

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
Hot Springs, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended September 30, 2018 and 2017
and
INDEPENDENT AUDITOR'S REPORT

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
Hot Springs, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended September 30, 2018 and 2017

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BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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**To the Board of Directors of
North Garland County Regional Water District
Hot Springs, Arkansas**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the North Garland County Regional Water District, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Management has not changed its method of accounting for pensions during the years ended September 30, 2018 and 2017, by not adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. Accounting principles generally accepted in the United States of America require that the method of accounting be changed for GASB Statement No. 68. The amount by which this departure would affect the assets, net position, and revenues of the North Garland County Regional Water District has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Garland County Regional Water District as of September 30, 2018 and 2017, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
North Garland County Regional Water District

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Garland County Regional Water District as of September 30, 2018 and 2017, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

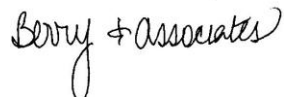
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Garland County Regional Water District’s basic financial statements. The Supplementary Information Required by the USDA Rural Development is presented for purposes of additional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

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

The Supplementary Information Required by the USDA Rural Development has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018 on our consideration of the North Garland County Regional Water District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 North Garland County Regional Water District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Garland County Regional Water District’s internal control over financial reporting and compliance.



Berry & Associates, P.A.
Little Rock, Arkansas
November 27, 2018

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
STATEMENTS OF NET POSITION
September 30, 2018 and 2017**

ASSETS

CURRENT ASSETS	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,507,005	\$ 1,567,550
Accounts receivable, net of allowance for doubtful accounts	127,201	123,149
Prepaid expenses	7,138	6,888
Other current assets	-	5,000
Total current assets	<u>1,641,344</u>	<u>1,702,587</u>
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	1,136,994	1,122,129
Deposit held by lender	24,154	-
Loan servicing fees, net of accumulated amortization of \$165,739 and \$146,126 in 2018 and 2017, respectively	429,864	449,477
Water storage, net of accumulated amortization of \$162,029 and \$88,525 in 2018 and 2017, respectively	2,012,314	2,085,818
Capital assets		
Capital assets, net of accumulated depreciation	<u>11,275,044</u>	<u>11,424,399</u>
TOTAL ASSETS	<u>\$ 16,519,714</u>	<u>\$ 16,784,410</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 444,300	\$ 442,100
Accounts payable	15,273	3,452
Payroll taxes payable	1,138	1,690
Sales tax payable	11,772	11,782
Other current liabilities	-	57,035
Accrued wages payable	15,162	12,667
Accrued interest payable	156,781	160,732
Total current liabilities	<u>644,426</u>	<u>689,458</u>
LONG-TERM DEBT, net of current maturities	<u>11,436,273</u>	<u>11,881,096</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	<u>236,568</u>	<u>221,797</u>
TOTAL LIABILITIES	<u>12,317,267</u>	<u>12,792,351</u>
NET POSITION		
Net investment in capital assets	1,836,148	1,635,501
Unrestricted	1,941,115	1,931,374
Temporarily restricted	425,184	425,184
Total net position	<u>4,202,447</u>	<u>3,992,059</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 16,519,714</u>	<u>\$ 16,784,410</u>

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

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Water revenue	\$ 1,908,239	\$ 1,759,042
Connection fees	53,398	46,233
Late charges and penalties	38,493	36,891
Facilities upgrade fees	95,057	91,351
Other revenue	129,846	73,572
Total operating revenues	<u>2,225,033</u>	<u>2,007,089</u>
OPERATING EXPENSES		
Salaries	360,635	341,509
Contract labor	13,860	320
Professional fees	21,373	25,549
Bad debts	13,116	2,467
Depreciation	516,195	519,228
Amortization	93,118	52,806
Auto expenses	18,751	15,240
Repairs and maintenance	68,445	70,610
Director's fees	11,800	14,800
Insurance	106,332	107,640
Retirement expense	52,159	48,687
Payroll taxes	27,751	26,666
Materials and supplies	150,466	117,455
Office expense	9,510	12,097
Postage	12,194	12,180
Utilities	91,255	96,980
Telephone	13,702	13,488
Rent	24,000	24,000
Licenses, permits, and fees	5,550	7,377
Other expenses	12,299	12,574
Total operating expenses	<u>1,622,511</u>	<u>1,521,673</u>
OPERATING INCOME	602,522	485,416
NON-OPERATING REVENUES (EXPENSES)		
Interest income	8,739	3,933
Interest expense	(400,897)	(400,156)
Gain on sale of capital assets	24	-
Net non-operating expenses	<u>(392,134)</u>	<u>(396,223)</u>
CHANGE IN NET POSITION	210,388	89,193
NET POSITION AT BEGINNING OF YEAR	<u>3,992,059</u>	<u>3,902,866</u>
NET POSITION AT END OF YEAR	<u>\$ 4,202,447</u>	<u>\$ 3,992,059</u>

