




Community Water System

Public Water Authority of the State of Arkansas

Independent Auditor's Reports and Financial Statements

December 31, 2023 and 2022



Community Water System
Public Water Authority of the State of Arkansas
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December 31, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Community Water System
Public Water Authority of the State of Arkansas
Greers Ferry, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Community Water System Public Water Authority of the State of Arkansas (Authority) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 GAAS 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 GAAS 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 Authority'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 Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of functional expenses is presented for purposes of additional analysis and is 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 audits 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 schedule of functional expenses is 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. The other information comprises the schedules of water sales, the schedules of insurance coverage and the list of board of directors but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does 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 March 15, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control over financial reporting and compliance.

FORVIS, LLP

**Little Rock, Arkansas
March 15, 2024**

**Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022**

Introduction

This management's discussion and analysis of the financial performance of Community Water System Public Water Authority of the State of Arkansas (Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Operating (unrestricted) cash and cash equivalents decreased in 2023 by \$88,875, or 7%, and increased in 2022 by \$15,081, or 1%.
- Restricted assets decreased in 2023 by \$451,598, or 12%, and decreased in 2022 by \$3,008,848, or 41%. The change is due to increased spending on capital projects in 2023.
- Net position increased in 2023 by \$177,760 and decreased in 2022 by \$64,097.
- The Authority reported operating income of \$976,117 and \$727,620 in 2023 and 2022, respectively.

Using This Annual Report

The Authority's financial statements consist of three statements – balance sheets, the statements of revenues, expenses and changes in net position and the statements of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors or grantors. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

The balance sheet presents information about the four elements that make up the Utility's statements of net position. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The statements of revenues, expenses and changes in net position present information that shows how the Utility's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., water revenues for water service provided in the current reporting period that will not be collected until the next reporting period or expenses associated with goods or services received by the Utility in the current reporting period that will be paid for in the next reporting period).

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities (when applicable). It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

**Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022**

The Authority's Net Position

Net position is the difference between assets plus deferred outflows of resources, if any, and liabilities plus deferred inflows of resources, if any.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Cash and cash equivalents	\$ 1,236,309	\$ 1,325,184	\$ 1,310,103
Restricted cash and cash equivalents – current	1,779,008	1,766,969	1,535,437
Certificates of deposits	615,883	610,664	606,389
Investments	-	223,143	192,325
Accounts receivable	825,001	998,990	883,794
Other current assets	858,392	624,039	584,324
Lease assets, net	-	23,727	33,218
Capital assets, net	46,211,180	46,651,795	44,993,404
Other noncurrent assets – restricted	2,117,079	2,580,716	5,821,096
Total assets	<u>53,642,852</u>	<u>54,805,227</u>	<u>55,960,090</u>
Deferred Outflows of Resources	<u>401,796</u>	<u>426,132</u>	<u>459,516</u>
Total assets and deferred outflows of resources	<u>\$ 54,044,648</u>	<u>\$ 55,231,359</u>	<u>\$ 56,419,606</u>
Liabilities			
Current liabilities	\$ 2,270,698	\$ 2,127,867	\$ 1,754,618
Long-term debt	36,275,032	37,780,524	39,269,905
Other liabilities – noncurrent	132,555	134,365	142,383
Total liabilities	<u>38,678,285</u>	<u>40,042,756</u>	<u>41,166,906</u>
Net Position			
Net invested in capital assets	10,492,473	10,281,952	10,222,017
Restricted	820,139	573,258	1,120,687
Unrestricted	4,053,751	4,333,393	3,909,996
Total net position	<u>15,366,363</u>	<u>15,188,603</u>	<u>15,252,700</u>
Total liabilities and net position	<u>\$ 54,044,648</u>	<u>\$ 55,231,359</u>	<u>\$ 56,419,606</u>

During 2023, there was a decrease in unrestricted cash and cash equivalents of \$88,875, or 7%, primarily due to the Authority using more cash during the current year to fund operations. Unrestricted cash and cash equivalents increased in 2022 by \$15,081, or 1%, primarily due to the Authority using less cash during the year to fund operations. There was a decrease in restricted assets in 2023 of \$451,598, or 12%, compared to a decrease in 2022 of \$3,008,848, or 41%, primarily due to increased spending on capital projects in 2023.

Capital assets, net of accumulated depreciation, decreased \$440,615 during 2023. During 2022, capital assets, net of accumulated depreciation, decreased \$1,658,391 after depreciation expense of \$1,936,361 during 2022.

**Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022**

Table 2: Operating Results and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues			
Net water sales	\$ 8,582,686	\$ 7,807,328	\$ 7,423,242
Other operating revenues	386,404	404,583	406,064
Total operating revenues	<u>8,969,090</u>	<u>8,211,911</u>	<u>7,829,306</u>
Operating Expenses			
Production expense	2,741,032	2,487,240	2,263,704
Transmission and distribution expense	2,622,214	2,524,112	2,245,427
General and administrative expense	823,936	708,831	674,634
Faulkner/Cleburne Counties distribution expense	1,805,791	1,764,108	1,711,241
Total operating expense	<u>7,992,973</u>	<u>7,484,291</u>	<u>6,895,006</u>
Operating Income	<u>976,117</u>	<u>727,620</u>	<u>934,300</u>
Nonoperating Revenues (Expenses)			
Investment income	91,514	78,341	79,396
Other income	125,352	174,485	139,267
Bond issuance costs	-	-	(388,921)
Interest expense	(1,015,223)	(1,044,543)	(1,143,301)
Net nonoperating expenses	<u>(798,357)</u>	<u>(791,717)</u>	<u>(1,313,559)</u>
Change in Net Position	<u>\$ 177,760</u>	<u>\$ (64,097)</u>	<u>\$ (379,259)</u>

Operating Income

In 2023, the Authority's operating income increased by \$248,497 compared to 2022. The increase was driven primarily by an increase of wholesale and retail rates in 2023 compared to 2022.

In 2022, the Authority's operating income decreased by \$206,680 compared to 2021. The decrease was driven primarily by an increase of production, transmission and distribution expenses in 2022 compared to 2021.

Nonoperating Revenues and Expenses

The Authority also has investment income and interest expense, of which investment income increased by \$13,173 in 2023 compared to 2022 due to an increase in interest rates. Interest expense decreased by \$29,320 in 2023 compared to 2022 due the decrease in the outstanding bond balance.

Investment income decreased by \$1,055 in 2022 compared to 2021 due to decrease in rates. Interest expense decreased by \$98,758 in 2022 compared to 2021 due to the decrease in the outstanding bond balance.

**Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2023 and 2022**

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

Capital Assets, Lease Assets and Debt Administration

Capital and Lease Assets

At the end of 2023 and 2022, the Authority had \$46,211,180 and \$46,651,795, respectively, invested in capital and lease assets, net of accumulated depreciation and amortization, as detailed in *Note 3* to the financial statements. In 2023, the Authority added \$1,455,063 in new system infrastructure. In 2022, the Authority added \$3,585,531 in new system infrastructure.

Debt

At December 31, 2023, the Authority had \$37,782,817 outstanding in revenue bonds and lease liability, which decreased by \$1,495,351, or 4%, compared to 2022.

At the end of 2022, the Authority had \$39,277,615 outstanding in revenue bonds and lease liability, which decreased by \$1,089,933, or 3%, compared to 2021.

Contacting the Authority's Financial Management

This financial report is designed to provide customers, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority by calling 501.825.7294.

