

NORTHEAST ARKANSAS PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS

Audited Financial Statements

For the Years Ended October 31, 2023, and 2022

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Northeast Arkansas Public Water Authority
of the State of Arkansas
Audited Financial Statements

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A Professional Association of Certified Public Accountants

Member of the Private Companies Section of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northeast Arkansas Public Water Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Northeast Arkansas Public Water Authority of the State of Arkansas (NEAPWA) as of and for the years ended October 31, 2023, and 2022, and the related notes to the financial statements, which collectively comprise NEAPWA's 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 NEAPWA, as of October 31, 2023, and 2022, 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 NEAPWA 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, which raise substantial doubt about NEAPWA'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.

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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 NEAPWA'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, which raise substantial doubt about NEAPWA's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Auditing 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2024, on our consideration of NEAPWA'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 NEAPWA'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 NEAPWA's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

January 12, 2024

Northeast Arkansas Public Water Authority of the State of Arkansas
Statements of Net Position
October 31, 2023 and 2022

	2023	2022
	<u>ASSETS</u>	
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,236,575	\$ 877,056
Customer accounts receivable	94,712	71,345
Inventory	12,444	13,548
Total current assets	<u>1,343,731</u>	<u>961,949</u>
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted for debt service	363,314	503,377
Capital assets		
Capital assets, net of accumulated depreciation	9,190,019	9,552,525
Total non-current assets	<u>9,553,333</u>	<u>10,055,902</u>
TOTAL ASSETS	<u><u>\$ 10,897,064</u></u>	<u><u>\$ 11,017,851</u></u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 20,520	\$ 6,222
Accrued compensation	13,233	16,659
Payroll taxes payable	2,461	2,206
Retirement contribution payable	5,435	4,791
Accrued interest	13,000	13,453
Current portion of long-term debt	276,207	271,060
Total current liabilities	<u>330,856</u>	<u>314,391</u>
LONG-TERM DEBT, net of current portion	7,537,178	7,813,942
TOTAL LIABILITIES	<u>7,868,034</u>	<u>8,128,333</u>
NET POSITION		
Net investment in capital assets	1,376,633	1,467,524
Restricted for debt service	363,314	503,377
Unrestricted	1,289,083	918,617
Total net position	<u>3,029,030</u>	<u>2,889,518</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 10,897,064</u></u>	<u><u>\$ 11,017,851</u></u>

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

Northeast Arkansas Public Water Authority of the State of Arkansas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended October 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Wholesale water sales	\$ 1,052,369	\$ 970,933
Miscellaneous income	1,000	-
Total operating revenue	<u>1,053,369</u>	<u>970,933</u>
OPERATING EXPENSES		
Salaries and wages	91,714	101,210
Payroll taxes	7,456	7,226
Chemicals and testing supplies	92,013	54,200
Licenses and permits	6,224	5,035
Employee health insurance	10,418	11,638
Utilities and telephone	53,823	59,523
Auto and truck expense	9,892	10,646
Insurance	37,067	31,970
Professional fees	18,003	17,832
Repairs and maintenance	22,914	35,754
Depreciation	362,506	367,610
Miscellaneous	569	106
Total operating expenses	<u>712,599</u>	<u>702,750</u>
OPERATING INCOME (LOSS)	<u>340,770</u>	<u>268,183</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	17,121	6,682
Interest expense	(218,379)	(224,176)
Non-operating revenues (expenses)	<u>(201,258)</u>	<u>(217,494)</u>
CHANGE IN NET POSITION	139,512	50,689
NET POSITION, OCTOBER 31, 2022	<u>2,889,518</u>	<u>2,838,829</u>
NET POSITION, OCTOBER 31, 2023	<u><u>\$ 3,029,030</u></u>	<u><u>\$ 2,889,518</u></u>

