

**LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS**

Financial Statements

Years Ended December 31, 2022 and 2021



ELLIS, TUCKER & ALDRIDGE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS

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ELLIS, TUCKER & ALDRIDGE, LLP

CERTIFIED PUBLIC ACCOUNTANTS

www.etacpas.com

D.C. ELLIS, CPA (1926-2004)
R. LARRY TUCKER, CPA
R. ALAN CLINE, CPA

LITTLE ROCK OFFICE
10025 W. MARKHAM, STE 120
LITTLE ROCK, AR 72205-1408
(501) 664-3987
FAX (501) 664-7338

CABOT OFFICE
200 WEST MAIN STREET
CABOT, AR 72023-2945
(501) 843-6515
FAX (501) 843-4944

CALVIN K. ALDRIDGE, CPA
JEFFERY L. GREEN, CPA

JERRY W. BURCHFIELD, CPA
JAMES C. HANEY, CPA
GREGORY J. TUCKER, ACCOUNTANT
SUSAN N. LIVELY, ACCOUNTANT
RHONDA G. HARSHBARGER, OFFICE COORDINATOR

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

AMY G. HALL, CPA
HANNAH N. MITCHELL, CPA
CHRISTI L. ROUNSAVALL, ACCOUNTANT
NOAH G. MYERS, ACCOUNTANT
AMY N. BECKUS, OFFICE COORDINATOR

INDEPENDENT AUDITOR'S REPORT

Lonoke/White Public Water Authority
of the State of Arkansas
Quitman, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Lonoke/White Public Water Authority of the State of Arkansas as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the public facility board'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, the respective financial position of Lonoke/White 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.

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 Lonoke/White Public Water Authority of the State of Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- * Exercise professional judgment and maintain professional skepticism throughout the audit.
- * Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- * Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lonoke/White Public Water Authority of the State of Arkansas'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 Lonoke/White Public Water Authority of the State of Arkansas's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal

control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2023, on our consideration of Lonoke/White Public Water Authority of the State of Arkansas'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 Lonoke/White Public Water Authority of the State of Arkansas'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 Lonoke/White Public Water Authority of the State of Arkansas's internal control over financial reporting and compliance.

Ellis, Tucker & Aldridge, LLP

Cabot, Arkansas
June 23, 2023

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
230 Pearce Road
Quitman, AR 72131

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2022 and 2021

Introduction

Lonoke/White Public Water Authority of the State of Arkansas ("LWPWA") was formed to develop and operate a wholesale water distribution system in portions of the Arkansas counties of Cleburne, Faulkner, Lonoke, Pulaski and White. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage those using these financial statements to consider the information presented here along with the financial statements as a whole.

Financial Highlights

Operating revenues for 2022 were \$4,868,698, a decrease of \$16,189 or 0.33% compared to 2021. Operating revenues for 2021 were \$4,884,887, an increase of \$124,310 or 2.61% compared to 2020. Operations resulted in an increase in net position of \$2,250,056 in 2022 and \$2,458,797 in 2021. The term "net position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. At the close of the fiscal year 2021, LWPWA had a net position of \$8,288,018, an increase of \$908,537 compared to 2021 net position of \$7,379,481. The 2021 net position increased \$1,099,212 compared to the 2020 net position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lonoke/White Public Water Authority of the State of Arkansas' financial statements, which is comprised of the financial statements and the notes to the financial statements. Since LWPWA is comprised of a single enterprise fund, no fund level financial statements are shown.

Financial Statements - The financial statements are designed to provide readers with a broad overview of LWPWA's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of LWPWA's (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial condition of LWPWA is improving or deteriorating. Net position increases when revenues and capital contributions exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates financial improvement.

The statement of revenues, expenses and changes in net position presents information showing how a government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses may be reported in the financial statement for some items that will only result in cash receipts and disbursements in future fiscal periods, for example, accounts receivable outstanding at year end are collected in the following year and accounts payable outstanding at year end are paid in the following year.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial condition. In the case of LWPWA, assets exceeded liabilities by \$8,288,018 at the close of 2022. This represents an increase of \$908,537, or 12.31%, from the net position of 2021. Assets exceeded liabilities by \$7,379,481 at the close of 2021. This represents an increase of \$1,099,212 or 17.50%, from the net position of 2020.

A portion of LWPWA net position reflects its investment in land and easements, engineering costs, construction of the intake and distribution system, work in progress, and office furniture and equipment, less the related outstanding capital debt which provided the funds to acquire those assets. LWPWA uses these capital assets to provide services and consequently, these assets are not available to liquidate liabilities or use for other spending.

