

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE  
STATE OF ARKANSAS  
HERMITAGE, ARKANSAS

COMPARATIVE FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
INDEPENDENT AUDITOR'S REPORT

SOUTHEAST BRADLEY COUNTY DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
HERMITAGE, ARKANSAS  
COMPARATIVE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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# SEARCY & ASSOCIATES, LLC

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors of  
Southeast Bradley County  
Water District Public Water Authority  
of the State of Arkansas  
Hermitage, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Southeast Bradley County Water District (District) a Public Water Authority of the State of Arkansas, as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

### Opinion

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

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 11 and Note 12 of the financial statements, the District incurred significant obligations to a third party along with inspections and repairs of the District's three water tanks that will require additional significant expenditures as described in the referenced Notes to the Financial Statements.

Management has evaluated these conditions and has engaged a consultant to obtain funds from the Arkansas Natural Resources Commission to obtain funding for meeting these obligations. In addition, the District has increased water rates based on a study required by the Arkansas Health Department that will provide some additional revenue. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## **Management's Responsibility for the Financial Statements**

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

## **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

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

### *Other Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2023, on our consideration of the Southeast Bradley County Water District Public Water Authority of the State of Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Southeast Bradley County Water District Public Water Authority of the State of Arkansas' internal control over financial reporting and compliance.

Searcy & Associates, LLC  
Monticello, Arkansas  
August 15, 2023

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
COMPARATIVE STATEMENT OF FINANCIAL POSITION  
DECEMBER 31,

	<u>Assets</u>	
	<u>2022</u>	<u>2021</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 131,939	\$ 120,065
Accounts Receivable (net of allowance for doubtful accounts of \$870 and \$870)	60,126	45,903
Total Current Assets	<u>192,065</u>	<u>165,968</u>
<b>Restricted Cash</b>		
Meter Deposits	79,262	76,625
Bond Reserve Accounts (See Note 10)	267,052	286,654
System Refurbishment & Replacement	45,774	0
Construction Accounts	1,006	1,005
Total Restricted Cash	<u>393,094</u>	<u>364,284</u>
<b>Property, Plant and Equipment</b>		
Land	17,199	17,199
Buildings	489,827	489,827
Fixtures & Equipment	45,457	62,310
Water System	7,666,983	7,666,983
	8,219,466	8,236,319
Accumulated Depreciation	(3,660,312)	(3,474,605)
Net Property, Plant and Equipment	<u>4,559,154</u>	<u>4,761,714</u>
<b>Other Assets</b>		
Deposits	<u>150</u>	<u>150</u>
<b>Total Assets</b>	<u>\$5,144,463</u>	<u>\$ 5,292,116</u>

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

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
COMPARATIVE STATEMENT OF FINANCIAL POSITION  
DECEMBER 31,

**LIABILITIES AND NET POSITION**

	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Current Liabilities</b>		
Accounts Payable	\$ 205,212	\$ 191,566
Accrued Expenses	4,925	13,495
Accounts Receivable Credit Balances	4,438	3,630
Current Portion of Notes Payable	<u>107,114</u>	<u>93,304</u>
Total Current Liabilities	321,689	301,995
 <b>Long Term Debt, Net of Current Portion</b>		
Notes Payable	3,063,232	3,180,958
 <b>Other Liabilities</b>		
Meter Deposits	<u>75,830</u>	<u>73,250</u>
 <b>Total Liabilities</b>	<u>3,460,751</u>	<u>3,556,203</u>
 <b>Net Position</b>		
Invested in Capital Assets, Net of Debt	1,388,808	1,487,452
Temporarily Restricted	313,832	287,659
Unrestricted	<u>(18,928)</u>	<u>(39,198)</u>
Total Net Position	<u>1,683,712</u>	<u>1,735,913</u>
 <b>Total Liabilities and Net Position</b>	<u><u>\$5,144,463</u></u>	<u><u>\$ 5,292,116</u></u>

