

Midway Public Water Authority

FINANCIAL REPORT

December 31, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Midway Public Water Authority
Proctor, Arkansas

Opinion

We have audited the financial statements of Midway Public Water Authority (the Company), which comprise the statement of net position as of December 31, 2022, the related statements of revenues, expenses and changes in net position and cash flow for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Company 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 Company's ability to continue as a going concern for one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 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, 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 Company'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 Company'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.

West Memphis, Arkansas
August 29, 2024

Jackson, Howell & Associates, PLLC

Midway Public Water Authority
STATEMENT OF NET POSITION
December 31, 2022

ASSETS

CURRENT ASSETS

Cash in bank	\$ 536,906
Accounts receivable - less allowance for doubtful accounts	53,055
Prepaid expenses	2,441
Restricted cash	<u>59,764</u>
TOTAL CURRENT ASSETS	652,166

NON-CURRENT ASSETS

Capital assets :		
Land	\$ 10,850	
Office building	120,526	
Water system	2,483,633	
Equipment	<u>29,508</u>	
	2,644,517	
Less allowance for depreciation	<u>1,507,309</u>	
Net capital assets		1,137,208
Other assets		<u>1,800</u>
TOTAL NON-CURRENT ASSETS		<u>1,139,008</u>
		<u>\$1,791,174</u>

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

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Sales tax payable	\$ 2,093
Customers' meter deposits - restricted assets	44,178
Current portion of bonds payable	<u>76,408</u>
TOTAL CURRENT LIABILITIES	122,679

NON-CURRENT LIABILITIES

Bonds payable less current maturities, net	390,607
Construction - bond payable ARNC, net	<u>315,162</u>
TOTAL NON-CURRENT LIABILITIES	<u>705,769</u>

TOTAL LIABILITIES 828,448

NET POSITION

Net investment in capital assets	350,392
Restricted	59,764
Unrestricted	<u>552,570</u>
TOTAL NET POSITION	<u>962,726</u>

\$1,791,174

Midway Public Water Authority
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2022

OPERATING REVENUE:	
Water sales	\$343,322
OPERATING EXPENSES:	
Depreciation	68,445
Contracted services	100,581
Telephone and internet	5,307
Insurance	7,007
Maintenance and repairs	56,000
Other program expense	4,414
Miscellaneous	8,220
Office supplies and postage	16,709
Legal and audit	995
Utilities	16,984
Security	<u>1,365</u>
TOTAL OPERATING EXPENSES	<u>286,027</u>
OPERATING INCOME	57,295
NON-OPERATING REVENUE (EXPENSE)	
Interest Income	422
Interest expense	<u>(18,456)</u>
	<u>(18,034)</u>
INCOME BEFORE CONTRIBUTIONS	39,261
Contributions by customers	<u>3,250</u>
CHANGE IN NET POSITION	42,511
NET POSITION AT BEGINNING OF YEAR	<u>920,215</u>
NET POSITION AT END OF YEAR	<u>\$962,726</u>

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

Midway Public Water Authority
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$328,229
Cash payments to suppliers	(124,629)
Cash payments to independent contractors	<u>(100,581)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	103,019
CASH FLOWS FROM INVESTING ACTIVITIES:	
Contributions in aid of construction	3,250
Interest receive	<u>422</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,672
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Repayment of long-term debt	(87,741)
Acquisition of capital assets	(2,200)
Interest paid	<u>(18,456)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(108,397)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,706)
CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH AT BEGINNING OF YEAR	<u>598,376</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$596,670</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 57,295
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	68,445
(Increase) decrease in:	
Receivables	(15,789)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(7,724)
Customer meter deposits	<u>792</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$103,019</u>

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

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Midway Public Water Authority (the Authority) provides rural water service to approximately 800 customers. The Authority was incorporated as a body politic and corporate and political subdivision of the State of Arkansas on January 14, 2004. Previous to that date the entity was Midway Water Association, Inc. (the Association). The Association was an Arkansas non-profit corporation and was exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code. On January 14, 2004, the Association ceased to exist and all its assets and liabilities accrued to the benefit of the Authority. The following is a summary of the Authority's significant accounting policies.

Governmental Accounting Standards

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Authority.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, which were codified into a single source for governmental standards.

Proprietary Fund

The Public Water Authority's operations are accounted for as a proprietary fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are reported using the economic resource management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - CONTINUED**

Fair Value of Financial Instruments

The Authority's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The Authority's estimate of fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

Cash

The Authority considers all short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Restricted Cash

Restricted cash represents customer deposits and cash restricted by the bond agreement.

Accounts Receivable and Bad Debts

Accounts receivable represents amounts due from customers under normal terms. The Authority uses the reserve method for expensing uncollectible accounts. A reserve of \$2,500 has been set up and is considered sufficient to provide for expected bad debts on an annual basis. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customers.

Capital Assets

Land, equipment, office building and water system additions and improvements which significantly extend the useful life of the existing utility plant are carried at cost. Maintenance and repair costs are expensed as incurred.

The Authority provides for depreciation of fixed assets based generally on the following methods and useful lives:

	<u>METHOD</u>	<u>LIFE</u>
Water System	Straight-line	35-40 years
Equipment	Straight-line	5-10 years
Office Building	Straight-line	15-35 years

Contributions from Customers

A fee of not less than \$750 was charged to new customers who were added to the system in 2022. This fee is non-refundable and covers the cost of installation, equipment and connection to the distribution system. The fee is recorded as a contribution to unrestricted net position.

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES - CONTINUED**

Contributions from Customers - continued

In the event that the cost of a new tap installation exceeds the significant value used to determine the capitalization of fixed assets, the new customer is required to pay to the Authority the amount of money that exceeds the average cost of installation. The entire cost of the tap installation is added to the existing water system. Any excess payments by a customer are credited to contributions from customer, since the customer has actually made a contribution of assets.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Authority's financial statements. The Authority had no deferred outflows of resources or deferred inflow of resources for the year ended December 31, 2022. Net position is classified in the following categories:

1. Net investment in capital assets - This amount consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of those assets.
2. Restricted - This amount is restricted by creditors, grantors, contributors, or laws or regulations of the government.
3. Unrestricted - This amount is the net position that does not meet the definition of "net investment of capital assets" or "restricted."

The Authority does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Authority management decides which resources (source of funds) to use at the time expenditures are incurred.

Taxes Charged to Customers

Revenues are recorded net of all amounts charged to customers for sales tax.

Revenue Recognition

Revenues are included in income as services are delivered. Billings are rendered and recorded monthly based on metered usage.

Classification of Revenues and Expense

As an enterprise (proprietary) fund, the Authority classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, non-operating revenue and non-operating expenses.

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Classification of Revenues and Expense - continued

Operating revenues and expenses are deemed as revenues realized by the Authority in exchange for providing rural water service. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to debt costs.

Use of Estimates

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

Subsequent Events

The Authority has evaluated events and transactions that occurred between December 31, 2022, and August 29, 2024, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE B - CASH IN BANK AND CONCENTRATION OF RISK

The Authority maintains its deposits in a financial institution that at times exceeds amounts covered by the U.S. Federal Deposit Insurance Corporation (FDIC). The Authority has not experienced any losses in such accounts. Management believes the Authority is not exposed to any significant credit risk related to cash. At December 31, 2022, bank balances of \$325,535 were not insured.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	Balance January 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2022</u>
Capital assets, not being depreciated				
Land	\$ 10,850	\$ -	\$ -	\$ 10,850
Total capital assets not being depreciated	10,850	-	-	10,850
Capital assets, being depreciated				
Water system	2,481,433	2,200	-	2,483,633
Office building	120,526	-	-	120,526
Equipment	<u>29,508</u>	<u>-</u>	<u>-</u>	<u>29,508</u>
Total capital assets being depreciated	2,631,467	2,200	-	2,633,667

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - CAPITAL ASSETS - CONTINUED

	Balance January 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2022</u>
Less accumulated depreciation for:				
Water system	1,388,882	64,624	-	1,453,506
Office building	21,233	3,697	-	24,930
Equipment	<u>28,749</u>	<u>124</u>	-	<u>28,873</u>
Total accumulated depreciation	<u>1,438,864</u>	<u>68,445</u>	-	<u>1,507,309</u>
 Total capital assets being depreciated, net	 <u>1,192,603</u>	 <u>(66,245)</u>	 -	 <u>1,126,358</u>
 Total capital assets, net	 <u>\$1,203,453</u>	 <u>\$ (66,245)</u>	 <u>\$ -</u>	 <u>\$1,137,208</u>

NOTE D - LONG-TERM DEBT

Arkansas Natural Resources Commission

On September 13, 2007, the Authority accepted the terms of a bond agreement with the Arkansas Natural Resources Commission (ANRC) to borrow \$727,000 for the purpose of constructing a 150,000 gallon water storage tank and related improvements and facilities. Terms of the bond issue provide for an interest rate of 4.9% with semi-annual payments of \$23,254 due from December 31, 2008 to June 1, 2038. The bonds are secured by a lien on and pledge of the Authority's revenues.

On April 17, 2018, the Authority accepted the terms of a bond agreement with the Arkansas Natural Resource Commission (ANRC) to borrow up to \$550,000 for the purpose of financing the construction and /or rehabilitation of the water facilities of the System. Terms of the bond issue provide for a service fee of 0.5% with semi-annual payments of \$28,228 due from April 15, 2022 to October 15, 2031. The bonds are secured by a lien on and pledge of the Authority's revenues. The bond closing was held on August 28, 2018. The Authority had drawn down \$432,392 for construction as of December 31, 2022.

Changes in long-term debt during the year ended December 31, 2022:

	Balance December 31, <u>2021</u>	<u>Issued</u>	<u>Payments</u>	Balance December 31, <u>2022</u>
Bond payable-2007	\$464,381	\$ -	\$44,044	\$420,337
Bond payable-2018	<u>405,539</u>	-	<u>26,920</u>	<u>378,619</u>
Total long-term debt	<u>\$869,920</u>	<u>\$ -</u>	<u>\$70,964</u>	<u>\$798,956</u>

Midway Public Water Authority
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE D - LONG-TERM DEBT - CONTINUED

Future maturities of long-term debt as of December 31, 2022, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 76,408	\$ 24,278	\$ 100,686
2024	77,781	23,175	100,956
2025	79,211	22,018	101,229
2026	80,700	20,803	101,503
2027	82,251	19,528	101,779
2028-2032	234,367	76,191	310,558
2033-2037	<u>164,116</u>	<u>46,485</u>	<u>210,601</u>
	<u>\$794,834</u>	<u>\$232,478</u>	<u>\$1,027,312</u>

NOTE E - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to independent contractors and natural disasters, all of which is satisfactorily insured by general liability service. The Authority does not own investments that are subject to interest rate risk and credit risk. Commercial insurance policies are also obtained for other risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.