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

Northeast Arkansas Public Water Authority of the State of Arkansas
Statements of Cash Flows
For the Years Ended October 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,030,001	\$ 976,445
Cash payments to suppliers for goods and services	(242,722)	(224,572)
Cash payments to employees	(94,496)	(91,904)
Net cash provided by (used in) operating activities	692,783	659,969
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(271,617)	(266,127)
Interest payments on long-term debt	(218,831)	(224,621)
Net cash provided by (used in) financing activities	(490,448)	(490,748)
Cash flows from investing activities:		
Interest received	17,121	6,682
Net cash provided by (used in) investing activities	17,121	6,682
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	219,456	175,903
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,380,433	1,204,530
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,599,889</u>	<u>\$ 1,380,433</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 340,770	\$ 268,183
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	362,506	367,610
(Increase)/Decrease In:		
Customer accounts receivable	(23,368)	5,512
Inventory	1,104	12,164
Increase/(Decrease) In:		
Accounts payable	14,298	(3,027)
Accrued compensation	(3,426)	9,199
Payroll taxes payable	255	221
Retirement contribution payable	644	107
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 692,783</u>	<u>\$ 659,969</u>

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

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The Northeast Arkansas Public Water Authority (NEAPWA) was organized as a public nonprofit organization on September 10, 2004, in accordance with the provisions of Title 4, Chapter 35, and Subchapter 2 of the Arkansas Code of 1987 Annotated. The purpose of NEAPWA is to provide a plentiful supply of good quality drinking water to the residents of Northeast Arkansas at a reasonable cost. NEAPWA is not included in any other governmental reporting entity, as defined by *Governmental Accounting and Financial Reporting Standards*.

Membership into NEAPWA is open to any city, town, or regional water system within the area served by the authority. Members participating consist of the cities of Sedgwick, Portia, Alicia, Walnut Ridge, and Hoxie, and Lawrence County Regional Water District. Each participating member shall have no less than one member on the Board of Directors. 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 Presentation and Accounting

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

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. Net position is segregated into invested in capital assets, restricted, and unrestricted components.

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.

Cash and Cash Equivalents

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

Customer Accounts Receivable

NEAPWA uses the direct write-off method for accounting for bad debt. Water charges receivable as shown 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.

Inventory

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

Restricted assets

Certain proceeds of the NEAPWA'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.

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. NEAPWA defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred.

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Water and Sewer Systems	10-50 Years
Buildings	50 Years
Furniture and Equipment	5-7 Years
Vehicles	3-5 Years

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise 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.

Net Position

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

Net investment in capital assets – This component of net position consists of 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is NEAPWA's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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.

Budgets and Budgetary Accounting

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

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 2: CAPITAL ASSETS

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

	<u>Balance</u> <u>10/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>10/31/2023</u>
Capital assets not being depreciated:				
Land	\$ 256,936	\$ -	\$ -	\$ 256,936
Total capital assets not being depreciated	256,936	-	-	256,936
Other capital assets				
Buildings	11,273	-	-	11,273
Water plant	8,354,453	-	-	8,354,453
Water transmission lines	4,781,403	-	-	4,781,403
Furniture and equipment	39,661	-	-	39,661
Vehicles	83,523	-	-	83,523
Total other assets at historical cost	13,270,313	-	-	13,270,313
Less accumulated depreciation for:				
Buildings	(1,595)	(225)	-	(1,820)
Water plant	(1,830,038)	(168,080)	-	(1,998,118)
Water transmission lines	(2,022,947)	(191,256)	-	(2,214,203)
Furniture and equipment	(39,663)	-	-	(39,663)
Vehicles	(80,481)	(2,945)	-	(83,426)
Total accumulated depreciation	(3,974,724)	(362,506)	-	(4,337,230)
Total capital assets, being depreciated, net	9,295,589	(362,506)	-	8,933,083
Total capital assets, net	<u>\$ 9,552,525</u>	<u>\$ (362,506)</u>	<u>\$ -</u>	<u>\$ 9,190,019</u>