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

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31,

	<u>2022</u>	<u>2021</u>
<b>Operating Revenue</b>		
Water Revenue	\$ 593,623	\$ 553,747
Connection Fees and Other	<u>22,650</u>	<u>12,755</u>
Total Operating Income	<u>616,273</u>	<u>566,502</u>
<b>Operating Expenses</b>		
Contract Labor	18,290	12,475
Depreciation	209,630	209,329
Office Expense	21,626	18,359
Professional Fees	5,815	192,203
Travel/Mileage/Truck	8,206	6,767
Insurance and Bonding	10,806	10,746
Repairs	72,610	45,750
Salaries and Payroll Taxes	103,596	91,643
Employee Health Insurance	21,255	29,361
Taxes, Licenses, and Permits	49,311	42,356
Utilities	15,917	20,194
Miscellaneous	<u>4,410</u>	<u>11,595</u>
Total Operating Expense	<u>541,472</u>	<u>690,778</u>
<b>Operating Income/(Loss)</b>	74,801	(124,276)
<b>Non-Operating Income/(Expense)</b>		
Interest Income	971	976
Interest Expense	<u>(128,094)</u>	<u>(142,697)</u>
Net Non-Operating Income/(Expense)	<u>(127,123)</u>	<u>(141,721)</u>
<b>Change in Net Position</b>	<u>(52,322)</u>	<u>(265,997)</u>
<b>Net Asset Position Beginning of Year</b>	<u>1,735,913</u>	<u>2,002,100</u>
Changes in Components of Net Position		
Increase/(Decrease) Invested in Capital Assets	\$ 98,644	\$ (113,766)
Increase/(Decrease) in Temporarily Restricted Net Assets	26,173	(17,019)
Increase/(Decrease) in Unrestricted Net Assets	<u>(177,018)</u>	<u>(135,402)</u>
<b>Net Asset Position End of Year</b>	<u>\$1,683,712</u>	<u>\$ 1,735,913</u>

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



SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31,

	<u>2022</u>	<u>2021</u>
<b>Cash Flows Provided by (Used in) Operating Activities</b>		
Cash Received from Customers	\$ 602,051	\$ 564,171
Cash Payments for the Benefit of Employees	(124,851)	(121,004)
Cash Payments for Goods and Services	(193,307)	(173,767)
Net Cash Provided by Operating Activities	<u>283,893</u>	<u>269,400</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Property, Plant, and Equipment	0	(3,925)
Principal Payments on Long Term Debt	(103,916)	(98,805)
Interest Payments on Long Term Debt	(128,094)	(136,512)
Net Cash Used in Financing Activities	<u>(232,010)</u>	<u>(239,242)</u>
<b>Cash Flows from Investing Activities</b>		
Interest Received	971	976
(Increase)/Decrease in Restricted Cash	(40,980)	10,720
Net Cash Provided/(Used) in Investing Activities	<u>(40,009)</u>	<u>11,696</u>
<b>Net Increase/(Decrease) in Cash</b>	11,874	41,854
<b>Cash - Beginning of Year</b>	120,065	78,211
<b>Cash - End of Year</b>	<u>\$ 131,939</u>	<u>\$ 120,065</u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash</b>		
Net Operating Income	\$ 74,801	\$ (124,276)
Adjustments to Reconcile Operating Income to Net Cash Provided		
Depreciation	209,630	209,329
(Increase)/Decrease in:		
Accounts Receivable	(14,223)	800
Increase/(Decrease) in:		
Accounts Payable	13,646	185,878
Other Liabilities	39	(2,331)
Total Adjustments	<u>209,092</u>	<u>393,676</u>
Cash Provided by Operating Activities	<u>\$ 283,893</u>	<u>\$ 269,400</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest expense \$128,094

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

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 1: DESCRIPTION OF THE ENTITY**

The Southeast Bradley County Water District Public Water Authority (the District) was organized on July 6, 2012, under Act No. 114, 1957 Acts of Arkansas as amended and is governed by a five person Board of Directors. Upon organization, the District assumed all the assets and liabilities of the Southeast Bradley County Water Association, Inc. The District is a subdivision of the Government of the State of Arkansas whose function includes the acquisition of assets to be utilized for the production, sale and delivery of potable water to users in Southeast Bradley County Arkansas. Economic resources utilized for this purchase are derived from the sale of water and the various fees associated with these activities. The District is not included in any other governmental reporting entity, as defined by Governmental Accounting and Financial Reporting Standards (GASB).

