide. Cost of the initial water supply is \$51,127 per year for 50 years plus 2.56% of the annual experienced joint-use operation and maintenance expense of the project. Payments began during fiscal year 1966.

On June 16, 1960, the District also entered into a contract with the United States of America for future water storage in Beaver Reservoir (supplemented September 20, 1993). The District assumed in 1991 the benefits and responsibilities of an additional 77,000 acre-feet of storage. Cost of the future water supply will be paid in 50 annual payments of \$126,085 plus 6.23% of the annual experienced joint-use operation and maintenance expense of the project. Payments began during fiscal year 1991.

On June 5, 2006, the District entered into an additional contract with the United States of America for future water storage in Beaver Reservoir. The District assumed the benefits and responsibilities of an additional 28,757 acre-feet of storage in the reservoir below elevation of 1,120 feet m.s.l. for the storage of municipal and water supply. Cost of the water supply is to be 2.35% of the annual experienced joint-use operation and maintenance expense of the project.

Payments for the operation and maintenance expense ("O&M") are due and payable in advance on the plantin-service date and shall be based on O&M expense for the project in the government fiscal year most recently ended. The amount of each annual payment will be the actual experienced O&M expense (specific plus allocated joint-use for the preceding fiscal year or an estimate thereof when actual expense information is not available).

The costs to the District for water storage under this contract were \$274,508 and \$135,483, for the years ended September 30, 2023 and 2022, respectively. The District's commitment under the contract for the storage is \$126,085 per year through the year 2042. The commitment does not include the annual O&M expense since this amount is calculated on an annual basis. The O&M is subject to change in future years as it is based on actual operating costs.

September 30	Principal		Interest		Total	
2024	\$	76,016	\$	50,069	\$	126,085
2025		78,068		48,017		126,085
2026		80,175		45,910		126,085
2027		82,339		43,746		126,085
2028		84,561		41,524		126,085
2029-2042		1,453,932	_	311,256	_	1,765,188
Total	\$	1,855,091	\$	540,522	\$	2,395,613

Future water right payments are scheduled as follows:

10. Risk Management

The District is exposed to various risks of loss from tort, theft of, damage to and destruction of assets, business interruption, errors and omissions, natural disasters, employee injuries and illnesses, and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental benefits and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three proceeding years and there were no reductions in the District's insurance coverage during the years ended September 2023 and 2022.

11. Concentrations

The District's business activities are with cities located in Northwest Arkansas. Although the economy is diversified, all accounts receivable and future revenue is concentrated within the above-mentioned geographic region. The District is dependent on four major customers and one source of water.

12. Agreement with Member Cities

Under the District's agreement with member cities, the District may have adjustments to the cities. Adjustments are potential refunds of amounts paid by the cities during the fiscal year. These adjustments are made in accordance with the 1967 Memorandum of Understanding and policies adopted by the Board of Directors. For the years ending September 2023 and 2022, the District had no adjustments.

13. Error Correction

An error correction was made to the ending net fund balance as of September 30, 2022 to record the net book value of assets. The net fund balance was increased by \$947,027.

14. Subsequent Events

Management has evaluated subsequent events through January 10, 2024 the date on which the financial statements were available to be issued.

Supplemental Information

Beaver Water District of Washington and Benton Counties Schedules of Unrestricted Cash and Investments September 30, 2023 and 2022

	2023	2022		
Current Assets				
Operations and Maintenance Fund				
Cash and cash equivalents	\$ 1,879,891	\$ 2,253,706		
Investments	2,295,068	2,257,235		
Total Operations and Maintenance Fund	4,174,959	4,510,941		
Gross Receipts Fund				
Cash and cash equivalents	1,555,491	12,174		
Revenue Fund				
Cash and cash equivalents	1,042,554	796,133		
Replacement and Refurbishment Fund				
Cash and cash equivalents	13,174,351	7,507,190		
Investments	20,797,966	20,330,864		
Total Replacement and Refurbishment Fund	33,972,317	27,838,054		
Storage Space Fund				
Cash and cash equivalents	1,040,265	1,004,721		
Investments		2,867,401		
Total Storage Space Fund	1,040,265	3,872,122		
Contigency Fund				
Cash and cash equivalents	1,020,087	-		
Total Contingency Fund	1,020,087			
Expansion Reserve Fund				
Cash and cash equivalents	25,310,200	17,499,674		
Investments	27,289,668	22,796,549		
Total Expansion Reserve Fund	52,599,868	40,296,223		
Source Water Protection Fund				
Cash and cash equivalents	762,713	900,299		
Investments		2,249,381		
Total Source Water Protection Fund	762,713	3,149,680		
Total Current Assets	\$ 96,168,254	\$ 80,475,327		
Non-Current Assets				
Replacement and Refurbishment Fund				
Investments	\$-	\$ 2,000,000		
Expansion Reserve Fund				
Investments		3,000,000		
Total Non-Current Assets	\$ -	\$ 5,000,000		

Beaver Water District of Washington and Benton Counties Schedules of Restricted Cash and Investments September 30, 2023 and 2022

		2023	2022	
Current Assets				
Depreciation fund				
Cash and cash equivalents	\$	2,040,173	\$	2,008,632
Contingency Fund				
Cash and cash equivalents		-		1,004,274
Contruction Fund				
Cash and cash equivalents		1,207,167		-
Storage Space Fund				
Investments		2,957,799		-
Source Water Protection Fund				
Investments		2,002,833		-
Total Current Assets	\$	8,207,972	\$	3,012,906



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of the Beaver Water District of Washington and Benton Counties Lowell, 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 the Beaver Water District of Washington and Benton Counties (the District), which comprise the statements of financial position as of and for the years ended September 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and the related notes to financial statements, and have issued our report thereon dated January 10, 2024.

Independent Auditors' 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items to be material weaknesses. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Abacus CPAS,uc

Springfield, Missouri January 10, 2024

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¹⁸³⁵ E. Republic Rd, Suite 200, Springfield, Missouri 65804 • 417-823-7171 • FAX: 417-823-0744
500 West Main Street, Suite 300, Branson, Missouri 65616 • 417-336-5900 • FAX: 417-337-7715
300 N. College Ave. Suite 215, Fayetteville, AR 72701 • 479-287-4739 • FAX: 870-741-9064
280 North East Tudor Road, Lee's Summit, Missouri 64086 • 816-554-0098 • FAX: 816-554-7734



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors Beaver Water District of Washington and Benton Counties Lowell, Arkansas

Independent Auditors' Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Beaver Water District of Washington and Benton Counties (the District)'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2023. The District's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Beaver Water District of Washington and Benton Counties and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Beaver Water District of Washington and Benton Counties' federal programs.

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Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency or a combination of deficiency, or a combination of deficiencies, in internal control over compliance that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Abacus CPAS,uc

Springfield, Missouri January 10, 2024

www.abacus.cpa

¹⁸³⁵ E. Republic Rd, Suite 200, Springfield, Missouri 65804 • 417-823-7171 • FAX: 417-823-0744
500 West Main Street, Suite 300, Branson, Missouri 65616 • 417-336-5900 • FAX: 417-337-7715
300 N. College Ave. Suite 215, Fayetteville, AR 72701 • 479-287-4739 • FAX: 870-741-9064
280 North East Tudor Road, Lee's Summit, Missouri 64086 • 816-554-0098 • FAX: 816-554-7734

Beaver Water District of Washington and Benton Counties Schedule of Expeditures of Federal Awards For the Year Ended September 30, 2023

Award Information	AL/other #	Pass-Through Entity Name	Pass-Through Entity #	Passed- through to Subrecipients	Federal Expenditures (\$)
Drinking Water State Revolving Fund					
Cluster					
United States Environmental					
Protection Agency					
Drinking Water State Revolving					
Fund					
Drinking Water State Revolving		Arkansas Natural			
Fund	66.468	Resource Commission	01390-DWSRD-L	-	3,639,902
Total Drinking Water State					
Revolving Fund				-	3,639,902
Total United States Environmental					
Protection Agency					3,639,902
Total Drinking Water State Revolving					
Fund Cluster					3,639,902
Total Expenditures of Federal Awards				-	\$ 3,639,902

The accompanying notes are an integral part of this schedule

Beaver Water District of Washington and Benton Counties Notes to Schedule of Expenditures For the Year Ended September 30, 2023

Notes to the Schedule of Expenditures

A. Basis of Presentation

The accompanying schedules of expenditures of federal awards are presented in accordance with 2 CFR section 200.510(b) and represent the financial activity of Beaver Water District of Washington and Benton Counties for the fiscal year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Beaver Water District of Washington and Benton Counties, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Beaver Water District of Washington and Benton Counties.

B. Summary of Significant Accounting Policies

These schedules are prepared on the accrual basis of accounting and include all applicable federal awards received and expended during the year, with a focus on the Drinking Water State Revolving Fund (DWSRF). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

C. Federal Loans

The District was approved by the EPA and Drinking Water State Revolving Fund to receive loans totaling \$125,686,157 on a reimbursement basis. The balance at the end of the period was \$3,639,902.

Balance 9/30/2022	-
Draws	3,639,902
Balance 9/30/2023	3,639,902

D. Compliance with DWSRF Program Requirements

Expenditures related to DWSRF are reported in compliance with the specific requirements outlined in the EPA's regulations governing the DWSRF program. This includes adherence to the Safe Drinking Water Act and other applicable federal regulations.

E. Indirect Cost Rate

Beaver Water District of Washington and Benton Counties has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

F. Assistance Listing Number (ALN)

The program title and ALN number was obtained from the federal or pass-through grantor or the sam.gov website.

Beaver Water District of Washington and Benton Counties Schedule of Findings and Questioned Costs For the Year Ended September 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors reporting:	Unmodified				
Internal control over financial reporting:					
Material weakness(es) identified?		Yes	Х	No	
Significant deficiency(ies)?		Yes	Х	None Reported	
Noncompliance material to financial statements noted?		Yes	Х	No	
<u>Federal Awards</u>					
Internal control over major programs:					
Material weakness(es) identified?		Yes	Х	No	
Significant deficiency(ies)?		Yes	Х	None Reported	
Type of auditors' report issued on compliance for major programs:	Unmodified				
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.156(a)?		Yes	Х	No	
Identification of Major Programs:					
	f Federal Progra	am			
AL Number(s)	or Cluster				
66.468	Drinking Water State Revolving Fund Cluster Drinking Water State Revolving Fund				
Dollar threshold used to distinguish between type A and type B programs:	\$750,000				
Auditee qualified as low-risk auditee?		Yes X		No	
Section II - Financial Statement Findings					
None					
Section III - Federal Award Findings and Questioned Costs					
None					

Beaver Water District of Washington and Benton Counties Summary Schedule of Prior Audit Findings September 30, 2023

Section I – Financials Statement Findings

None.

Section II - Federal Awards Findings

No prior Audit.