

NORTHEAST PUBLIC WATER AUTHORITY
66 FLORENCE DRIVE
MOUNTAIN HOME, AR 72653
(870) 492-4211

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022

BRIAN L. HAAS
CERTIFIED PUBLIC ACCOUNTANT
1616 HIGHWAY 62 WEST
MOUNTAIN HOME, AR 72653
(870) 424-2181

NORTHEAST PUBLIC WATER AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1 - 3
REQUIRED SUPPLEMENTAL INFORMATION	
Management discussion and analysis	4 - 8
FINANCIAL STATEMENTS	
Statement of financial position	9 - 10
Statement of revenues, expenses, and changes in net assets	11
Statement of cash flows - increase (decrease) in cash and cash equivalents	12 - 13
Notes to financial statements	14 - 24
SUPPLEMENTARY INFORMATION	
Schedule of governmental assistance	25
Schedule of other revenue	26
Schedule of employee benefit expenses	27
Schedule of purchased services	28
Schedule of supplies and other expenses	29
Required supplementary information	30
Board of Directors	31
Insurance coverage	32
Water rate schedule	33
Users by class	34
Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards	35 - 36
Schedule of findings and responses	37 - 38

Phone: (870) 424-2181

Fax: (870) 425-1339

Arkansas License No. 4723R

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast Public Water Authority
66 Florence Drive
Mountain Home, AR 72653

Dear Members of the Board:

Report on the Financial Statements

I have audited the accompanying financial statements of Northeast Public Water Authority, as of and for the year ended December 31, 2022, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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

My objective is 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. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

In preparing the financial statements, management is required to disclose contingent liabilities.

In performing an audit in accordance with generally accepted auditing standard, I will exercise professional judgement and maintain professional skepticism throughout the audit. I will also 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. Additionally, I will obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed. I will also evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position and cash flows, and the changes in financial position thereof for the year then ended in accordance with accounting principals generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting Principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 8 and 28 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Governmental Assistance, Schedule of Other Revenue, Employee Benefits and Purchased Services, Schedule of Supplies and Other Expenses, Board of Directors, Insurance Coverage, Water Rate schedule and Users by Class is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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.

The 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 my opinion, the information 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, I have also issued my report dated December 12, 2023, on my consideration of Northeast Public Water Authority's internal control over financial reporting and on my 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 my 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 Northeast Public Water Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Brian L. Haas".

Brian L. Haas, CPA
Mountain Home, AR 72653

December 12, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Northeast Public Water Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2022. Please read it in conjunction with the Authority's financial statements, which follow this section.

The Northeast Public Water Authority's financial statements consist of only one proprietary fund. The Board operates a water utility for customers (water users) on a fee for services and related costs basis. The Board is a non-profit entity which was formerly known as Northeast Water Association. The former entity was reorganized into a water board according to Arkansas law effective January 1, 2004.

FINANCIAL HIGHLIGHTS

As of December 31, 2022:

- The Authority's assets exceeded its liabilities by \$1,685,938 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,620,087.
- Total net assets are comprised of the following:

Capital assets, net of related debt of \$1,218,907 including property and equipment net of accumulated depreciation.
- Net assets of \$235,534 are restricted by constraints imposed by outside the Authority, such as debt covenants, grantors, laws or regulations.
- Unrestricted net assets of \$231,497 represent the portion available to maintain ongoing operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

- The Authority's annual audit report includes three major financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses accrual basis accounting as in the private sector.
- The first of these statements is the Statement of Net Assets. This is the Authority's statement of financial position presenting information that includes all of the Authority's assets and liabilities with the difference reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating.
- The second statement is the Statement of Activities that reports how the Authority's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the Statement of Activities is to show the effectiveness of Authority rate structure and related revenues to

adequately cover the operational costs of providing water services to the Authority's membership.

- The third major statement is the Statement of Cash Flows. This statement presents cash flows provided by operations, investing and financing on a net change basis.

REQUIRED FINANCIAL STATEMENTS

- The financial statements of the Authority's report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority's creditors (liabilities). These also provide the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.
- All of the prior years' and current year's revenues and expenses are accounted for in the Statements of Activities and Changes in Net Assets. These statements measure the success of the Authority's operations and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.
- The final required financial statement is the Statement of Cash Flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provide 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 periods.

FINANCIAL ANALYSIS OF THE AUTHORITY

- The Authority's net assets increased due to an excess of revenue over operating expenses of \$65,851, and a decrease of \$52,675 from interest expense and miscellaneous non-operating revenues. Total revenues were up from 2021 by \$158,070. Total operating expenses were up from 2021 by \$78,932; \$1,262,358 compared to \$1,183,426 in 2021.

NET ASSETS

- To begin our analysis, a summary of the Authority's Statements of Net Assets are presented in Table A-1.