The District provides water to approximately 1,075 customers.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Accounting Policies**

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type; specifically an enterprise fund. Enterprise Funds account for activities that are funded with debt that is secured by a pledge of the net revenues from fees and charges of the activity; or that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or that the pricing policies of the activity established the charges designed to recover its costs, including capital costs (such as depreciation or debt activities).

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

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Doubtful Accounts**

Management has established an allowance for doubtful accounts in the amount of \$870 for 2022 and 2021 to account for the possibility that the receivables reported on the Statement of Net Position cannot be collected. Historical writeoff of accounts have not been materially significant.

**Cash and Cash Equivalents**

The District considers all highly liquid investments (except restricted cash) with maturities of three months or less when purchased to be cash equivalents. Given the liquidity of these assets they are valued at face value.

**Capital Assets**

The cost of additions and major replacements of retired property are capitalized. The District defines capital assets as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Distribution System	40
System Improvements and Intangible Assets	15
Machinery and Equipment	7

**Long-Term Debt**

Long term debt is reported at face value net of applicable discounts. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues.

**Operating Revenues and Expense**

Operating revenue and expense consist of those items that result from the ongoing principal operations of the District. Operating revenue consists primarily of charges for water usage and services. Non-operating revenue and expense consist of those revenues and expenses that are related to the financing and investing type activities and result from non-exchange transactions or ancillary services. It is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity Classifications**

Net Position is comprised of the various net earnings from operating income, non-operating revenue and expense, and capital contributions. Net position is classified in the following three components:

**Invested in Capital Assets Net of Related Debt** - This component consists of capital assets net of accumulated depreciation and reduced by any outstanding bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Temporarily Restricted** - This component consists of constraints imposed by creditors, grantors, contributors, or laws or regulations or other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets net of debt."

**Sales Tax**

Water Revenue reported included state sales taxes in the amount of \$43,783 for 2022 and \$41,720 for 2021.

**Income Taxes**

The District is a political subdivision of the State of Arkansas and is exempt from income taxes.

**Date of Management's Review**

Subsequent events have been evaluated through August 15, 2023, which is the date the financial statements were available to be issued. See Note 12.

**Budgets and Budgetary Accounting**

Prior to the beginning of the new year, the Board of Directors adopt an annual budget for the District. The budget of the District is adopted under the cash basis of accounting. Cash basis accounting treats all expenditures as expenses and all cash receipts related to revenue as income when received.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 3: LONG-TERM DEBT**

Long term debt at December 31, 2022 and 2021, consists of the following:

	<u>2022</u>	<u>2021</u>
Revenue Bond payable to the USDA, due in monthly installments of \$6,874, including interest at 4.5%	\$ 922,775	\$ 962,757
Revenue Bond payable to the USDA, due in monthly installments of \$6,495, including interest at 4.5%	1,056,636	1,086,301
Revenue Bond payable to the USDA, due in monthly installments of \$1,028, including interest at 3.625%	205,337	210,133
Revenue Bond payable to the USDA, due in monthly installments of \$1,624, including interest at 4.375%	299,665	305,894
Revenue Bond payable to the USDA, due in monthly installments of \$1,588, including interest at 3.25%	346,004	353,678
Note to a bank, due on demand but if no demand in monthly installments of \$500, including interest of 2.35%, with a balloon payment due on April 10, 2025 of \$24,937. The note is secured by the pledge of a bank deposit in the amount of \$44,000.	36,138	41,807
Note payable to a bank due in monthly installments of \$1,500, including interest at 2.35% with a balloon payment of \$289,406 due on December 15, 2024. The note is secured by a first mortgage on real estate.	<u>303,791</u>	<u>313,692</u>
Long Term Bonds and Notes Payable	<u><u>\$3,170,346</u></u>	<u><u>\$3,274,262</u></u>