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 2: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>10/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>10/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 256,936	\$ -	\$ -	\$ 256,936
Total capital assets not being depreciated	256,936	-	-	256,936
Other capital assets				
Buildings	11,273	-	-	11,273
Water plant	8,354,453	-	-	8,354,453
Water transmission lines	4,781,403	-	-	4,781,403
Furniture and equipment	39,661	-	-	39,661
Vehicles	83,523	-	-	83,523
Total other assets at historical cost	13,270,313	-	-	13,270,313
Less accumulated depreciation for:				
Buildings	(1,370)	(225)	-	(1,595)
Water plant	(1,661,958)	(168,080)	-	(1,830,038)
Water transmission lines	(1,831,691)	(191,256)	-	(2,022,947)
Furniture and equipment	(36,865)	(2,798)	-	(39,663)
Vehicles	(75,230)	(5,251)	-	(80,481)
Total accumulated depreciation	(3,607,114)	(367,610)	-	(3,974,724)
Total capital assets, being depreciated, net	9,663,199	(367,610)	-	9,295,589
Total capital assets, net	\$ 9,920,135	\$ (367,610)	\$ -	\$ 9,552,525

NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, NEAPWA's deposits may not be returned to it. NEAPWA'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), NEAPWA was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end October 31, 2023. At year end October 31, 2023, NEAPWA had bank deposits in the amount of \$1,599,890. Due to the dollar amounts of cash deposits and investments, and the limits of FDIC insurance, NEAPWA has secured deposits by pledging securities held by the pledging financial institution's trust department or agent but not in NEAPWA's name. However, cash at one of these institutions exceeded federally insured limits and pledged securities as of October 31, 2023, \$94,157 was uninsured/collateralized. As a result, NEAPWA 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: RETIREMENT PLAN

The Northeast Arkansas Public Water Authority's board of directors agreed to a 3% matching contribution of the annual salary of management personnel to their Individual Retirement Accounts. The matching contribution amount accrued for the twelve months ended October 31, 2023, and 2022 was \$1,526 and \$1,533, respectively.

NOTE 5: RISK MANAGEMENT AND LITIGATION

NEAPWA 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.

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT

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

	<u>2023</u>	<u>2022</u>
2013 Water Revenue Bond issue – USDA, 2.500%, \$348,000; principal and interest payable semi-annually beginning July 11, 2014; interest payments began on June 11, 2014; matures June 11, 2053.	291,899	299,036
Water Revenue Refunding Bonds, Series 2020 – Farmers' Bank and Trust, 2-3%, \$8,655,000 less unamortized discount of \$165,593; principal payable annually and interest payable semi-annually beginning October 1, 2020 maturing October 1, 2049.	7,521,486	7,785,966
	<u>\$ 7,813,385</u>	<u>\$ 8,085,002</u>

All bonds are secured by revenues and water system of Northeast Arkansas Public Water Authority.

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

	<u>2023</u>	<u>2022</u>
Total long-term debt at beginning of year	\$ 8,085,002	\$ 8,351,129
Note payable retirements	(271,617)	(266,127)
Total long-term debt at the end of the year	7,813,385	8,085,002
Less: current portion	(276,207)	(271,060)
Long-term debt, net of current portion	<u>\$ 7,537,178</u>	<u>\$ 7,813,942</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	276,207	208,321	484,528
2025	276,397	202,631	479,028
2026	286,572	196,956	483,528
2027	291,752	191,077	482,829
2028	301,917	185,111	487,028
Thereafter	6,380,540	1,905,866	8,286,406
	<u>\$ 7,813,385</u>	<u>\$ 2,889,962</u>	<u>\$ 10,703,347</u>

Interest expense was \$218,389 for year ended October 31, 2023, and \$224,176 for year ended October 31, 2022.

NEAPWA'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.