Table A-1
The Authority's Net Assets
December 31, 2022

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 368,485	\$ 316,886
Capital and non-current assets	<u>3,358,358</u>	<u>3,403,391</u>
Total assets	3,726,843	3,720,277
Current liabilities	172,397	176,588
Long-term liabilities	<u>1,868,508</u>	<u>1,923,603</u>
Total liabilities	<u>2,040,905</u>	<u>2,100,190</u>
Net assets	<u><u>\$ 1,685,938</u></u>	<u><u>\$ 1,620,087</u></u>
Invested in capital assets net of related debt	\$ 1,218,907	\$ 1,247,663
Restricted	235,534	113,838
Unrestricted	<u>231,497</u>	<u>258,586</u>
Total net assets	<u><u>\$ 1,685,938</u></u>	<u><u>\$ 1,620,087</u></u>

The Authority's net assets increased by \$65,851 over 2021. Additional information regarding capital assets is available in the Notes to the Basic Financial Statements.

A portion of the net assets is either restricted as to the purposes they can be used for or they are invested in capital assets. Unrestricted net assets may be used to fund the Authority's programs in the next fiscal year. However, this does not mean that the Authority has a significant surplus resources available to pay its bills next year. Rather, it is the result of having *long-term* commitments that are less than currently available resources. The balance has remained similar to the prior years.

BUDGETARY HIGHLIGHTS

For 2022, the Authority's revenues were more than budgeted estimates by \$128,078. Total operating expenses were approximately \$63,463 over budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

- Capital Assets

At the end of 2022, the Authority had invested \$5,912,779 in a broad range of assets, including land, water distribution system, equipment and vehicles.

This was a \$15,258 increase from 2021 Additional information regarding Capital Assets is available in the Notes to the Basic Financial Statements.

Land	\$	18,910
Building		159,253
Water tanks		558,273
Distribution system		4,674,278
Furniture and fixtures		11,901
Equipment		191,949
Trucks		119,599
Roadways		15,616
Telemetry equipment		95,763
Computer & office machine		32,529
Loan Fees		23,792
Construction in progress		<u>10,917</u>
		5,912,779
Total accumulated depreciation		<u>(2,817,516)</u>
Net capital assets	\$	<u><u>3,095,263</u></u>

- Debt Administration

At the end of 2022, the Authority's long-term debt consisted of the following:

Note Payable Bank	1,197,201
USDA	<u>679,157</u>
Total long-term debt	<u><u>\$ 1,876,358</u></u>

More information about the Authority's debt is presented in the Notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Northeast Public Water Authority replaced 2 new 2 inch meters and 1 3 inch meter.
- Northeast Public Water Authority had all tanks visually inspected.
- Installed 860 feet of 2 inch main on CR 987
- Extended 8 inch main for addition at Walmart which added 100 feet of 8 inch main.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

- This financial report is designed to provide a general overview of the Authority's finances, comply with finance-related laws and regulations, and demonstrate the Authority's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Authority's manager at:

66 Florence Drive
Mountain Home, Arkansas 72653

Phone number: (870) 492-4211

NORTHEAST PUBLIC WATER AUTHORITY

STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 1)	\$ 107,390
Assets whose use is limited - required for current liabilities (Notes 2 and 4)	86,302
Customer accounts receivable	108,552
Inventory	39,270
Prepaid insurance	23,622
Other	<u>3,348</u>

TOTAL CURRENT ASSETS	368,485
----------------------	---------

Assets whose use is limited (Note 2)	349,230
Less assets whose use is limited that are required for current liabilities	<u>(86,302)</u>

NON-CURRENT ASSETS WHOSE USE IS LIMITED	262,928
---	---------

Utility plant in service, less accumulated depreciation of \$2,816,062 in 2023 (Notes 1 and 3)	3,095,265
---	-----------

Other assets	<u>165</u>
--------------	------------

TOTAL ASSETS	<u>\$ 3,726,843</u>
--------------	---------------------

See accompanying notes to financial statements.

NORTHEAST PUBLIC WATER AUTHORITY

STATEMENT OF FINANCIAL POSITION

December 31, 2022

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Current installment of long-term debt (Note 4)	\$ 121,692
Accounts payable	51,029
Accrued payroll taxes payable	2,309
Accrued sales tax payable	-
Accrued interest payable	-
Safe water act fee	<u>(2,633)</u>

TOTAL CURRENT LIABILITIES	<u>172,397</u>
---------------------------	----------------

Long-term debt, net of current maturities (Note 4)	<u>1,754,666</u>
--	------------------

OTHER LIABILITIES:

Meter deposits payable	113,210
Meter deposit interest payable	<u>632</u>

TOTAL OTHER LIABILITIES	<u>113,842</u>
-------------------------	----------------

TOTAL LIABILITIES	<u>2,040,905</u>
-------------------	------------------

NET ASSETS:

Invested in capital assets net of depreciation and related debt	1,218,907
Temporarily restricted	235,534
Unrestricted	<u>231,497</u>

TOTAL NET ASSETS	<u>1,685,938</u>
------------------	------------------

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$3,726,843</u></u>
----------------------------------	---------------------------

See accompanying notes to financial statements.