A condensed summary of LWPWA's net position as of December 31, 2022, 2021 and 2020, is provided below:

	2022	2021	2020
Assets			
Current Assets	\$ 4,573,401	\$ 4,383,668	\$ 3,402,196
Capital Assets	49,508,951	50,098,246	51,012,680
Other Assets	1,693,542	1,511,223	1,815,342
Deferred Outflow of Resources	136,073	140,634	145,195
Total Assets	<u>\$ 55,911,967</u>	<u>\$ 56,133,771</u>	<u>\$ 56,375,413</u>
Liabilities			
Current Liabilities	\$ 1,493,631	\$ 1,430,076	\$ 1,610,859
Long-Term Liabilities	46,130,318	47,324,214	48,484,285
Total Liabilities	<u>\$ 47,623,949</u>	<u>\$ 48,754,290</u>	<u>\$ 50,095,144</u>
Net Position			
Invested in Capital Assets-Net of Related Debt	\$ 1,047,740	\$ 1,638,715	\$ 1,410,325
Restricted Net Position	1,690,627	1,510,693	1,814,812
Unrestricted Net Position	5,549,651	4,230,073	3,055,132
Total Net Position	<u>\$ 8,288,018</u>	<u>\$ 7,379,481</u>	<u>\$ 6,280,269</u>

A condensed summary of LWPWA's changes in net position for the calendar years of 2022, 2021 and 2020 is provided below:

	2022	2021	2020
Operating Revenues	\$ 4,868,698	\$ 4,884,887	\$ 4,760,577
Operating Expenses	2,618,642	2,426,090	2,240,345
Income (Loss) from Operations	<u>\$ 2,250,056</u>	<u>\$ 2,458,797</u>	<u>\$ 2,520,232</u>
Nonoperating Revenues (Expenses)			
Gas Lease Revenue	\$ 5,667	\$ 2,257	\$ 643
Interest Income	73,226	75,052	75,589
Contributions in Aid of Construction		17,286	11,130
Interest Expense	(1,420,412)	(1,454,180)	(1,639,508)
Bond Issue Costs		-	-
	<u>\$ (1,341,519)</u>	<u>\$ (1,359,585)</u>	<u>\$ (1,552,146)</u>
Increase (Decrease) in Net Position	\$ 908,537	\$ 1,099,212	\$ 968,086
Net Position, Beginning of Year	<u>7,379,481</u>	<u>6,280,269</u>	<u>4,910,362</u>
Net Position, End of Year	<u>\$ 8,288,018</u>	<u>\$ 7,379,481</u>	<u>\$ 5,878,448</u>

Cash Flows - Net cash provided by operating activities for 2022 and 2021 were \$3,454,243 and \$3,530,505, respectively. Net cash used by capital and related financing activities for 2022 and 2021 were \$3,192,512 and \$3,156,422 respectively, while net cash provided by investing activities for 2022 and 2021 were \$50,807 and \$565,794 respectively.

Significant Events - As of January 1, 2022, LWPWA adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term. LWPWA entered into two lease agreements with Furlow Public Water Authority and Grand Prairie Bayou Two Public Water Authority, respectively, on June 14, 2012, to construct and operate a water transfer and meter station on each parcel of land. Each lease came into effect January 1, 2013, and each will cease December 31, 2053, lasting for 40 years. Each lease will be amortized at a rate of \$100 per year, which is the lease payment per year for each lease.

Capital Asset and Debt Administration

Capital Assets - LWPWA's investment in capital assets amounted to \$49,508,951 as of December 31, 2022. This was a decrease of \$589,295 compared to 2021. LWPWA's investment in capital assets amounted to \$50,098,246 as of December 31, 2021, a decrease of \$914,434 compared to 2020.

Capital Debt - During 2012, water revenue bonds were issued in the amount of \$30,900,000 to Arkansas Natural Resources Commission and water revenue bonds totaling \$24,543,000 were issued to USDA/Rural Development to construct the original water collection, treatment and distribution facilities and pay off existing debt. During 2019 water revenue refunding bonds were issued in the amount of \$22,505,000 to pay off existing revenue bonds to USDA/Rural Development.

Requests for Information

This financial report is designed to provide a general overview of Lonoke/White Public Water Authority of the State of Arkansas' finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. David Liles, Manager, Lonoke/White Public Water Authority, P.O. Box 247, Quitman, AR 72131.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