Northeast Arkansas Public Water Authority of the State of Arkansas
Notes to the Financial Statements
October 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT (Continued)

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 execute or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

NEAPWA's bond agreement with Farmers Bank and Trust discloses each of the following events as default under the Indenture: (a) default in the due and punctual payment of any interest, (b) default in the due and punctual payment of any moneys required to be paid into the Bond Fund, the Debt Service Reserve Fund, or the Rebate Fund for a period of 30 days, (c) default in the due and punctual payment of the principal whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon the maturity thereof by declaration, (d) default in the performance or observance of any other of the covenants, agreements or conditions in the Indenture and the continuance thereof for a period of 30 days after written notice to the Authority by the Trustee or by the holders of not less than 10% in aggregate principal amount of Bonds, (e) declaration of bankruptcy by the Authority, (f) if an event of default occurs under any agreement pursuant to which any Obligation of the Authority has been incurred or issued and that permits the holder of such Obligation or trustee to accelerate the Obligation or otherwise exercise rights or remedies that are adverse to the interest of the holders of the Series 2020 Bonds, then an event of default shall be deemed to have occurred under the Indenture for which the Trustee shall be entitled to exercise all available remedies under the Indenture, at law and inequity. For purposes of the foregoing sentence, "Obligation" shall mean any bonds, loans, certificates, installment or lease payments or similar obligations that are payable and/or secured on a parity or subordinate basis to the Series 2020 Bonds.

NOTE 7: BOND REQUIREMENTS

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

The USDA issued the 2.50% 2013 Water Revenue Bond Fund in the amount of \$348,000 on April 17, 2013. NEAPWA is required to deposit a sum equal to the installment of the principal and interest due on the next monthly installment payment plus the sum of \$117 into the Revenue Bond Fund beginning July 2014.

Farmers Bank & Trust issued the 2.00-3.00% 2020 Water Revenue Refunding Bonds in the amount of \$8,655,000 on February 27, 2020. NEAPWA 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.

NOTE 8: MONTHLY WATER RATES

NEAPWA shall be determined by meter measurements. The consumption per month will be charged \$2.05/1,000 gallons of water, except for the City of Alicia and the City of Sedgwick. An additional \$0.10/1000 gallons of water consumption is charged to the City of Alicia and the City of Sedgwick, and the additional \$0.10/1,000 gallons of water is paid to Lawrence County Regional Water District. On October 12, 2012, the board approved a rate increase to \$2.85/1000 gallons to take effect on December 1, 2012. On October 11, 2013, the board approved a rate increase to \$3.25/1000 gallons beginning December 1, 2013, to catch up on required deposits for year ended October 31, 2013. As of November 1, 2013, only the City of Alicia is paying \$.10/1000 gallons. On August 11, 2017, the board approved a rate increase to \$3.50/1,000 to take effect October 1, 2017.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 12, 2024, the date on which the financial statements were available to be issued.



Thomas, Speight & Noble

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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 Northeast Arkansas Public Water Authority of the State of Arkansas (NEAPWA), as of and for the year ended October 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise NEAPWA's basic financial statements and have issued our report thereon dated January 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NEAPWA'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 NEAPWA's internal control. Accordingly, we do not express an opinion on the effectiveness of NEAPWA'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 identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2023-001 that we consider to be material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NEAPWA'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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

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NEAPWA's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on NEAPWA's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. NEAPWA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Jonesboro, Arkansas
January 12, 2024

Northeast Arkansas Public Water Authority of the State of Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended October 31, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Any material weakness(es) identified?

x Yes No

Any significant deficiency(ies) identified?

Yes x No

Any noncompliance material to financial statements noted?

Yes x No

Section II - Financial Statement Findings

Finding: 2023-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: Northeast Public Water Authority of the State of Arkansas does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

Effect: Inadequate segregation of duties reduces the Northeast Public Water Authority of the State of Arkansas's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: Northeast Public Water Authority of the State of Arkansas's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

Views of responsible officials and planned corrective actions: Additional employees for the purpose of improving internal controls would not be cost-beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly.