

LAWRENCE COUNTY REGIONAL WATER DISTRICT

Audited Financial Statements

For the Years Ended December 31, 2022 and 2021

Thomas, Speight & Noble
Certified Public Accountants
915 Townsend Dr.
Pocahontas, AR 72455
(870) 892-2575

Lawrence County Regional Water District
Audited Financial Statements
and Supplementary Information

For the Year Ended December 31, 2022 and 2021

Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Financial Statements:	
Statement of Financial Position.....	4
Statement of Revenues, Expenses, and Changes in Net Position.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-13
Supplementary Information:	
Schedule of Cash in Depositories	14
Schedule of Insurance in Force.....	15
Schedule of Current Usage Information (UNAUDITED).....	16
INDEPENDENT AUDITORS' REPORT REQUIRED BY <i>GOVERNMENT</i>	
<i>AUDITING STANDARDS:</i>	
Report on Compliance & on Internal Control Over Financial Reporting.....	17-18



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lawrence County Regional Water District

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Lawrence County Regional Water District as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise Lawrence County Regional Water District basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects of Lawrence County Regional Water District, as of December 31, 2022, and 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lawrence County Regional Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lawrence County Regional Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lawrence County Regional Water District's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County Regional Water District's basic financial statements. The accompanying combining and comparative financial statements and schedules listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and, except for that portion marked "**UNAUDITED**" was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. That 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 the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "**UNAUDITED**" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Matters

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

The financial statements for the year ended December 31, 2021, were audited by a predecessor auditor issuing an unmodified opinion in the report dated August 27, 2022, and are included for comparative purposes in the accompanying financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2023, on our consideration of Lawrence 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 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 Lawrence 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 Lawrence County Regional Water District's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Pocahontas, Arkansas

August 4, 2023

Lawrence County Regional Water District
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 491,243	\$ 325,619
Customer accounts receivable	136,529	105,769
Unbilled revenues	77,042	70,334
Inventory	54,036	41,278
Prepaid insurance	-	3,428
Total current assets	758,850	546,428
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	1,435,456	1,408,539
Capital assets	14,512,353	14,464,059
Less accumulated depreciation	(7,689,020)	(7,396,752)
Utility deposits	-	210
Total non-current assets	8,258,789	8,476,056
TOTAL ASSETS	\$ 9,017,639	\$ 9,022,484
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 40,400	\$ 32,615
Accrued payroll taxes	8,239	4,723
Accrued interest	15,702	17,125
Accrued compensation	2,304	-
Compensated absences	14,445	-
Current portion of long-term debt	260,367	254,911
Total current liabilities	341,457	309,374
LONG-TERM DEBT, net of current portion	4,201,706	4,460,074
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	218,929	207,613
TOTAL LIABILITIES	4,762,092	4,977,061
NET POSITION		
Net investment in capital assets	2,361,260	2,335,407
Restricted for debt service	1,216,527	1,200,926
Unrestricted	677,760	509,090
Total net position	4,255,547	4,045,423
TOTAL LIABILITIES AND NET POSITION	\$ 9,017,639	\$ 9,022,484

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

Lawrence County Regional Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water sales	\$ 1,532,311	\$ 1,456,818
Penalties charged	34,312	28,342
Other income	47,673	70,818
Total operating revenue	1,614,296	1,555,978
 OPERATING EXPENSES		
Water purchases	82,879	65,593
Salaries and wages	340,419	342,062
Taxes & Licenses	25,049	26,676
Utilities	182,737	171,473
Truck & travel expense	54,201	43,864
Office supplies & postage	29,791	30,206
Repairs and maintenance	10,253	45,311
Supplies	97,112	88,166
Professional fees	18,210	17,650
Depreciation	315,686	330,705
Uniforms	16,933	15,665
Miscellaneous expense	7,952	13,738
Insurance	144,554	143,192
Directors' fees	8,500	8,775
Health department fees	15,574	15,530
Bad debt	(16,158)	38,746
Total operating expenses	1,333,692	1,397,352
 OPERATING INCOME (LOSS)	280,604	158,626
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	16,458	3,382
Gain on sale of assets	22,741	28,814
Interest expense	(102,749)	(123,687)
Bond issue cost	(6,930)	(127,830)
Total non-operating revenues (expenses)	(70,480)	(219,321)
 CHANGE IN NET POSITION	210,124	(60,695)
 NET POSITION AT BEGINNING OF YEAR	4,045,423	4,106,118
 NET POSITION AT END OF YEAR	\$ 4,255,547	\$ 4,045,423