Future debt service payments are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2023	\$ 128,094	\$ 107,114	\$ 235,208
2024	116,903	395,676	512,579
2025	111,393	126,826	238,219
2026	106,237	73,070	179,307
2027	101,583	109,724	211,307
2028-2032	430,512	625,658	1,056,170
2033-2037	278,718	777,821	1,056,539
2038-2042	127,674	587,621	715,295
2043-2047	34,572	312,582	347,154
2048-2052	1,912	54,254	56,166
	<u><u>\$1,437,598</u></u>	<u><u>\$3,170,346</u></u>	<u><u>\$4,607,944</u></u>

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 3: LONG-TERM DEBT (CONTINUED)**

The District has pledged future water customer revenue, net of specified operating expense, to repay \$2,850,417 of bonds and notes in 2022 and \$2,918,763 in 2021. Proceeds from the debt were used for building the District's water system. Principal and interest on the bonds are payable through 2050, solely from the water customer's net revenues.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2022 and 2021, was as follows:

	Balance 12/31/2021	Additions	Deletions/ Transfers	Balance 12/31/2022
Land	\$ 17,199	\$ 0	\$ 0	\$ 17,199
Buildings	489,827	0	0	489,827
Fixtures & Equipment	62,310	0	(16,853)	45,457
Water System	7,666,983	0	0	7,666,983
Total	8,236,319	0	(16,853)	8,219,466
Less: Accumulated Depreciation	(3,474,605)	(185,707)	0	(3,660,312)
Total Capital Assets	<u>\$ 4,761,714</u>	<u>\$ (185,707)</u>	<u>\$ (16,853)</u>	<u>\$ 4,559,154</u>

	Balance 12/31/2020	Additions	Deletions/ Transfers	Balance 12/31/2021
Land	\$ 17,199	\$ 0	\$ 0	\$ 17,199
Buildings	489,827	0	0	489,827
Fixtures & Equipment	65,373	3,925	(6,988)	62,310
Water System	7,666,983	0	0	7,666,983
Total	8,239,382	3,925	(6,988)	8,236,319
Less: Accumulated Depreciation	(3,265,276)	(209,329)	0	(3,474,605)
Total Capital Assets	<u>\$ 4,974,106</u>	<u>\$ (205,404)</u>	<u>\$ (6,988)</u>	<u>\$ 4,761,714</u>

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 5: PUBLIC FUNDS - DEPOSITS WITH FINANCIAL INSTITUTIONS**

The carrying amounts of the District's deposits in banks were as follows:

	<u>2022</u>	<u>2021</u>
Carrying amount	<u>\$525,033</u>	<u>\$484,248</u>
Bank's Ledger balance	<u>\$531,894</u>	<u>\$487,666</u>

The difference between the bank's ledger balance and the carrying amount consists of outstanding checks that have not cleared and any deposits in transit.

The amounts on deposit in two commercial banks were insured by the Federal Deposit Insurance Corporation for an amount up to \$250,000 for interest bearing funds and an additional \$250,000 for non-interest bearing funds. Any amount on deposit in excess of this amount is not insured.

The schedule below is designed to disclose the level of custody risk assumed by the District based on how its deposits were insured or secured by pledged securities at December 31, 2022.

Category 1 - Insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the District (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent in the District's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Association's bank deposits are as follows:

<u>Depository</u>	<u>Total Deposits</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Bank A	\$384,800	\$250,000	\$ 100,000	\$ 34,800
Bank B	144,094	144,094		0
	<u>\$528,894</u>	<u>\$394,094</u>	<u>\$ 100,000</u>	<u>\$ 34,800</u>

Arkansas State Law requires the Deposits of State funds or the funds of State subdivisions be insured or that securities be pledged to secure the deposits. The secured amounts are shown in Category 2 in the schedule above. Uninsured amounts are shown in Category 3.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 6: WATER RATE SCHEDULES**

Bond Covenants restrict the District's water rates to the minimum rates as follows:

Minimum Charge	\$27.00
For each 1,000 Gallons used	\$5.00 Per 1,000 Gallons
All over 5,000 Gallons	\$4.00 Per 1,000 Gallons

Bond covenants require that rates are to be adjusted as necessary so the District has the capability to service debt.

The District has set water rates as follows:

Minimum charge	\$27.00
	\$ 6.75 for each 1,000 gallons over 1,000

**NOTE 7: RESTRICTED ASSETS**

As shown on the Statement of Financial Position the District has restricted assets on December 31, 2022 in the amount of \$393,094 as follows:

Restricted for reimbursement of customer deposits	\$ 79,262
Restricted for construction purposes	1,006
Restricted by Arkansas Act 605 of 2021	45,774
Restricted by bond covenants	<u>267,052</u>
	<u>\$393,094</u>

Arkansas Act 605 of 2021 requires retail water providers, except those regulated by the Arkansas Public Service Commission, to maintain a "Refurbishment & Replacement" reserve to be established by contributing five percent of each months billings into a separate bank account. Funds can be used from this fund for necessary repairs and approved equipment replacement.

**NOTE 8: ACCRUED COMPENSATED ABSENCES**

It is the practice of the District to record vacation pay expense and other compensated absences when paid rather than when earned. This is a departure from Generally Accepted Accounting Practices (GAAP). Accrued Compensated absences at December 31, 2022 and 2021 were not materially significant.



SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 9: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

	<u>2022</u>	<u>2021</u>
Financial Assets at year end	\$ 525,033	\$484,348
Less amounts not available to be used in one year		
Restricted for special purposes	<u>(393,094)</u>	<u>(364,283)</u>
Financial assets available to meet cash needs		
for general expenditures within one year	<u>\$ 131,934</u>	<u>\$120,065</u>

**NOTE 10: CHANGE IN CASH RESTRICTED BY BOND COVENANTS**

**Maintenance & Depreciation Reserve**

Beginning Balance January 1, 2021	\$ 58,900	
Additions		
Required Additions	25,522	
Interest	<u>99</u>	
Total Before Use or Transfer	84,521	
Transfer to Refurbishment & Replacement account	<u>(45,565)</u>	
Balance at December 31, 2023		38,956

**Debt Service Reserve**

Beginning Balance, January 1, 2021	227,754	
Additions		
Interest	<u>342</u>	
Balance at December 31, 2023		<u>228,096</u>
Total Bond Reserve Balances		<u>\$ 267,052</u>

**NOTE 11: SUBSEQUENT EVENTS**

In order to comply with an order from the Arkansas Department of Health as defined in Finding 2022-2, the District has engaged a consultant to attempt to obtain grants to assist in the necessary repair and painting of its three potable water storage tanks. The consultant is also engaged to assist in obtaining sufficient funds to pay the amount due for previous consulting work associated with the contract to acquire the Town of Banks' water system.

The Town of Banks has defaulted upon its contract to sell the Water Utility assets to the District resulting in the District being unable to secure the funds that were obtained to make the acquisition. A part of these funds were to be used to pay the Consultant's fees of \$186,678. See Going Concern Note 12.

The District has engaged a law firm to sue the Town of Banks to compel compliance with the contract to acquire the Town's water utility assets.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

**NOTE 12: GOING CONCERN MATTER**

In 2020 the District engaged a consulting firm to assess the feasibility of the acquisition of the Town of Banks water utility assets and to assist in obtaining the necessary funding for the project. The feasibility study was completed, funds for the project found, and a contract for the purchase approved and executed by the Town.

Subsequently, the Town defaulted on the contract and refused to transfer the assets. The District has engaged counsel to assist in compelling execution of the contract, the resolution of which has not occurred as of the date of this report.

Secondly, while the District has complied with Arkansas Health Department regulations requiring potable water storage tanks to be inspected at least every five years, all the necessary repairs have not been made. The district has estimated the costs of the required inspection and repairs at December 31, 2022 to be \$1,362,245.

As shown in Note 9 to the financial statements, the District had \$525,033 in Cash or Equivalents at December 31, 2022 of which \$393,094 were restricted as to use, leaving only \$131,939 of cash available to meet cash needs and general expenditures. In addition, restricted cash of \$84,521 was available from funds restricted for use for repairs and replacement of short lived assets. The District generated an increase in cash in 2022 of \$52,783. \$25,621 of this increase was an increase in restricted funds.

The District has increased rates to users in order to increase available cash. Operating Revenue increased from \$566,502 in 2021 to \$616,273 in 2022 for a total increase of \$49,771. Revenue for 2023 is budgeted to be comparable to 2022.

In addition to the \$1,362,245 in estimated costs discussed above, the District has received notice of collection efforts from the attorney for the consulting firm engaged for the feasibility study performed in 2020 for the acquisition of the Water Fund assets of the Town of Banks in the amount of \$186,678.

This results in the necessity of the District securing additional sources of funds or a successful resolution on outstanding legal matters to avoid defaulting on financial obligations.

Management expects to meet these requirements as follows:

The District has engaged a consultant to assist in obtaining a grant from the Arkansas Natural Resources Commission to obtain funding for meeting the obligations described above.

Secondly, the District will negotiate with the firm with regards to the outstanding consultant fees for a favorable resolution.

## **SUPPLEMENTARY INFORMATION**

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts	Actual Amounts	Variance Positive (Negative)
<b>Operating Revenue</b>			
Water Sales	\$ 560,000	\$ 593,623	\$ 33,623
Connections & Other Fees	9,000	22,650	13,650
Total Revenue	<u>569,000</u>	<u>616,273</u>	<u>47,273</u>
<b>Operating Expenses</b>			
Salary, Taxes, Contract Labor, Etc.	135,000	143,141	(8,141)
Office Expense	20,000	21,626	(1,626)
Repair & Maintenance	55,000	72,610	(17,610)
Misc. Dues & Fees	12,000	9,916	2,084
Utilities	22,000	15,917	6,083
Sales Tax & Other Tax	50,000	49,311	689
Audit, Legal, & Insurance	30,000	19,321	10,679
Total Operating Expense	<u>324,000</u>	<u>331,842</u>	<u>(7,842)</u>
<b>Operating Income</b>	<u>245,000</u>	<u>284,431</u>	<u>39,431</u>
<b>Non-Operating Revenue (Expense)</b>			
Interest Income	1,000	971	(29)
Debt Service	<u>(236,308)</u>	<u>(232,010)</u>	<u>4,298</u>
Net Non-Operating Item	<u>(235,308)</u>	<u>(231,039)</u>	<u>4,269</u>
<b>Budgeted Change in Net Position</b>	<u>\$ 9,692</u>	<u>\$ 53,392</u>	<u>\$ 43,700</u>
<b>Adjustment to Change from Budget to Actual</b>			
Depreciation	\$ 0	\$ (209,630)	
Principal included in Interest	0	103,916	
	<u>0</u>	<u>(105,714)</u>	
<b>Adjusted Change in Net Position</b>	<u>\$ 9,692</u>	<u>\$ (52,322)</u>	

Note: The District budgets change in net position on the cash basis without depreciation and the amount of budgeted interest includes both principal and interest.