Community Water System
Public Water Authority of the State of Arkansas
Balance Sheets
December 31, 2023 **December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,236,309	\$ 1,325,184
Restricted cash and cash equivalents – current	1,779,008	1,766,969
Investments	-	223,143
Certificates of deposit	615,883	610,664
Accounts receivable – customers	823,864	998,527
Accounts receivable – other	1,137	463
Inventory	855,334	604,008
Prepaid expenses	3,058	20,031
Total current assets	<u>5,314,593</u>	<u>5,548,989</u>
Noncurrent assets		
Restricted assets		
Cash and cash equivalents	2,457,366	2,928,123
Investments	1,437,661	1,418,502
Accrued interest receivable	1,060	1,060
Less amount required to meet current obligations	<u>(1,779,008)</u>	<u>(1,766,969)</u>
Total restricted assets	<u>2,117,079</u>	<u>2,580,716</u>
Lease asset, net	<u>-</u>	<u>23,727</u>
Capital assets – nondepreciable	1,276,451	4,724,453
Capital assets – depreciable	<u>44,934,729</u>	<u>41,927,342</u>
Total capital assets, net	<u>46,211,180</u>	<u>46,651,795</u>
Total noncurrent assets	<u>48,328,259</u>	<u>49,256,238</u>
Total assets	<u>53,642,852</u>	<u>54,805,227</u>
Deferred Outflows of Resources		
Deferred amount on bond refundings	<u>401,796</u>	<u>426,132</u>
Total deferred outflows of resources	<u>401,796</u>	<u>426,132</u>
Total assets and deferred outflows of resources	<u>\$ 54,044,648</u>	<u>\$ 55,231,359</u>

Community Water System
Public Water Authority of the State of Arkansas
Balance Sheets (Continued)
December 31, 2023December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES		
Current liabilities		
Current maturities of long-term debt	\$ 1,507,785	\$ 1,486,211
Current portion of lease liability	-	8,023
Accounts payable – trade	352,891	201,982
Accrued expenses	138,799	150,893
Accrued interest payable	271,223	280,758
Total current liabilities	<u>2,270,698</u>	<u>2,127,867</u>
Noncurrent liabilities		
Bonds payable, net	36,275,032	37,780,524
Customer meter deposits	132,555	134,365
Total noncurrent liabilities	<u>36,407,587</u>	<u>37,914,889</u>
Total liabilities	<u>38,678,285</u>	<u>40,042,756</u>
Net Position		
Net investment in capital assets	10,492,473	10,281,952
Restricted expendable for debt service	820,139	573,258
Unrestricted	4,053,751	4,333,393
Total net position	<u>15,366,363</u>	<u>15,188,603</u>
Total liabilities and net position	<u>\$ 54,044,648</u>	<u>\$ 55,231,359</u>

Community Water System
Public Water Authority of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water sales		
Retail	\$ 3,321,524	\$ 3,245,648
Wholesale	5,261,162	4,561,680
Total water sales	<u>8,582,686</u>	<u>7,807,328</u>
Service fees	49,970	56,910
Miscellaneous operating revenues	336,434	347,673
Total operating revenues	<u>8,969,090</u>	<u>8,211,911</u>
Operating Expenses		
Production expense	2,741,032	2,487,240
Transmission and distribution expense	2,622,214	2,524,112
General and administrative expense	823,936	708,831
Faulkner/Cleburne Counties distribution expense	1,805,791	1,764,108
Total operating expenses	<u>7,992,973</u>	<u>7,484,291</u>
Operating Income	<u>976,117</u>	<u>727,620</u>
Nonoperating Revenues (Expenses)		
Investment income	91,514	78,341
Other income	125,352	174,485
Interest expense	(1,015,223)	(1,044,543)
Total nonoperating revenues (expenses)	<u>(798,357)</u>	<u>(791,717)</u>
Change in Net Position	<u>177,760</u>	<u>(64,097)</u>
Net Position, Beginning of Year	<u>15,188,603</u>	<u>15,252,700</u>
Net Position, End of Year	<u>\$ 15,366,363</u>	<u>\$ 15,188,603</u>

**Community Water System
Public Water Authority of the State of Arkansas
Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Operating Activities		
Customer receipts	\$ 8,756,675	\$ 7,692,132
Service fee receipts	49,970	56,910
Other receipts	461,786	522,158
Payments to suppliers and contractors	(3,491,674)	(2,930,728)
Payments to employees	(1,173,126)	(1,001,760)
Other payments	<u>(1,476,631)</u>	<u>(1,501,428)</u>
Net cash provided by operating activities	<u>3,127,000</u>	<u>2,837,284</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(1,484,411)	(3,585,531)
Principal paid on long-term debt	(1,483,918)	(1,073,030)
Principal paid on lease payable	(8,160)	(19,760)
Interest paid on long-term debt	<u>(1,000,422)</u>	<u>(1,195,978)</u>
Net cash used in capital and related financing activities	<u>(3,976,911)</u>	<u>(5,874,299)</u>
Investing Activities		
Sale of investments	188,317	49,467
Purchase of investments	-	(1,029,967)
Sale of certificates of deposit	610,664	606,389
Purchase of certificates of deposit	(615,883)	(610,664)
Investment income	<u>107,181</u>	<u>47,523</u>
Net cash provided by (used in) investing activities	<u>290,279</u>	<u>(937,252)</u>
Decrease in Cash and Cash Equivalents	(559,632)	(3,974,267)
Cash and Cash Equivalents, Beginning of Year	<u>4,253,307</u>	<u>8,227,574</u>
Cash and Cash Equivalents, End of year	<u><u>\$ 3,693,675</u></u>	<u><u>\$ 4,253,307</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,236,309	\$ 1,325,184
Restricted cash and cash equivalents	<u>2,457,366</u>	<u>2,928,123</u>
Total cash and cash equivalents	<u><u>\$ 3,693,675</u></u>	<u><u>\$ 4,253,307</u></u>

Community Water System
Public Water Authority of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and December 31, 2021

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 976,117	\$ 727,620
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	1,948,753	1,936,631
Other income	125,352	174,485
Changes in		
Accounts receivables	173,989	(115,196)
Prepaid expenses	16,973	(1,929)
Inventory	(251,326)	(37,786)
Accounts payable	151,046	13,482
Accrued expenses and other liabilities	(13,904)	139,977
	<u>\$ 3,127,000</u>	<u>\$ 2,837,284</u>

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Community Water System Public Water Authority of the State of Arkansas (Authority) is a Public Water Authority authorized and formed under Arkansas Code Ann. 4-35-201 to 217. The purpose of the Authority is to associate its users together for their mutual benefit for the purpose of constructing, maintaining and operating a water system. The system is supported primarily through service revenue and other user fees.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, investment income and interest on capital assets – related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. At December 31, 2023 and 2022, cash equivalents consisted primarily of money market accounts with brokers.

Accounts Receivable

Accounts receivable consist of amounts due from customers for water sales and are stated at the amount billed to customers plus any accrued and unpaid late fees. Accounts receivable are ordinarily due on the 15th of the month following the month billed. Accounts that are unpaid after the due date are charged a late fee. Accounts more than 30 days past due are considered delinquent and service is disconnected. Accounts are written off as bad debts based on individual credit evaluation and specific circumstances of the account. No allowance for uncollectible accounts has been recorded as of December 31, 2023 and 2022, because management believes any potential uncollectible accounts are immaterial to the financial statements.

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

Inventories

Inventories consist of materials and supplies used in operations and are stated at the lower of cost or market. Cost is determined using the weighted-average cost.

Investments and Investment Income

Investments in money market mutual funds and nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value. Investment income is included as nonoperating revenue in the statements of revenues, expenses and changes in net position.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset.

The following estimated useful lives are being used by the Authority:

Supply, treatment and distribution facilities	10–50 years
Equipment	3–10 years
Water storage space	40 years

Property acquired with grant funds is considered to be owned by the Authority while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased, as well as any proceeds therefrom, is subject to federal regulation.

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended December 31, 2023 and 2022.

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

Deferred Outflows of Resources

The Authority reports the consumption of net position applicable to future periods as deferred outflows of resources in a separate section of its balance sheets.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position

Net position of the Authority is classified into three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors or others external to the Authority, including amounts deposited with trustees as required by bond indentures.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria.

Operating revenues include activities that have the characteristics of exchange transactions, such as assessments levied, industrial surcharges, connection fee and other water fees and are reported as operating revenues. Transactions which are capital, financing or investing related are reported as nonoperating revenues.

Government Grants

Support funded by grants is recognized as the Authority performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Accounting Pronouncement Adopted

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement provides a new framework for accounting for SBITAs under the principle that SBITAs are financings and entities should recognize an intangible asset and a corresponding liability. This statement is effective for the Authority's year ended December 31, 2023. Implementation of GASB Statement No. 96 – SBITAs had no impact on the financial statements for the year ended December 31, 2023.

Subsequent Events

Subsequent to year-end, the Authority was awarded a grant in the amount of \$3,646,605 from the Arkansas Natural Resources Commission.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special road district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2023 and 2022, the Authority's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk.

Investments

Arkansas statutes authorize the Authority to invest in direct obligations of the U.S. government; obligations on which the principal and interest are fully guaranteed or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. government; obligations of agencies and instrumentalities created by an act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the *Investment Company Act of 1940* and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

At December 31, 2023 and 2022, the Authority had the following investments and maturities:

Type	2023				
	Fair Value	Less than 1	Maturities in Years		More than 10
			1-5	6-10	
U.S. Treasury notes	\$ 1,437,661	\$ 536,494	\$ 901,167	\$ -	\$ -
	<u>\$ 1,437,661</u>	<u>\$ 536,494</u>	<u>\$ 901,167</u>	<u>\$ -</u>	<u>\$ -</u>

**Community Water System
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Notes to Financial Statements
December 31, 2023 and 2022**

Type	December 31, 2022				
	Fair Value	Less than 1	Maturities in Years		More than 10
			1-5	6-10	
U.S. Treasury notes	\$ 1,418,502	\$ 471,891	\$ 946,611	\$ -	\$ -
		<u>\$ 471,891</u>	<u>\$ 946,611</u>	<u>\$ -</u>	<u>\$ -</u>
Equities	<u>223,143</u>				
	<u>\$ 1,641,645</u>				

Interest Rate Risk – The Authority’s policy does not limit the maturity of a single investment. The average-weighted maturities of the underlying investments in the Authority’s money market mutual funds are less than one year.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2023 and 2022, the Authority’s investment in money market mutual funds were rated AAAm and Aaa-mf by Standard & Poor’s and Moody’s, respectively.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The Authority’s investment policy does not specifically address credit risk, concentration of credit risk or custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown are included in the balance sheets as follows:

	2023	2022
Carrying value		
Deposits	\$ 3,359,850	\$ 3,345,654
Investments	<u>2,387,369</u>	<u>3,159,962</u>
	<u>\$ 5,747,219</u>	<u>\$ 6,505,616</u>
Included in the following balance sheet captions		
Current assets		
Cash and cash equivalents	\$ 1,236,309	\$ 1,325,184
Certificates of deposit	615,883	610,664
Investments	-	223,143
Restricted assets		
Cash and cash equivalents	2,457,366	2,928,123
Investments	<u>1,437,661</u>	<u>1,418,502</u>
	<u>\$ 5,747,219</u>	<u>\$ 6,505,616</u>

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs.

The Authority's recurring fair value measurements as of December 31, 2023 consist of U.S. Treasury notes, which are valued using quoted market prices (Level 1 inputs). The Authority's recurring fair value measurements as of December 31, 2022 consist of U.S. Treasury notes and common stock securities, which are valued using quoted market prices (Level 1 inputs).

Investment Income

Total investment return is comprised of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 56,688	\$ 47,523
Net realized and unrealized gains on investments	<u>34,826</u>	<u>30,818</u>
	<u><u>\$ 91,514</u></u>	<u><u>\$ 78,341</u></u>

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

Note 3: Capital and Lease Assets

Capital and lease assets activity for the years ended December 31, 2023 and 2022 was:

	2023				
	Beginning Balance	Additions	Disposals	Net Transfers	Ending Balance
Capital Assets and Leases, Nondepreciable					
Land and land rights	\$ 464,663	\$ -	\$ -	\$ 89,864	\$ 554,527
Construction in progress	4,259,790	1,455,063	-	(4,992,929)	721,924
Total capital and lease assets, nondepreciable	4,724,453	1,455,063	-	(4,903,065)	1,276,451
Capital Assets and Leases, Depreciable					
Supply, treatment and distribution facilities	78,478,910	-	124,076	4,903,065	83,257,899
Equipment lease	47,455	-	-	-	47,455
Water storage space	1,000,478	-	-	-	1,000,478
Total capital and leases assets, depreciable	79,526,843	-	124,076	4,903,065	84,305,832
Total capital and lease assets	84,251,296	1,455,063	124,076	-	85,582,283
Less accumulated depreciation					
Supply, treatment and distribution facilities	37,045,828	1,907,811	124,076	-	38,829,563
Equipment Lease	23,728	9,491	-	-	33,219
Water storage space	506,218	2,103	-	-	508,321
	37,575,774	1,919,405	124,076	-	39,371,103
Total capital and lease assets, net	<u>\$ 46,675,522</u>	<u>\$ (464,342)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,211,180</u>

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

	2022				
	Beginning Balance	Additions	Disposals	Net Transfers	Ending Balance
Capital Assets and Leases, Nondepreciable					
Land and land rights	\$ 464,663	\$ -	\$ -	\$ -	\$ 464,663
Construction in progress	1,083,459	3,585,531	-	(409,200)	4,259,790
Total capital and lease assets, nondepreciable	1,548,122	3,585,531	-	(409,200)	4,724,453
Capital Assets and Leases, Depreciable					
Supply, treatment and distribution facilities	78,135,409	-	65,699	409,200	78,478,910
Equipment lease	47,455	-	-	-	47,455
Water storage space	1,000,478	-	-	-	1,000,478
Total capital and leases assets, depreciable	79,183,342	-	65,699	409,200	79,526,843
Total capital and lease assets	80,731,464	3,585,531	65,699	-	84,251,296
Less accumulated depreciation					
Supply, treatment and distribution facilities	35,209,626	1,901,901	65,699	-	37,045,828
Equipment lease	14,237	9,491	-	-	23,728
Water storage space	480,979	25,239	-	-	506,218
	35,704,842	1,936,631	65,699	-	37,575,774
Total capital and lease assets, net	\$ 45,026,622	\$ 1,648,900	\$ -	\$ -	\$ 46,675,522

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

Note 4: Long-Term Debt

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2023 and 2022:

Description	2023				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Revenue bonds payable (A)	\$ 3,149,496	\$ -	\$ 183,034	\$ 2,966,462	\$ 192,785
Revenue bonds payable (C)	2,475,000	-	5,000	2,470,000	10,000
Revenue bonds payable (D)	5,030,000	-	150,000	4,880,000	155,000
Revenue bonds payable (E)	4,090,000	-	115,000	3,975,000	110,000
Revenue bonds payable (F)	24,510,000	-	1,030,000	23,480,000	1,040,000
Lease liability (G)	8,023	-	8,023	-	-
	39,264,090	-	1,494,234	37,769,856	1,507,785
Discount on 2019 bonds	(14,009)	-	(575)	(13,434)	-
Premium on 2021 bonds	26,248	-	1,459	24,789	-
	12,239	-	884	11,355	-
	<u>\$ 39,274,758</u>	<u>\$ -</u>	<u>\$ 1,491,941</u>	<u>\$ 37,782,817</u>	<u>\$ 1,507,785</u>
Description	2022				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Revenue bonds payable (A)	\$ 3,330,917	\$ -	\$ 181,421	\$ 3,149,496	\$ 186,211
Revenue bonds payable (B)	85,000	-	85,000	-	-
Revenue bonds payable (C)	2,700,000	-	225,000	2,475,000	5,000
Revenue bonds payable (D)	5,175,000	-	145,000	5,030,000	150,000
Revenue bonds payable (E)	4,180,000	-	90,000	4,090,000	115,000
Revenue bonds payable (F)	24,855,000	-	345,000	24,510,000	1,030,000
Lease liability (G)	27,783	-	19,760	8,023	8,023
	40,353,700	-	1,091,181	39,262,519	1,494,234
Discount on 2019 bonds	(14,415)	-	(406)	(14,009)	-
Premium on 2021 bonds	28,435	-	2,187	26,248	-
	14,020	-	1,781	12,239	-
	<u>\$ 40,367,720</u>	<u>\$ -</u>	<u>\$ 1,092,962</u>	<u>\$ 39,274,758</u>	<u>\$ 1,494,234</u>

- (A) The revenue bonds payable consist of Water Refunding and Improvement Revenue Bonds Series 2005 in the original amount of \$5,450,000 dated October 1, 2005, which bear interest at 2.50% and an additional service fee of 1.00%. The bonds are payable in semi-annual installments through April 15, 2036. The Authority is required to make monthly deposits to the debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

- (B) The revenue bonds payable consist of Water Revenue Refunding Bonds Series 2012B in the original amount of \$745,000 dated November 1, 2012, which bear interest at 3.213%. The bonds are payable in semi-annual installments through October 2022. The Authority is required to make monthly deposits to the debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (C) The revenue bonds payable consist of Construction Refunding Bonds Series 2018 in the original amount of \$3,340,000, dated July 31, 2018, which bear interest at 3.00% to 3.95%. The bonds are payable at annual installments through February 2048. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (D) On October 17, 2019, the Authority issued \$5,350,000 of revenue refunding and improvement bonds (Series 2019) to refund the Series 2014 Bonds and to finance the cost of certain capital improvements. The bonds bear interest at 2.125% to 3.125% and are payable in semi-annual installments through February 2046. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (E) On June 22, 2021, the Authority issued the Water Revenue Bonds Series 2021A in the original amount of \$4,180,000, which bear interest at 2.00% to 2.125%. The bonds are being issued to finance costs of certain capital improvements. The bonds are payable in semi-annual installments through October 1, 2042. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (F) On June 22, 2021, the Authority issued the Water Revenue Bonds Series 2021B in the original amount of \$24,855,000, which bear interest at 0.45% to 3.10%. The bonds are being issued to provide funds to be used to advance refund the Authority's Series 2012A Bonds. The bonds are payable in semi-annual installments through October 1, 2042. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by a Trust Indenture dated June 22, 2021 between the Issuer and Regions Bank, the trustee.
- (G) The Authority leases equipment for \$1,595 per month, including interest at 3.125%, with a final payment due July 2023. The lease has an end of lease purchase option of \$1. The measurement of the lease payable is based on the present value of lease payments expected to be paid during the lease term.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as restricted assets in the balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 110% and restrictions on incurrence of additional debt. If the Authority fails to comply with its covenant in any fiscal year, it will undertake a study of the rate revisions necessary to again be in compliance with the covenant.

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2023 and 2022**

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds payable outstanding at December 31, 2023:

	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,507,785	\$ 949,781
2025	1,529,591	929,505
2026	1,556,638	906,829
2027	1,578,934	881,980
2028	8,423,443	3,925,515
2029–2033	9,558,453	2,862,844
2034–2038	10,980,000	1,461,501
2039–2043	2,355,000	266,875
2044–2048	280,012	5,425
	<u>\$ 37,769,856</u>	<u>\$ 12,190,255</u>

Note 5: Line of Credit

The Authority has a \$400,000 revolving line of credit with a bank that matures in June 2024. At December 31, 2023, there was \$0 borrowed against this line. The line is collateralized by deposit accounts. Interest accrues at 2.75% and is payable monthly.

Note 6: Construction Commitments

At December 31, 2023, the Authority had the following commitments:

	<u>Project Authorization</u>	<u>Expended Through December 31, 2023</u>	<u>Remaining Commitment</u>
Edgemont Station	\$ 161,000	\$ 99,500	\$ 61,500
4 MGD WTP Expansion	2,000,000	-	2,000,000

Note 7: Pension Plan

The Authority contributes to a non-trusted defined contribution SEP-IRA pension plan (the Plan) covering substantially all employees who have been employed at least two years and who have attained the age of 18. The Plan was established to provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and may be amended by the board of directors of the Authority. At December 31, 2023 and 2022, there were approximately 27 and 27 plan members, respectively. The Authority contributes 10% of employees' eligible compensation to the Plan. Contributions made by the Authority totaled \$159,733 and \$141,187 during 2023 and 2022, respectively. Employees are fully vested in all contributions to the Plan.

Supplementary Information

Community Water System
Public Water Authority of the State of Arkansas
Schedule of Functional Expenses
Year Ended December 31, 2023

	Production Expense	Transmission and Distribution Expense	General and Administrative Expense
Operating Expenses			
Materials and supplies	\$ 536,634	\$ 7,949	\$ 26,389
Salaries and fringe benefits	146,102	267,896	617,093
Contract billing and remittance	-	-	123,413
Repairs and maintenance	1,069,429	1,105,085	95,563
Grounds maintenance	6,660	7,802	12,131
Utilities and telephone	525,632	263,169	28,250
Cleaning and janitorial	648	-	985
Postage	-	-	2,479
License and fees	1,097	1,633	-
Insurance	55,734	32,090	22,992
Directors' expense	-	-	19,621
Dues	-	-	6,110
Travel expense	601	-	36,573
Consulting fees	4,200	12,500	7,695
Annual meeting	-	-	14,942
Advertising and promotion	-	-	8,620
Other expense	3,682	36,177	33,010
Depreciation and amortization expense	390,613	887,913	26,093
Administrative allocation	-	-	(258,023)
Total operating expenses	<u>2,741,032</u>	<u>2,622,214</u>	<u>823,936</u>
Nonoperating Expense			
Interest expense	<u>358,240</u>	<u>284,394</u>	<u>24,559</u>
Total functional expenses	<u>\$ 3,099,272</u>	<u>\$ 2,906,608</u>	<u>\$ 848,495</u>

Faulkner/ Clebune Counties Distribution Expense		Total
\$	738	\$ 571,710
	142,035	1,173,126
	-	123,413
	395,266	2,665,343
	4,334	30,927
	285,939	1,102,990
	-	1,633
	-	2,479
	-	2,730
	18,077	128,893
	-	19,621
	-	6,110
	-	37,174
	28,450	52,845
	-	14,942
	-	8,620
	28,794	101,663
	644,135	1,948,754
	258,023	-
	<u>1,805,791</u>	<u>7,992,973</u>
	<u>348,030</u>	<u>1,015,223</u>
\$	<u><u>2,153,821</u></u>	\$ <u><u>9,008,196</u></u>

Community Water System
Public Water Authority of the State of Arkansas
Schedules of Water Sales (Unaudited)
Years Ended December 31, 2023 and 2022

	2023	2022
Gross water revenue		
Retail	\$ 3,321,524	\$ 3,245,648
Wholesale	5,261,162	4,561,680
Total revenue (water sales)	<u>\$ 8,582,686</u>	<u>\$ 7,807,328</u>
Number of connections		
(including wholesale connections)	<u>7,289</u>	<u>7,169</u>
Number of gallons sold		
Retail	289,799,500	297,691,800
Retail wholesale	68,511,000	61,840,000
Wholesale	<u>1,438,435,000</u>	<u>1,365,988,000</u>
Total gallons sold	<u>1,796,745,500</u>	<u>1,725,519,800</u>

**Community Water Supply
Public Water Authority of the State of Arkansas
Schedules of Insurance Coverage (Unaudited)
December 31, 2023 and 2022**

	2023	2022
Real and personal property	\$ 27,000,000	\$ 27,000,000
General liability	2,000,000	2,000,000
Personal injury limit	1,000,000	1,000,000
Products completed	2,000,000	2,000,000
Each occurrence limit	1,000,000	1,000,000
Fire damage limit	300,000	300,000
Medical expense	5,000	5,000
Business auto	1,000,000	1,000,000
Uninsured motorist	1,000,000	1,000,000
Cyber liability	1,000,000	1,000,000
Equipment floater	3,000 - 213,490	3,000 - 213,490
Umbrella policy		
Each occurrence	2,000,000	2,000,000
Products completed	2,000,000	2,000,000
Workers' compensation		
Each incident	500,000	500,000
Policy limit	500,000	500,000
Each employee	500,000	500,000
Surety bond	1,000,000	1,000,000
Employer fidelity bond	5,000 deductible	5,000 deductible
Boiler and machinery coverage	18,100,000	18,100,000

**Community Water System
Public Water Authority of the State of Arkansas
Board of Directors (Unaudited)
December 31, 2023**

Name	Title
John Buster	President
Jackie Melton	Vice President
Brenda Smith	Treasurer
Terry Robinson	Board Member
Brenda Bates	Board Member



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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

Independent Auditor's Report

Board of Directors
Community Water System
Public Water Authority of the State of Arkansas
Greers Ferry, 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 (*Government Audit Standards*), the financial statements of Community Water System Public Water Authority of the State of Arkansas (Authority), which comprise the balance sheet as of December 31, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

**Little Rock, Arkansas
March 15, 2024**