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

Lawrence County Regional Water District
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,588,352	\$ 1,557,001
Cash payments to suppliers for goods and services	(675,615)	(728,470)
Cash payments to employees	(323,669)	(342,062)
Net cash provided by (used in) operating activities	589,068	486,469
 Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(252,912)	(3,992,488)
Interest payments on long-term debt	(104,172)	(116,557)
Debt proceeds	-	4,604,000
Cost of bond issuance	(6,930)	(127,830)
Proceeds from sale of assets	48,523	42,564
Purchases of capital assets	(97,494)	(52,207)
Net cash provided by (used in) financing activities	(412,985)	357,482
 Cash flows from investing activities:		
Interest received	16,458	3,382
Redemption of certificate of deposit	-	163,000
Net cash provided by (used in) investing activities	16,458	166,382
 NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	192,541	1,010,333
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,734,158	723,825
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,926,699	\$ 1,734,158
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 280,604	\$ 158,626
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	315,686	330,705
(Increase)/Decrease In:		
Customer accounts receivable	(30,760)	32,124
Prepaid insurance	3,428	(437)
Inventory	(12,758)	(15,089)
Unbilled revenues	(6,708)	(362)
Utility deposits	210	-
Increase/(Decrease) In:		
Accounts payable	7,785	(27,421)
Accrued payroll taxes	3,516	316
Accrued compensation	2,304	-
Compensated absences	14,445	-
Customer deposits	11,316	8,007
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 589,068	\$ 486,469

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

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The Lawrence County Regional Water District (LCRWD) was organized as a public nonprofit organization on December 18, 1979, in accordance with the provisions of Title 21 and Chapter 14 of the Arkansas Code of 1956 Annotated. The purpose of LCRWD is to provide safe, high quality water services to our community, while maintaining a standard of excellence in customer service and environmental conservation. LCRWD is not included in any other governmental reporting entity, as defined by *Governmental Accounting and Financial Reporting Standards*.

The LCRWD serves all residents of Lawrence County and sections of Craighead and Randolph Counties. The LCRWD is governed by a board of directors consisting of three qualified voters residing in Craighead County, four qualified voters residing in Randolph County, and five qualified voters residing in Lawrence County. Election of officers is by majority vote of the members of the board present at the election. No board member shall receive compensation, whether in form of a salary or per diem.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The LCRWD uses the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled revenues are recorded at year end.

Measurement Focus and Financial Statement Preparation

The term “measurement focus” is used to denote what is being measured and reported in the LCRWD operating statement. The LCRWD is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the LCRWD is better or worse off economically as a result of events and transactions of the period.

The LCRWD adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.” Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt*—This component of net position 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same statement of net position component as unspent proceeds.
- *Restricted*—This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets*—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Customer Accounts Receivable

LCRWD uses the direct write-off method for accounting for bad debts. Water charges receivable as shown in the balance sheets are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Capital Assets

Fixed assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water and Sewer Systems	50 Years
Buildings	40 Years
Vehicles & Equipment	5-10 Years

Inventory

Inventory, consisting of supplies and materials, is stated at the lower of cost or market using the first-in first-out method.

Compensated Absences

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

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Use of FASB Pronouncements

LCRWD uses Financial Accounting Standards Board (FASB) pronouncements that do not conflict with pronouncements of the Government Accounting Standards Board (GASB).

Cash and Cash Equivalents

For the purpose of the statements of cash flows, LCRWD considers all and highly liquid investments with an original maturity of twelve months or less to be cash equivalents.

Restricted assets

Certain proceeds of the LCRWD'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.

Operating Revenues and Expenses

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

**Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021**

NOTE 2: CAPITAL ASSETS

As summary of changes in capital assets for the years ended December 31, 2022, and 2021 are as follows:

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 60,410	\$ -	\$ -	\$ 60,410
Total capital assets not being depreciated	<u>60,410</u>	<u>-</u>	<u>-</u>	<u>60,410</u>
Other capital assets				
Buildings	230,868	-	-	230,868
Water plant	13,513,720	5,278	-	13,518,998
Vehicles & equipment	<u>659,061</u>	<u>92,216</u>	<u>49,200</u>	<u>702,077</u>
Total other assets at historical cost	<u>14,403,649</u>	<u>97,494</u>	<u>49,200</u>	<u>14,451,943</u>
Less accumulated depreciation for:				
Buildings	(118,555)	(6,032)	-	(124,587)
Water plant	(6,722,183)	(275,032)	-	(6,997,215)
Vehicles & equipment	<u>(556,014)</u>	<u>(34,622)</u>	<u>(23,418)</u>	<u>(567,218)</u>
Total accumulated depreciation	<u>(7,396,752)</u>	<u>(315,686)</u>	<u>(23,418)</u>	<u>(7,689,020)</u>
Total capital assets, being depreciated, net	<u>7,006,897</u>	<u>(218,192)</u>	<u>25,782</u>	<u>6,762,923</u>
Total capital assets, net	<u>\$ 7,067,307</u>	<u>\$ (218,192)</u>	<u>\$ 25,782</u>	<u>\$ 6,823,333</u>

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 2: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 60,410	\$ -	\$ -	\$ 60,410
Total capital assets not being depreciated	<u>60,410</u>	<u>-</u>	<u>-</u>	<u>60,410</u>
Other capital assets				
Buildings	230,868	-	-	230,868
Water plant	13,513,720	-	-	13,513,720
Vehicles & equipment	652,563	38,457	31,959	659,061
Total other assets at historical cost	<u>14,397,151</u>	<u>38,457</u>	<u>31,959</u>	<u>14,403,649</u>
Less accumulated depreciation for:				
Buildings	(112,523)	(6,032)	-	(118,555)
Water plant	(6,447,151)	(275,032)	-	(6,722,183)
Vehicles & equipment	(538,332)	(49,641)	(31,959)	(556,014)
Total accumulated depreciation	<u>(7,098,006)</u>	<u>(330,705)</u>	<u>(31,959)</u>	<u>(7,396,752)</u>
Total capital assets, being depreciated, net	<u>7,299,145</u>	<u>(292,248)</u>	<u>-</u>	<u>7,006,897</u>
Total capital assets, net	<u>\$ 7,359,555</u>	<u>\$ (292,248)</u>	<u>\$ -</u>	<u>\$ 7,067,307</u>

NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, LCRWD's deposits may not be returned to it. LCRWD's deposit policy for custodial risk is compliant with bond requirements. Due to the dollar amounts of cash deposits and investments, and the limits of the Federal Deposit Insurance Corporation (FDIC), LCRWD was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end December 31, 2022. At year end December 31, 2022, LCRWD had bank deposits in the amount of \$1,749,546. However, cash at one of these institutions exceeded federally insured limits and pledged securities by \$27,587 as of December 31, 2022. As a result, LCRWD evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4: RISK MANAGEMENT AND LITIGATION

LCRWD is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT

Long-term debt on December 31, 2022, consisted of the following:

	2022	2021
1991 Water Revenue Bond issue – USDA, 5.000%, \$230,000; principal and interest payable monthly beginning July 28, 1991; matures November 28, 2030	87,869	96,781
Arkansas Department of Transportation, 0.000%, \$20,204; principal payable annually beginning August 18, 2018; matures August 18, 2029	14,204	14,204
Water Revenue Refunding Bonds, Series 2021 – Regions Bank 2.150%, \$4,604,000; principal payable annually and interest payable semi-annually beginning May 1, 2022; maturing November 1, 2037.	4,360,000	4,604,000
	\$ 4,462,073	\$ 4,714,985

All bonds are secured by revenues and water system of LCRWD.

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

	2022	2021
Total long-term debt at beginning of year	\$ 4,714,985	\$ 4,103,473
Note payable retirements	(252,912)	(3,992,488)
Debt proceeds	-	4,604,000
Total long-term debt at the end of the year	4,462,073	4,714,985
Less: current portion	(260,367)	(254,911)
Long-term debt, net of current portion	\$ 4,201,706	\$ 4,460,074

Maturities of long-term debt on December 31, 2022, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	260,367	97,920	358,287
2024	266,847	92,089	358,936
2025	272,350	86,102	358,452
2026	278,880	79,982	358,862
2027	285,436	73,707	359,143
2028-2032	1,487,193	270,576	1,757,769
2033-2037	1,611,000	105,372	1,716,372
	\$ 4,462,073	\$ 805,748	\$ 5,267,821

Interest expenses were \$102,749 for the year ended December 31, 2022, and \$123,687 for the year ended December 31, 2021.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT (Continued)

LCRWD's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and executed or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

LCRWD's bond agreement with Regions Bank discloses that if an event of default occurs, the Trustee may, and upon the written request of the owner of their Series 2021 Bond, shall, by proper suit, compel the performance of the duties of the officials of the LCRWD under the laws of the State of Arkansas. And in the case of a default in the payment of the principal of and interest on the Series 2021 Bond, the Trustee may, and upon written request of the owner of the Series 2021 Bond, shall apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of LCRWD and the owner of the Series 2021 Bond with power to charge and collect rates sufficient to provide for the payment of the expenses of operation and maintenance and to pay the Series 2021 Bond and interest outstanding and to apply revenues in conformity with the laws of the State and with this resolution. When all payment defaults have been cured, the custody and operation of the System shall revert to LCRWD. "Event of default" is defined as (1) if LCRWD fails to pay the owner of the Series 2021 Bond when due any fee or expense incurred in connection with the issuance of the Series 2021 Bond, subject to any limitations thereon; (2) any representation, warranty, certification or statement made by LCRWD in connection with the issuance of the Series 2021 Bond shall prove to have been incorrect in any material respect when made; (3) a final unappealable judgment or order for the payment of money in excess of \$5,000,000 payable from Revenues is rendered against LCRWD and such judgment or order shall continue unsatisfied and unstayed for a period of 60 days; (4) default by LCRWD in the payment of debt service on the USDA Senior Bond R-2, the Series 2021 Bond, additional parity bonds or subordinate lien obligations when due or within any applicable grade period; (5) the occurrence of any event under any document executed in connection with additional parity bonds or subordinate lien obligations that results in or would entitle the obligee thereof or a trustee on behalf of such obligee to pursue any remedies against LCRWD.

NOTE 6: BOND REQUIREMENTS

LCRWD must maintain certain requirements after receiving bonds from Regions Bank and the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The USDA issued the 5.000% 1991 Water Revenue Bond Fund in the amount of \$230,000 on June 28, 1991. LCRWD was required to deposit the sum of \$113 monthly into the Revenue Bond Fund beginning July 1993 until June 28, 2003, when a reserve goal of \$13,548 was reached.

Regions Bank issued the 2.150% 2021 Water Revenue Refunding Bonds in the amount of \$4,604,000 on October 29, 2021. LCRWD is required to deposit a sum equal to one-sixth (1/6) of the next installment of interest on the outstanding bonds plus one-twelfth (1/12) of the next installment of principal on the outstanding bonds.

These funds with deposits in excess of the amounts insured by FDIC must be secured by bonds or other direct or fully guaranteed obligations of the United States of America.

Lawrence County Regional Water District
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 7: LEASES

LCRWD occasionally rents equipment for use in maintaining and repairing water system assets. All rentals are operating leases and require no minimum future rentals. In addition, radio equipment is leased on an annual basis.

NOTE 8: FAIR VALUE OF FINANCIAL INSTRUMENTS

The LCRWD has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, notes payable, etc.) none of which are held for trading purposes. The LCRWD estimates that the fair value of all financial instruments on December 31, 2022, and 2021 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The estimated fair value amounts have been determined by the LCRWD using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the LCRWD could realize in a current market exchange.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 4, 2023, the date on which the financial statements were available to be issued.

Lawrence County Regional Water District
Schedule of Cash in Depositories
December 31, 2022 and 2021

	2022	2021
Revenue	\$ 491,044	\$ 325,419
Meter deposit	263,068	251,748
Debt service & depreciation reserve accounts	14,237	14,090
Construction fund	1,098,711	1,085,062
Bond sinking fund	59,439	57,639
Total cash in depositories	1,926,499	1,733,958
Revenue Accounts:		
First national bank	435,010	265,733
First national bank - capital improvements	50,737	55,963
Payroll clearing	5,297	3,723
Total revenue accounts	491,044	325,419
Meter Deposit Accounts:		
Regions bank	183,253	171,947
Regions bank - CD	29,072	29,063
Regions bank - renters CD	18,170	18,165
First national bank - renters deposit CD	32,573	32,573
Total meter deposit accounts	263,068	251,748
Debt Service & Depreciation Reserve Accounts:		
Farmers & merchants (rural development)	14,237	14,090
Construction Fund:		
Regions bond construction fund	1,098,711	1,085,062
Bond Sinking Fund:		
Regions bond sinking fund	59,439	57,639
Total cash in depositories	\$ 1,926,499	\$ 1,733,958

See Independent Auditors' Report.

**Lawrence County Regional Water District
Schedule of Insurance in Force
December 31, 2022**

<u>Description/Policy Number</u>	<u>Expiration Date</u>	<u>Carrier</u>
\$5,000 Arkansas Hwy Dept. Bond Policy #S281696	1/31/2023	Risk Services of AR
Commercial Package including: Policy #2X81035-21 Commercial Package Property Liability Inland Marine Automobile Government Crime; Fidelity Workers' Compensation Umbrella Linebacker	1/21/2023	EMC Insurance Co.

**Lawrence County Regional Water District
 Schedule of Current Usage Information
 For the Years Ended December 31, 2022 and 2021**

Water Usage Rates effective July 1, 2021

All Classes of Water Users

\$23.25 First 1,000 gallons
 \$5.25 Per 1,000 gallons

First 1,000 gallons
 Each additional 1,000 gallons

Number of Users and Billed Usage

	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
January	3027	3029	12,439,820	10,881,170
February	3027	3032	11,586,120	10,508,690
March	3021	3028	9,565,800	13,232,030
April	3021	3028	10,459,400	11,590,240
May	3024	3026	11,364,120	11,297,800
June	3045	3029	15,404,570	13,266,490
July	3045	3028	22,717,170	15,368,860
August	3050	3023	16,275,880	14,200,710
September	3057	3018	13,250,910	21,354,740
October	3057	3032	13,877,790	12,061,900
November	3064	3046	22,647,920	11,536,630
December	3082	3024	10,502,270	11,383,270

*****UNAUDITED*****

See Independent Auditors' Report.



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

To the Board of Directors
Northeast Arkansas Public Water Authority of the State of Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lawrence County Regional Water District (LCRWD), as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise LCRWD's basic financial statements and have issued our report thereon dated August 4, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LCRWD'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 LCRWD's internal control. Accordingly, we do not express an opinion on the effectiveness of LCRWD's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Management responded and indicated that accounting duties related to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LCRWD's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

LCRWD's Response to Findings

Management's response to the findings identified in our audit is described above. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Thomas, Speight & Noble, CPAs

Pocahontas, Arkansas

August 4, 2023