	December 31, 2022	December 31, 2021
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 3,748,838	\$ 2,978,353
Certificates of Deposit Maturing After Three Months	253,418	867,976
Accounts Receivable	209,386	209,232
Accrued Interest Receivable	6,291	1,531
Inventory	326,751	302,626
Prepaid Expenses	28,717	23,950
	<u>\$ 4,573,401</u>	<u>\$ 4,383,668</u>
<u>Capital Assets</u>		
Office Furniture and Equipment	\$ 32,445	\$ 29,211
Intake and Distribution System	54,767,712	54,296,388
Lab Equipment	28,620	28,620
Tools and Equipment	70,157	70,157
Vehicles	122,260	122,260
Construction Period Interest	2,540,194	2,540,194
Less: Accumulated Depreciation	(9,865,398)	(8,682,396)
	<u>\$ 47,695,990</u>	<u>\$ 48,404,434</u>
Land and Easements	1,258,042	1,209,495
Water Storage/Use Rights	366,623	366,623
Work in Progress	188,296	117,694
	<u>\$ 49,508,951</u>	<u>\$ 50,098,246</u>
<u>Noncurrent Assets</u>		
Restricted Cash	\$ 469,717	\$ 927,664
Restricted Certificates of Deposit	1,220,911	583,029
ROU Asset	2,384	-
Security Deposits	530	530
	<u>\$ 1,693,542</u>	<u>\$ 1,511,223</u>
<u>Deferred Outflow of Resources</u>		
Bond Insurance Costs (Net)	\$ 136,073	\$ 140,634
 Total Assets	 <u>\$ 55,911,967</u>	 <u>\$ 56,133,771</u>

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

LIABILITIES

Current Liabilities

Accounts Payable	\$	121,645	\$	90,154
Payroll Taxes Payable		1,421		1,533
Accrued Wages Payable		40,360		40,649
Accrued Interest Payable		116,447		119,328
Retirement Plan Payable		925		1,789
Other Liabilities/Lease Liability		131		-
Bonds and Notes Payable Due within One Year		1,212,702		1,176,623
	\$	1,493,631	\$	1,430,076

Long-Term Liabilities

Bond Payable-ANRC	\$	26,052,898	\$	26,774,521
Bond Payable-Series 2019, net of unamortized premium		21,247,868		21,706,316
Lease Liability- Long-term		2,254		-
Less: Amount Due within One Year		(1,212,702)		(1,176,623)
	\$	46,090,318	\$	47,304,214
Accrued Sludge Disposal Expense		40,000		20,000
	\$	46,130,318	\$	47,324,214
Total Liabilities	\$	47,623,949	\$	48,754,290

NET POSITION

Invested in Capital Assets, Net of Related Debt	\$	1,047,740	\$	1,638,715
Restricted		1,690,627		1,510,693
Unrestricted		5,549,651		4,230,073
	\$	8,288,018	\$	7,379,481

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Operating Revenues</u>		
Water Sales	\$ 2,511,272	\$ 2,524,472
Member Participation Fees	2,356,020	2,356,020
Miscellaneous Revenues	1,406	4,395
	<u>\$ 4,868,698</u>	<u>\$ 4,884,887</u>
<u>Operating Expenses</u>		
Salaries and Wages	\$ 253,912	\$ 272,024
Payroll Taxes	19,361	21,038
Accounting and Auditing	10,730	11,815
Bond Insurance Expense	4,561	4,561
Bond Trustee Fees	2,600	2,600
Chemicals	285,073	177,313
Depreciation	1,183,001	1,186,234
Dues and Subscriptions	9,799	5,298
Education and Training	5,169	2,988
Employee Benefits	31,430	33,671
Employee Retirement Plan Expense	1,015	10,478
Equipment Rent	1,092	1,048
Finished Water Pumping	168,351	151,735
Insurance	75,337	67,342
Lab Supplies	14,747	13,151
Legal Fees	9,932	8,788
Licenses and Taxes	63	68
Line Locates	8,535	6,956
Meals and Entertainment	-	378
Meeting Expense	1,583	1,353
Meter Stations and Plant Communication	9,577	9,589
Office Supplies	6,097	6,510
Postage and Delivery	959	864
Professional Fees	4,840	2,941
Raw Water Pumping	307,276	274,170
Repairs and Maintenance	163,132	112,371
Telephone	9,076	8,786
Travel Expense	316	-
Utilities	13,868	18,209
Vehicle Expense	17,210	13,811
	<u>\$ 2,618,642</u>	<u>\$ 2,426,090</u>
<u>Income from Operations (Forward)</u>	<u>\$ 2,250,056</u>	<u>\$ 2,458,797</u>

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Income from Operations (Forwarded)</u>	\$ 2,250,056	\$ 2,458,797
<u>Nonoperating Revenues and Expenses</u>		
Gas Lease Revenue	\$ 5,667	\$ 2,257
Interest Income	73,226	75,052
Interest Expense	(1,420,412)	(1,454,180)
	<u>\$ (1,341,519)</u>	<u>\$ (1,376,871)</u>
<u>Increase in Net Position Before Capital Contributions</u>	\$ 908,537	\$ 1,081,926
Capital Contributions	<u>0</u>	<u>17,286</u>
<u>Change in Net Position</u>	\$ 908,537	\$ 1,099,212
Net Position, Beginning of Year	<u>7,379,481</u>	<u>6,280,269</u>
<u>Net Position, End of Year</u>	<u>\$ 8,288,018</u>	<u>\$ 7,379,481</u>

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Cash Flows from Operating Activities</u>		
Cash Received-Water Sales and Fees	\$ 4,868,544	\$ 4,944,746
Payments to Suppliers	(1,160,099)	(1,145,779)
Payments to Employees	(254,202)	(268,462)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 3,454,243</u>	<u>\$ 3,530,505</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Proceeds from Insurance on Capital Assets	\$ -	\$ 493,067
Principal Payments on Bonds and Notes Payable	(1,180,071)	(1,144,591)
Bond Issue Costs	4,561	4,561
Acquisition and Construction of Capital Assets	(593,709)	(1,052,485)
Interest and Fees Paid on Debt	(1,423,293)	(1,456,974)
<u>Net Cash Used by Capital</u> <u>and Related Financing Activities</u>	<u>\$ (3,192,512)</u>	<u>\$ (3,156,422)</u>
<u>Cash Flows from Investing Activities</u>		
(Increase) Decrease in Certificates of Deposit	\$ (23,325)	\$ 488,103
Gas Lease Income Received	5,667	2,257
Interest Income	68,465	75,434
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>\$ 50,807</u>	<u>\$ 565,794</u>
<u>Net Increase in Cash, Cash Equivalents and Restricted Cash</u>	<u>\$ 312,538</u>	<u>\$ 939,877</u>
<u>Cash, Cash Equivalents and Restricted Cash, Beginning of Year</u>	<u>3,906,017</u>	<u>2,966,140</u>
<u>Cash, Cash Equivalents and Restricted Cash, End of Year</u>	<u>\$ 4,218,555</u>	<u>\$ 3,906,017</u>
<u>Reconciliation to Statement of Net Position</u>		
Cash and Cash Equivalents	\$ 3,748,838	\$ 2,978,353
Restricted Cash Included in Noncurrent Assets	469,717	927,664
<u>Cash, Cash Equivalents and Restricted Cash, End of Year</u>	<u>\$ 4,218,555</u>	<u>\$ 3,906,017</u>

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Reconciliation of Income (Loss) from Operations</u> <u>to Net Cash Provided (Used) by Operating Activities</u>		
<u>Income (Loss) from Operations</u>	\$ 2,250,056	\$ 2,458,797
<u>Adjustments to Reconcile Income (Loss) from Operations</u> <u>to Net Cash Provided (Used) by Operating Activities</u>		
Depreciation	\$ 1,183,001	\$ 1,186,234
(Increase) Decrease in:		
Accounts Receivable	(154)	59,859
Inventory	(24,125)	(284,561)
Prepaid Expenses	(4,766)	(1,259)
Increase (Decrease) in:		
Accounts Payable	31,496	86,698
Accrued Compensation	(290)	3,562
Payroll Taxes Payable	(112)	1,533
Sludge Disposal Payable	20,000	20,000
Retirement Plan Payable	(863)	(358)
Total Adjustments	<u>\$ 1,204,187</u>	<u>\$ 1,071,708</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 3,454,243</u>	<u>\$ 3,530,505</u>

Non-Cash Transactions

There were no non-cash transactions required to be disclosed in connection with the statement of cash flows.

See Independent Auditor's Report & Notes to Financial Statements

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note A - Significant Accounting Policies

(1) Financial Reporting Entity

In accordance with the provisions of Arkansas Code Annotated Sec. 4-35-101, et seq., the Arkansas Natural Resources Commission granted a certificate of existence creating Lonoke/White Public Water Authority of the State of Arkansas ("LWPWA") on October 10, 2005. LWPWA is a body politic and corporate and political subdivision of the State of Arkansas. Articles of Incorporation were filed on October 25, 2005.

The purpose of LWPWA is to facilitate a cooperative effort to obtain a dependable long-term water source and to construct and operate a wholesale water distribution system, selling potable water to public water systems located within the service area extending south from Cleburne County into portions of Cleburne, Faulkner, Lonoke, Pulaski and White Counties.

(2) 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.

(3) Basis of Accounting

The Public Water Authority's proprietary fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned, rather than when received, and expenses are recognized when they are incurred, rather than when they are paid.

(4) Cash and Cash Equivalents

The Public Water Authority considers investments with an original maturity when acquired of three months or less to be cash equivalents.

(5) Deposits with Financial Institutions

Cash deposits and investments of the Public Water Authority are restricted by Arkansas law to investments in obligations of the United States government and deposits with financial institutions located within the State of Arkansas.

(6) Inventory

Inventory consists of materials used for repairs. These are valued at cost by applying the first-in, first-out method and are reported at the lower of cost or market.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
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December 31, 2022 and 2021

(7) Capital Assets

Property and equipment are recorded at cost and capitalized. Depreciation is provided by applying the straight-line method over the estimated useful lives of the assets. Estimated useful lives for depreciating office furniture and equipment and transportation equipment are 5-10 years, for equipment 7-10 years, and for the intake and distribution system 20-50 years.

(8) Capitalization of Construction Period Interest

Interest incurred to construct the water distribution system totaling \$2,540,194 has been capitalized as construction period interest and is being amortized over 50 years using the straight-line method.

(9) Compensated Absences

Liabilities for compensated balances for sick leave benefits and vacation benefits have been accrued in the period in which they were earned by the employee. Regular full-time employees accumulate 1 day per month of sick leave benefits with up to 480 hours eligible to be carried forward to the following calendar year. Regular full-time employees are eligible for paid vacation accrued at a rate according to the formula below:

<u>Number of years service</u>	<u>Accrued vacation per year</u>	<u>Annual maximum carryover</u>	<u>Maximum consecutive hours allowed</u>
1-5	80 hours	60 hours	40 hours
5-7	120 hours	80 hours	60 hours
7-15	160 hours	80 hours	80 hours
15+	200 hours	100 hours	100 hours

Provided employee has taken at least 40 hours of annual leave, employee has the option of being paid for any annual leave in excess of those hours that he/she cannot carryover.

(10) Use of Estimates

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

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

(11) Adoption of GASB 87

Effective January 1, 2022, LWPWA adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on LWPWA's results of operations or cash flows.

Note B - Cash

The Public Water Authority currently utilizes the services of two financial institutions. Total cash deposits with any one financial institution not exceeding \$250,000 are insured by the F.D.I.C. LWPWA has entered into collateral security agreements with the financial institutions to secure amounts in excess of F.D.I.C. coverage. At December 31, 2022, \$396,993 in deposits with Centennial Bank and \$3,192,823 in deposits with First Arkansas Bank & Trust exceeded the F.D.I.C. limits while \$523,017 in deposits with Centennial Bank, \$2,758,543 in deposits with First Arkansas Bank & Trust, and \$1,201,005 in deposits with First Community Bank exceeded the F.D.I.C. limits at December 31, 2021. These amounts were fully collateralized by securities held by First National Bankers Bank.

Note C - Restricted Assets

Restricted assets include the following accounts as required under the terms of the bonds outstanding:

	<u>2022</u>	<u>2021</u>
Bond Fund	\$ 227,387	\$ 217,242
Cost of Bond Issue	-	-
Insurance Proceeds	-	-
Depreciation Reserves	1,463,240	1,293,451
	<u>\$ 1,690,627</u>	<u>\$ 1,510,693</u>

Each month, one-sixth of the semi-annual payment due to Arkansas Natural Resources Commission is deposited into the Bond Fund and 3% of water sales and participation fees are deposited into the Depreciation Reserve account. Additionally each month, one-sixth of the semi-annual interest payment and one-twelfth of the annual principal installment due on the Water Refunding Revenue Bonds, Series 2019 is deposited into the Bond Fund. The 2019 Bond Indenture allows for the purchase a debt service reserve insurance policy in lieu of depositing moneys into a debt service reserve fund. The PWA holds an insurance policy that sufficiently meets the requirements of the 2019 bond Indenture.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note D - Land and Easements

Certain members of LWPWA entered into wholesale water purchase contracts with Community Water System Public Water Authority of the State of Arkansas ("CWS") whereby facilities would be developed by CWS to treat and transmit water for sale to water distribution entities south of Greers Ferry Lake. However, the contracts were terminated by a subsequent agreement on November 21, 2006, and in accordance with the subsequent agreement certain land and easements acquired by CWS for this project were transferred May 4, 2007, to LWPWA for the sum of \$750,000.

The subsequent agreement required that the intake site located at the Cove Creek area of Cleburne County be transferred to LWPWA and CWS with each party holding an undivided one-half interest in such property as tenants in common. The joint ownership of the intake site is subject to certain conditions including the condition that each party must issue a notice to proceed with the construction of the intake facility on the intake site on or before December 31, 2018. If either party fails to timely issue the notice to proceed that party will be obligated to transfer all of its ownership interest in the intake site to the other party. Other than the legal costs of the transferring documents and filing fees the party receiving the interest shall not be obligated to pay the party releasing their interest.

The subsequent agreement also requires that the remaining portion of the 248 acre intake and treatment facilities site be split into approximately two equal tracts with LWPWA and CWS each holding separate ownership of the tracts assigned to them. However, if one party fails to issue a notice to proceed with construction of the treatment plant or plants on or before December 31, 2018, then the other party has the option to purchase the other tract at fair market value.

Board Resolution R2013-01 extended the conditional date of December 31, 2018 by five years in exchange for the easements to Mt. Vernon/Enola, to include pipeline easements, meter station site and the transfer of any monies on deposit with the Courts on any remaining easements.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note E - Capital Assets

Capital assets as of December 31, 2022 and 2021 are summarized as follows:

	2022			
	Beginning of Year	Acquisitions	Dispositions	End of Year
Property and Equipment (Depreciable):				
Intake and Distribution System	\$ 54,296,388	\$ 471,323	\$ -	\$ 54,767,711
Lab Equipment	28,620	-	-	28,620
Tools and Equipment	70,157	-	-	70,157
Vehicles	122,260	-	-	122,260
Office Furniture and Equipment	29,211	3,234	-	32,445
Construction Period Interest	2,540,194	-	-	2,540,194
	<u>\$ 57,086,830</u>	<u>\$ 474,557</u>	<u>\$ -</u>	<u>\$ 57,561,387</u>
Less: Accumulated Depreciation	(8,682,396)	(1,183,001)	\$ -	(9,865,397)
	<u>\$ 48,404,434</u>	<u>\$ (708,444)</u>	<u>\$ -</u>	<u>\$ 47,695,990</u>
Property and Equipment (Non-Depreciable):				
Land and Easements	1,209,495	48,546	-	1,258,041
Water Storage/Use Rights	366,623	-	-	366,623
Construction in Progress	117,694	70,603	-	188,297
	<u>1,693,812</u>	<u>119,149</u>	<u>-</u>	<u>1,812,961</u>
Total Capital Assets	<u>\$ 50,098,246</u>	<u>\$ (589,295)</u>	<u>\$ -</u>	<u>\$ 49,508,951</u>

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note E - Capital Assets

	2021			
	Beginning of Year	Acquisitions	Dispositions	End of Year
Property and Equipment (Depreciable):				
Intake and Distribution System	\$ 54,096,907	\$ 199,481	\$ -	\$ 54,296,388
Lab Equipment	28,620	-	-	28,620
Tools and Equipment	68,710	1,447	-	70,157
Vehicles	120,760	1,500	-	122,260
Office Furniture and Equipment	26,743	2,468	-	29,211
Construction Period Interest	2,540,194	-	-	2,540,194
	<u>\$ 56,881,934</u>	<u>\$ 204,896</u>	<u>\$ -</u>	<u>\$ 57,086,830</u>
Less: Accumulated Depreciation	<u>(7,496,162)</u>	<u>(1,186,234)</u>	<u>\$ -</u>	<u>(8,682,396)</u>
	<u>\$ 49,385,772</u>	<u>\$ (981,338)</u>	<u>\$ -</u>	<u>\$ 48,404,434</u>
Property and Equipment (Non-Depreciable):				
Land and Easements	1,209,495	-	-	1,209,495
Water Storage/Use Rights	366,623	-	-	366,623
Construction in Progress	50,790	66,904	-	117,694
Total Capital Assets	<u>\$ 51,012,680</u>	<u>\$ (914,434)</u>	<u>\$ -</u>	<u>\$ 50,098,246</u>

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note F - Bonds and Notes Payable

On October 31, 2019, LWPWA issued the Water Refunding Revenue Bonds, Series 2019 in the amount of \$22,618,787 (principal amount plus original issue premium). The bond was issued to pay off bonds previously issued and payable to USDA/Rural Development. Principal amounts outstanding for the bond for the years ended December 31, 2022 and 2021 were \$21,145,000 and \$21,600,000, respectively. Unamortized bond premium added to the face value of the bond for the years ended December 31, 2022 and 2021 was \$102,868 and \$106,316, respectively. Principal payment on the bond is due annually on December 1. For the years ending December 31, 2022 and 2021, \$455,000 and \$440,000 was paid toward principal. The bonds bear interest at a variable annual interest rate no greater than 4.00% with interest payable on July 1 and December 1 each year. The bonds are scheduled for repayment over a period of 33 years maturing December 1, 2051. A maturity schedule of the Series 2019 Bond is presented below.

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2023	1,111,825	470,000	641,825
2024	1,107,725	480,000	627,725
2025	1,108,325	495,000	613,325
2026	1,108,475	510,000	598,475
2027	1,108,175	525,000	583,175
2028-2032	5,544,725	2,875,000	2,669,725
2033-2037	5,541,775	3,330,000	2,211,775
2038-2042	5,550,925	3,870,000	1,680,925
2043-2047	5,543,725	4,480,000	1,063,725
2048-2051	4,436,094	4,110,000	326,094
	<u>\$ 32,161,769</u>	<u>\$ 21,145,000</u>	<u>\$ 11,016,769</u>

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
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Note F - Bonds and Notes Payable (Continued)

On August 13, 2012, LWPWA issued a bond payable to Arkansas Natural Resources Commission in the amount of \$30,900,000 at an interest rate of 3.5% annually. LWPWA entered into a Bond Swap agreement effective December 1, 2020 lowering the interest rate to 2.9% annually. Principal amounts outstanding on the bond for the years ending December 31, 2022 and 2021 were \$26,052,898 and \$26,774,521, respectively. The bond is subject to mandatory sinking fund redemption on June 1, 2015, and on December 1 and June 1 thereafter to and including December 1, 2046, with the maturity date being June 1, 2047. For the years ending December 31, 2022 and 2021, \$721,623 and \$701,143 of principal was retired, respectfully. Interest only payments were due on June 1 and December 1 beginning December 1, 2012 and ending December 1, 2014. Thereafter, interest is due on each principal payment date. A maturity schedule of the bonds payable to Arkansas Natural Resources Commission is presented below.

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2023	1,492,890	742,702	750,188
2024	1,492,890	764,396	728,494
2025	1,492,890	786,725	706,165
2026	1,492,890	809,705	683,185
2027	1,492,890	833,356	659,534
2028-2032	7,464,450	4,546,457	2,917,993
2033-2037	7,464,450	5,250,426	2,214,024
2038-2042	7,464,450	6,063,380	1,401,070
2043-2047	6,717,999	6,255,751	462,248
	<u>\$ 36,575,799</u>	<u>\$ 26,052,898</u>	<u>\$ 10,522,901</u>

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note F - Bonds and Notes Payable (Continued)

Changes in long-term debt for the years ended December 31, 2022 and 2021 were as follows:

	Balance 12/31/21	Increases	Decreases	Balance 12/31/22	Due Within One Year	Due in Excess of One Year
ANRC Bonds	\$ 26,774,521	\$ -	\$ 721,623	\$ 26,052,898	\$ 742,702	\$ 25,310,196
Revenue Bonds	21,600,000	-	455,000	21,145,000	470,000	20,675,000
Bonds and Notes Payable, Gross	\$ 48,374,521	\$ -	\$ 1,176,623	\$ 47,197,898	\$ 1,212,702	\$ 45,985,196
Plus Premiums	106,316	-	3,448	102,868	-	102,868
Total Bonds and Notes Payable	\$ 48,480,837	\$ -	\$ 1,180,071	\$ 47,300,766	\$ 1,212,702	\$ 46,088,064

	Balance 12/31/20	Increases	Decreases	Balance 12/31/21	Due Within One Year	Due in Excess of One Year
ANRC Bonds	\$ 27,475,664	\$ -	\$ 701,143	\$ 26,774,521	\$ 721,623	\$ 26,052,898
Revenue Bonds	22,040,000	-	440,000	21,600,000	455,000	21,145,000
Bonds and Notes Payable, Gross	\$ 49,515,664	\$ -	\$ 1,141,143	\$ 48,374,521	\$ 1,176,623	\$ 47,197,898
Plus Premiums	109,764	-	3,448	106,316	-	106,316
Total Bonds and Notes Payable	\$ 49,625,428	\$ -	\$ 1,144,591	\$ 48,480,837	\$ 1,176,623	\$ 47,304,214

Note G - Other Liabilities

Over time sludge builds up in the retainage pond. Management has estimated that this sludge will have to be removed every five years at a cost of \$100,000. Management has elected to accrue this expense over the five year period at \$20,000 per year.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
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Note H - Operating Leases

LWPWA entered into lease agreements with Furlow Public Water Authority and Grand Prairie Bayou Two Public Water Authority on June 12, 2012, for lease of land to construct functioning water transfer and meter stations. The leases are for a forty-year period beginning January 1, 2013 and ending January 1, 2053. Where the implicit interest rate of the lessor was unknown, LWPWA elected to use the national average borrowing rate of 3.66% for the year the leases began. The following summarizes the line items in the balance sheet which include amounts for operating leases as of December 31, 2022.

Operating lease right-of-use assets	\$	<u>2,384</u>
Current portion of operating lease liabilities	\$	130
Operating lease liabilities, less current portion		<u>2,254</u>
Total operating lease liabilities	\$	<u>2,384</u>

The lease expense totaled \$200 for the year ended December 31, 2022 and is included in the following expense line item: dues, permits, and subscriptions. The maturities of the operating lease liabilities are as follows:

Total remaining lease payments (present-2053)	\$	5,800
Less: interest		<u>1,709</u>
Present value of lease liabilities	\$	<u>4,091</u>

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
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December 31, 2022 and 2021

Note I - Membership and Participation Fees from Members

Entities entitled to membership shall be those water distribution entities which are located in the service area of LWPWA. Membership may be attained by the payment of a membership fee based upon an assessment of \$1.00 per active water meter of any such entity so situated at the time such entity becomes a member. There shall be no additional \$1.00 per meter fee after an entity becomes a member. Membership shall be subject to the approval of the board of directors.

On May 8, 2012, the Board of Directors approved an increase in the assessment of member participation fees from \$0.50 per contracted meter per month to \$2.50 per contracted meter per month to cover interest payments to Arkansas Natural Resources Commission. The increase went into effect on August 1, 2012.

On November 6, 2012, the Board of Directors approved an increase in the assessment of member participation fees from \$2.50 per contracted meter per month to \$3.00 per contracted meter per month. The increase went into effect on January 1, 2013.

Effective April 1, 2014, the assessment of member participation fees increased from \$3.00 per contracted meter per month to \$5.00 per contracted meter per month.

Note J - Water Purchase Contracts

Each of the eight participating members signed a water purchase contract to purchase water at a rate of \$1.25 per 1,000 gallons. The minimum monthly water purchase for each participating member is as follows:

	<u>Gallons</u>
Austin Water	4,866,667
Beebe Water and Sewer Commission	4,380,000
Furrow Public Water Authority	3,345,833
Grand Prairie/Bayou Two PWA	7,604,167
Jacksonville Water	15,360,417
Mid-Arkansas Utilities PWA	22,812,500
Vilonia Waterworks Association	30,416,667
Ward Water and Sewer System	19,770,833

A water purchase contract was entered into with Mountain Top Public Water Authority on May 22, 2014, whereas Mountain Top Public Water Authority agreed to purchase a minimum of 0.2 million gallons of water per day with a maximum of 0.3 million gallons of water per day at a rate of \$3.35 per 1,000 gallons, and to contribute \$100,000 in 2015 and \$100,000 in 2016 in aid of construction improvements. Water sales to Mountain Top Public Water Authority began in April, 2015, upon the completion of construction of the needed improvements to supply the water.

LONOKE/WHITE PUBLIC WATER AUTHORITY
OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note K - Risk Management

Insurance policies have been purchased for various risks of loss related to loss of data, wrongful acts, theft or damage to assets, injuries to employees and errors or omissions. Upon substantial completion of the construction project, insurance policies were changed to include the intake and distribution system.

Note L - Retirement Plan

The Public Water Authority participates in Lonoke White PWA Retirement 401a, the Plan, a defined contribution plan, administered by Security Benefit. The Plan was approved by the board of directors in May, 2015.

Full time employees age 21 or over who have completed six months of service are eligible to participate in the Plan on the first day of the month coinciding with the date eligibility requirements are met. Participants in the Plan are 100% vested after 6 years of service, death, or total and permanent disability. The PWA will make matching contributions equal to 100% of the Participant's elective deferrals that do not exceed 4% of a Participant's W-2 compensation.

LWPWA recognized \$1,015 and \$10,478 in retirement plan expenses in the years ending December 31, 2022 and 2021, respectively. Forfeitures of contributions may be used to reduce employer contributions. Forfeitures reduced retirement plan expenses by \$8,457 and \$0 for the years ending December 31, 2022 and 2021, respectively.

Note M - Concentrations of Risk

While construction has been substantially completed, the management of LWPWA must adequately implement the operational plan of selling wholesale water to its member water distribution systems.

Note N - Date of Management's Review

Subsequent events have been evaluated through June 23, 2023, which is the date the financial statements were available to be issued.



ELLIS, TUCKER & ALDRIDGE, LLP

CERTIFIED PUBLIC ACCOUNTANTS

www.etacpas.com

D.C. ELLIS, CPA (1926-2004)
R. LARRY TUCKER, CPA
R. ALAN CLINE, CPA

JERRY W. BURCHFIELD, CPA
JAMES C. HANEY, CPA
GREGORY J. TUCKER, ACCOUNTANT
SUSAN N. LIVELY, ACCOUNTANT
RHONDA G. HARSHBARGER, OFFICE COORDINATOR

LITTLE ROCK OFFICE
10025 W. MARKHAM, STE 120
LITTLE ROCK, AR 72205-1408
(501) 664-3987
FAX (501) 664-7338

CABOT OFFICE
200 WEST MAIN STREET
CABOT, AR 72023-2945
(501) 843-6515
FAX (501) 843-4944

CALVIN K. ALDRIDGE, CPA
JEFFERY L. GREEN, CPA

AMY G. HALL, CPA
HANNAH N. MITCHELL, CPA
CHRISTI L. ROUNSAVALL, ACCOUNTANT
NOAH G. MYERS, ACCOUNTANT
AMY N. BECKUS, OFFICE COORDINATOR

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Public Water Authority Board
Lonoke/White Public Water Authority of the State of Arkansas
Quitman, 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 the business-type activities of Lonoke/White Public Water Authority of the State of Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Lonoke/White Public Water Authority of the State of Arkansas' basic financial statements, and have issued our report thereon dated June 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lonoke/White Public Water Authority of the State of Arkansas' internal control over financial reporting (internal control) as a basis for designing 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 Lonoke/White Public Water Authority of the State of Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of Lonoke/White Public Water Authority of the State of Arkansas' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Ellis, Tucker & Aldridge, LLP

Cabot, Arkansas
June 23, 2023