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022

**Water Rate Schedule**

Minimum Charge	\$27.00
All over 1,000 Gallons	\$6.75 per \$1,000

**Accounting**

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

**Insurance Schedule**

	<u>Amount of Coverage</u>	<u>Policy Period</u>
Blanket Bond (Real estate coverage included in Blanket Bond)	\$1,838,855	Jan. 1, 2022 to Jan. 1, 2023
Employee Bond	250,000	Jan. 1, 2022 to Jan. 1, 2023
Auto (Each Occurrence Limited to \$3,000,000)	1,000,000	Jan. 1, 2022 to Jan. 1, 2023
Public Officials & Management Liability) (Aggregate Limit \$3,000,000)	1,000,000	Jan. 1, 2022 to Jan. 1, 2023
Cyber Liability	1,000,000	Jan. 1, 2022 to Jan. 1, 2023

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022

**Board Members and Officers**

<u>Name</u>	<u>Title</u>
Steve Parnell	Director, President
Ray Marcantel	Director, Vice-President
Missy Saunders	Director, Secretary
Mary Hamilton	Director
Eugene Callum	Director
Harold Hampton	Director
Judy Davis	Director
Michael Jones	Water Operator
Lanessa Reep	Accounting

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2022

2022-1 Segregation of Duties

Condition: Due to the District's limited number of personnel, it is unable to segregate the duties of general journal entries, bank reconciliation, customer billings, posting customer receipts to the accounts receivable subsidiary ledger, and making bank deposits.

Criteria: Proper segregation of duties should be in place to establish controls to provide reasonable assurance that fraud or errors does not occur.

Effect: Without proper segregation of duties, opportunity for error or fraud exists. This situation makes it unlikely that such error or fraud would be detected in a reasonable amount of time.

Recommendation: The District should evaluate its internal controls and segregate financial duties to the extent possible with current staffing levels.

Views of Responsible Officials: The District will segregate the duties to the extend possible given the current staffing level. Management is of the opinion that the cost of employing sufficient personnel to properly segregate accounting duties out weighs the benefit of such controls.

2022-2 Securities for Deposits

Condition: The District had deposits in a bank in excess of FDIC insurance and pledged securities in the amount of \$34,800.

Criteria: Arkansas Code Title 19 - Public Finance Chapter 8 - Depositories for Public Funds - Subchapter 2 - Securities for Deposits #19-8-203 requires deposits of public funds in excess of FDIC insurance to be secured by pledge of qualifying security.

Effect: The condition results in the District being in violation of Arkansas laws with regard to security for bank deposits.

Recommendation: The District should secure collateral for the uninsured deposits or move the deposits to an insured account.

Views of Responsible Officials: The Violation resulted from an oversight and will be corrected. Controls will be put in place to insure compliance with regulations.

# SEARCY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.  
CHARLES SEARCY, C.P.A.  
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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**

Board of Directors of  
Southeast Bradley County  
Water District Public Water Authority  
of the State of Arkansas  
Hermitage, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Bradley County Water District Public Water Authority of the State of Arkansas (the District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated August 15, 2023.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in 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. Given these limitations, during our audit we detected no material weaknesses and finding 2022-1 and 2022-2 as a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **District's Response to Findings**

The District's management responded that they would segregate the duties of accounting personnel to the extent possible but it would be cost prohibitive to employ sufficient personnel to properly segregate accounting duties.

### **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.

Searcy & Associates, LLC  
Monticello, Arkansas  
August 15, 2023

SOUTHEAST BRADLEY COUNTY WATER DISTRICT  
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS  
SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2022

**Section I - Summary of Audit Results**

The Independent Auditor's Report expresses an unmodified opinion on the financial statements of the Southeast Bradley County Water District Public Water Authority of the State of Arkansas.

Instances of internal control disclosed during the audit of the financial statements will be reported in Section II of the Schedule of Findings, as required to be reported in accordance with *Government Auditing Standards*.

Instances of non-compliance will be reported in Section III of the Schedule of Findings, as required to be reported in accordance with *Government Auditing Standards*.

**Section II - Findings Relating to the Internal Control Over Financial Reporting as Required to be Reported in accordance with Generally Accepted Government Auditing Standards.**

See Findings on Page 20

**Section III - Findings Related to Compliance and Other Matters as Required to be Reported in accordance with Generally Accepted Government Auditing Standards**

See Finding 2022-2