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

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,220,981	\$ 1,994,693
Cash payments for services	(676,692)	(572,673)
Cash payments to employees	(360,635)	(341,509)
Net cash provided by operating activities	<u>1,183,654</u>	<u>1,080,511</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(442,623)	(480,209)
Interest payments on long-term debt	(404,485)	(364,976)
Deposit paid to lender	(24,154)	-
Purchase of capital assets	(339,611)	(44,035)
Proceeds from sale of capital asset	2,150	-
Payments on construction in progress	(29,350)	(1,000)
Net cash used by capital and related financing activities	<u>(1,238,073)</u>	<u>(890,220)</u>
Cash flows from investing activities:		
Change in restricted cash and cash equivalents	(14,865)	(19,548)
Interest received	8,739	3,933
Net cash used by investing activities	<u>(6,126)</u>	<u>(15,615)</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(60,545)	174,676
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,567,550</u>	<u>1,392,874</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,507,005</u>	<u>\$ 1,567,550</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 602,522	\$ 485,416
Adjustment to reconcile operating income to net cash provided by operating activities:		
Provision for gain on sale of capital assets	(24)	-
Depreciation and amortization	609,313	572,034
(Increase) / Decrease In:		
Accounts receivable	(4,052)	(12,396)
Other current assets	4,750	(5,535)
Increase / (Decrease) In:		
Accounts payable	11,821	(23,294)
Customer meter deposits	14,771	8,984
Other current liabilities	(57,035)	57,035
Accrued wages	2,495	(1,502)
Other accrued expenses	(907)	(231)
Total adjustments	<u>581,132</u>	<u>595,095</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,183,654</u>	<u>\$ 1,080,511</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION FOR SEPTEMBER 30, 2017:		
Non-cash capital and related financing information:		
Acquisition of Mid-Arkansas Water Alliance Water Storage Agreement	\$ -	\$ 2,073,204

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

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Date of Management's Review

Subsequent events have been evaluated through November 27, 2018, which is the date the financial statements were available to be issued. The District raised rates effective October 1, 2018. New rate schedule is included in the Supplementary Information Required by the USDA Rural Development.

Organization

North Garland County Regional Water District (the "District") was formed in 1987 as a public nonprofit organization, under the laws of the State of Arkansas. The purpose of North Garland County Regional Water District is to acquire, construct, own and operate facilities for the development, storage, and utilization of water for agricultural, domestic, industrial, and community purposes on a mutual basis by residents of a rural area. The District is not included in any other governmental reporting entity, as defined by *Governmental Accounting and Financial Reporting Standards*.

Basis of Presentation and Accounting

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

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

Allowance for Doubtful Accounts

The District carries its accounts receivable at cost, less an allowance for doubtful accounts. On a periodic basis, management evaluates accounts receivable balances and establishes an allowance for doubtful accounts based on history of past write offs, collections and current credit considerations.

Use of Estimates

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

Restricted Assets

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

Operating Revenues and Expenses

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

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont.):

Capital Assets

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

	Years
Water system	10-50
Equipment	5-7

Long-Term Debt

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

Equity Classifications

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

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

Income Taxes

The District was formed to serve as a government instrumentality of the State of Arkansas under The Regional Water Distribution District Act of 1957. The District is exempt from income taxes.

Cash Equivalents

For the purpose of the Statement of Cash Flows, North Garland County Regional Water District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Receivables

The District has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of September 30, 2018 management had determined that minimal additional accounts needed to be written off. Bad debt expense for the year ended September 30, 2018 and 2017 was \$13,116 and \$2,467, respectively.

Budgets and Budgetary Accounting

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

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - LONG-TERM DEBT:

Long-term debt at September 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Loan payable to USDA, due in monthly installments of \$1,366, including interest at 4.25% (1)	\$ 250,269	\$ 255,930
Loan payable to USDA, due in monthly installments of \$6,570, including interest at 4.25% beginning February, 2007 (2)	1,271,428	1,295,679
Revenue bond payable to Bank of the Ozarks, due in varying monthly installments, including interest at a variable rate starting November 1, 2013 (3)	8,430,000	8,795,000
Loan payable to Mid-Arkansas Water Alliance, due in annual installments of \$96,618, including interest at 2.49% beginning May, 2017 (4)	1,928,876	1,976,587
	<u>11,880,573</u>	<u>12,323,196</u>
Less Current Portion	(444,300)	(442,100)
Long Term Portion	<u>\$ 11,436,273</u>	<u>\$ 11,881,096</u>

- (1) The revenue bonds have restrictive covenants, including the requirements to accumulate a debt service reserve in monthly installments of \$137 over a ten-year period. To be fully funded, the debt service reserve must equal \$16,440.
- (2) The loan payable has restricted covenants, including the requirement to accumulate a debt service reserve in monthly installments of \$657 over a ten-year period. To be fully funded, the debt service reserve must equal \$78,840.
- (3) The revenue bond payable has restrictive covenants, including the requirement to maintain a debt service reserve in the amount of \$329,904.
- (4) The loan has no restrictive covenants.

Annual maturities of long-term debt at September 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 444,300	\$ 395,508	\$ 839,808
2020	456,700	385,333	842,033
2021	469,500	373,788	843,288
2022	472,300	361,363	833,663
2023	485,100	348,126	833,226
2024-2028	2,516,200	1,508,013	4,024,213
2029-2033	2,353,000	1,103,436	3,456,436
2034-2038	2,576,000	652,153	3,228,153
2039-2043	1,653,500	179,771	1,833,271
2044-2046	453,973	25,366	479,339
	<u>\$ 11,880,573</u>	<u>\$ 5,332,857</u>	<u>\$ 17,213,430</u>

NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - LONG-TERM DEBT (con't):

Long-term liability activity for the years ended September 30, 2018 and 2017 is as follows:

	Balance 9/30/17	Additions	Retirements	Balance 9/30/18	Due Within One Year
Long Term Debt					
Loans	\$ 3,528,196	\$ -	\$ (77,623)	\$ 3,450,573	\$ 79,300
Water Revenue Bonds	8,795,000	-	(365,000)	8,430,000	365,000
	<u>\$ 12,323,196</u>	<u>\$ -</u>	<u>\$ (442,623)</u>	<u>\$ 11,880,573</u>	<u>\$ 444,300</u>

	Balance 9/30/16	Additions	Retirements	Balance 9/30/17	Due Within One Year
Long Term Debt					
Loans	\$ 1,580,201	\$ 2,073,204	\$ (125,209)	\$ 3,528,196	\$ 77,100
Water Revenue Bonds	9,150,000	-	(355,000)	8,795,000	365,000
	<u>\$ 10,730,201</u>	<u>\$ 2,073,204</u>	<u>\$ (480,209)</u>	<u>\$ 12,323,196</u>	<u>\$ 442,100</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$11,880,573 in loans and revenue bonds. Proceeds from the loans/bonds were used for building of the District's water system. Principal and interest on the bonds are payable through 2046, solely from the water customer net revenues. Principal and interest paid in the year ended September 30, 2018 were \$442,623 and \$404,485, respectively. Principal and interest paid in the year ended September 30, 2017 were \$480,209 and \$364,976, respectively.

NOTE 3 – LEASE COMMITMENTS:

The District leases its office under an operating lease agreement. The lease provides for monthly payments of \$2,000. The lease expired in August 2016, was not renewed, and is currently running month-to-month. The rent expense paid under this agreement was \$24,000 and \$24,000 in 2018 and 2017, respectively.

NOTE 4 – CAPITAL ASSETS:

A summary of changes in property, plant and equipment for the years ended September 30, 2018 and 2017 are as follows:

	Balance 9/30/2017	Additions	Deletions/ Transfers	Balance 9/30/2018
Automobiles	\$ 168,600	\$ -	\$ -	\$ 168,600
Computer Equipment	19,940	-	-	19,940
Equipment	131,850	3,585	-	135,435
Land	19,155	116,433	(2,126)	133,462
Leasehold Improvements	13,850	-	-	13,850
Office Equipment	24,955	-	-	24,955
Plant and Distribution	19,376,303	220,593	-	19,596,896
Construction in Progress	1,000	29,350	(1,000)	29,350
Total	<u>19,755,653</u>	<u>\$ 369,961</u>	<u>\$ (3,126)</u>	<u>20,122,488</u>
Less: Accumulated Depreciation	(8,331,254)			(8,847,444)
Total Capital Assets	<u>\$ 11,424,399</u>			<u>\$ 11,275,044</u>

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017**

NOTE 4 – CAPITAL ASSETS (con't):

	Balance 9/30/2016	Additions	Deletions/ Transfers	Balance 9/30/2017
Automobiles	\$ 173,233	\$ 22,871	\$ (27,504)	\$ 168,600
Computer Equipment	11,713	9,320	(1,093)	19,940
Equipment	135,908	6,749	(10,807)	131,850
Land	19,155	-	-	19,155
Leasehold Improvements	13,850	-	-	13,850
Office Equipment	24,955	-	-	24,955
Plant and Distribution	19,371,208	5,095	-	19,376,303
Construction in Progress	-	1,000	-	1,000
Total	<u>19,750,022</u>	<u>\$ 45,035</u>	<u>\$ (39,404)</u>	<u>19,755,653</u>
Less: Accumulated Depreciation	<u>(7,851,430)</u>			<u>(8,331,254)</u>
Total Capital Assets	<u>\$ 11,898,592</u>			<u>\$ 11,424,399</u>

NOTE 5 – DEPOSITS WITH FINANCIAL INSTITUTIONS:

All funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation (“FDIC”) or collateralized by securities held by the banks in the District’s name.

NOTE 6 – ARKANSAS PUBLIC EMPLOYEE RETIREMENT PENSION PLAN:

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The District’s contributions to APERS for the years ending September 30, 2018 and 2017 were \$52,159 and \$48,687, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its’ proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal.

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017**

NOTE 7- RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 2).

The following is a list of the restricted cash at September 30:

	<u>2018</u>	<u>2017</u>
Meter deposits	\$ 245,380	\$ 230,552
Debt service reserves	429,401	428,617
Accounts held in trust	462,213	462,960
	<u>\$ 1,136,994</u>	<u>\$ 1,122,129</u>

SUPPLEMENTARY INFORMATION

BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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**To the Board of Directors of
North Garland County Regional Water District
Hot Springs, Arkansas**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Garland County Regional Water District (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 27, 2018.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

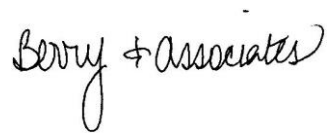
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 that are required to be reported under *Government Auditing Standards*.

To the Board of Directors of
North Garland County Regional Water District
Page 2

Purpose of this Report

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

A handwritten signature in cursive script that reads "Berry & Associates".

Berry & Associates, P.A.
Little Rock, Arkansas
November 27, 2018

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
USDA RURAL DEVELOPMENT
September 30, 2018**

WATER RATE SCHEDULES:

<u>Water Rates</u>	<u>In Effect Through September 30, 2018</u>	<u>Effective October 1, 2018</u>
	<u>Per Thousand Gallons</u>	<u>Per Thousand Gallons</u>
Residential and Commercial:		
First 1,000 gallons	\$ 23.12	\$ 23.80
All over 1,000 gallons	\$ 5.68	\$ 6.36
<u>Meter Size (Inch)</u>	<u>Minimum Rate</u>	<u>Minimum Rate</u>
5/8	\$ 23.12	\$ 23.80
1	\$ 32.37	\$ 33.24
1 1/2	\$ 41.62	\$ 42.67
2	\$ 67.05	\$ 68.61
3	\$ 254.35	\$ 259.66
4	\$ 323.72	\$ 330.41
6	\$ 485.59	\$ 495.52

At September 30, 2018 water service was provided to approximately 3,059 users.

ACCOUNTING:

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

Reserve accounts are properly maintained.

BOARD MEMBERS:

<u>Name</u>	<u>Title</u>
Jack Fields	President
David Harper	Vice-President
Wayne Copeland	Secretary/Treasurer
Randy Ragsdale	Director
Dwayne Pratt	Director
Jerry Vaughn	Director
Jimmy Don Daley	Director

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
USDA RURAL DEVELOPMENT (Continued)
September 30, 2018**

INSURANCE SCHEDULE:

	<u>Amount of Coverage</u>	<u>Policy Period</u>
Liberty Mutual Fidelity Bond	\$ 311,000	May 2, 2018 to May 2, 2019
Employers Mutual Casualty Company		
Commercial Vehicle		
Liability	1,000,000	October 15, 2017
Auto Medical Payments	5,000	to October 15, 2018
Uninsured Motorists	1,000,000	
Underinsured Motorists	1,000,000	
Workers Compensation	Statutory	October 15, 2017 to October 15, 2018
Commercial Property	11,587,147	October 15, 2017 to October 15, 2018
General Liability	2,000,000	October 15, 2017 to October 15, 2018
Commerical Inland Marine	50,549	October 15, 2017 to October 15, 2018
Commerical Umbrella	1,000,000	October 15, 2017 to October 15, 2018
Linebacker	1,000,000	October 15, 2017 to October 15, 2018

**NORTH GARLAND COUNTY REGIONAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
September 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Water revenue	\$ 1,824,406	\$ 1,824,406	\$ 1,908,239	\$ 83,833
Connection fees	45,000	45,000	53,398	8,398
Late charges and penalties	37,000	37,000	38,493	1,493
Facilities upgrade fees	93,000	93,000	95,057	2,057
Other revenue	135,711	135,711	129,846	(5,865)
Total operating revenues	<u>2,135,117</u>	<u>2,135,117</u>	<u>2,225,033</u>	<u>89,916</u>
OPERATING EXPENSES				
Salaries	353,255	353,255	360,635	(7,380)
Contract labor	7,500	7,500	13,860	(6,360)
Professional fees	28,200	28,200	21,373	6,827
Bad debts	-	-	13,116	(13,116)
Depreciation	-	-	516,195	(516,195)
Amortization	-	-	93,118	(93,118)
Auto expenses	28,300	28,300	18,751	9,549
Repairs and maintenance	124,500	124,500	68,445	56,055
Director's fees	16,800	16,800	11,800	5,000
Insurance	110,118	110,118	106,332	3,786
Retirement expense	51,035	51,035	52,159	(1,124)
Payroll taxes	27,572	27,572	27,751	(179)
Materials and supplies	155,000	155,000	150,466	4,534
Office expense	19,000	19,000	9,510	9,490
Postage	13,200	13,200	12,194	1,006
Utilities	105,760	105,760	91,255	14,505
Telephone	13,950	13,950	13,702	248
Rent	24,000	24,000	24,000	-
Licenses, permits, and fees	18,000	18,000	5,550	12,450
Other expenses	12,500	12,500	12,299	201
Total operating expenses	<u>1,108,690</u>	<u>1,108,690</u>	<u>1,622,511</u>	<u>(513,821)</u>
OPERATING INCOME	1,026,427	1,026,427	602,522	(423,905)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	1,200	1,200	8,739	(7,539)
Interest expense	-	-	(400,897)	400,897
Gain on sale of capital assets	-	-	24	(24)
Net non-operating (expenses)	<u>1,200</u>	<u>1,200</u>	<u>(392,134)</u>	<u>393,334</u>
CHANGE IN NET POSITION	1,027,627	1,027,627	210,388	(817,239)
NET POSITION AT BEGINNING OF YEAR	<u>3,992,059</u>	<u>3,992,059</u>	<u>3,992,059</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 5,019,686</u>	<u>\$ 5,019,686</u>	<u>\$ 4,202,447</u>	<u>\$ (817,239)</u>