NORTHEAST PUBLIC WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022

REVENUE:	
Water revenue	\$ 1,320,904
Other revenue	<u>54,315</u>
TOTAL REVENUE	1,375,219
OPERATING EXPENSES:	
Salaries	249,916
Employee benefits	112,279
Purchased services	579,485
Supplies and other expenses	184,809
Bad debt expense	1,179
Depreciation & Amortization Expense	<u>134,693</u>
TOTAL OPERATING EXPENSE	<u>1,262,358</u>
Excess of revenue over expense from operations	<u>112,861</u>
NON-OPERATING REVENUE (EXPENSE):	
Interest income	2,422
Interest expense	(52,675)
Discounts	1,690
Miscellaneous	1,553
Insurance proceeds	<u>-</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(47,010)</u>
Income (loss) before capital contributions	65,851
Capital contributions	-
Capital from grant contributions	<u>-</u>
	-
Change in net assets	65,851
NET ASSETS AS OF BEGINNING OF YEAR	<u>1,620,087</u>
NET ASSETS AS OF END OF YEAR	<u><u>\$1,685,938</u></u>

See accompanying notes to financial statements.

NORTHEAST PUBLIC WATER AUTHORITY

STATEMENT OF CASH FLOWS -
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,372,230
Cash payments to suppliers for goods and services	862,528
Cash payments for employees' services and payroll taxes	<u>271,862</u>
Net cash provided (used) by operating activities	<u>2,506,620</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Cash received from (transferred to) restricted assets	(9,479)
Cash received from meter deposits, net of refunds	4,495
Cash received from miscellaneous income	1,553
Cash provided by discounts	<u>1,690</u>
Net cash (used) by non-capital financing activities	<u>(1,741)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Cash used to reduce bonds payable	(1,353,373)
Cash received for interest income	2,602
Cash used for interest expense	(52,675)
Cash provided by borrowing	<u>1,305,000</u>
Net cash provided by (used) by capital financing activities	<u>(98,446)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Cash used to purchase property and equipment	<u>(56,235)</u>
Net cash flows provided by (used by) investing activities	<u>(56,235)</u>

Net increase (decrease) in cash and cash equivalents	<u>81,598</u>
--	---------------

Cash and cash equivalents at beginning of year	<u>25,792</u>
--	---------------

Cash and cash equivalents at end of year	<u>\$ 107,390</u>
--	-------------------

See accompanying notes to financial statements.

NORTHEAST PUBLIC WATER AUTHORITY

STATEMENT OF CASH FLOWS -
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2022

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 112,861
Depreciation expense	134,693
Changes in:	
Accounts receivable	(2,989)
Prepaid expense	(160)
Accounts payable	1,187
Payroll taxes payable	(3,233)
Sales tax payable	(7,300)
Inventory	345
Other	2,593
Water district fee	<u>23</u>

Net cash provided by operating activities 238,020

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

0
\$ 238,020

See accompanying notes to financial statements.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

ORGANIZATION

The company is organized under Arkansas law as a public water authority as a body politic, a non-corporate entity.

BASIS OF ACCOUNTING

The Authority recognized revenues and expenses under the accrual method of accounting. Revenues are recognized when earned and expenses in the period incurred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by Board designation or other payers.

INVENTORIES

Inventories were counted and priced at lower of cost (first-in, first-out) or market.

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.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment assets include land, buildings, improvements, equipment and water and sewer system infrastructure. Purchased property, plant and equipment assets are recorded at cost and are depreciated by the straight-line method over the estimated useful lives of the various assets. The lives can range from 5 years for tangible personal property up to 25 years on infrastructure assets. The capitalization policy is \$250 on equipment and \$2,000 on improvements and other assets.

The costs of assets retired from service are credited to the appropriate property, plant, and equipment account and costs of removal are charged to operation in the year incurred.

Maintenance, repairs, and minor renewals are charged against earnings when incurred. Additions and major renewals are capitalized.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

PROPERTY, PLANT, AND EQUIPMENT (continued)

Property, plant, and equipment are stated at cost and are depreciated by the straight-line method over the estimated useful lives of the various assets.

Depreciation expense for the year ended December 31, 2022 was \$134,693.

	Capital assets, depreciated					Capital assets not depreciated	
	Land rights	System & improve.	Machinery & equipment	Vehicles	Buildings	Construction in progress	Total
Balance, December 31, 2021	\$ 18,910	\$ 5,180,713	\$ 330,674	\$ 119,599	\$ 171,939	\$ -	\$ 5,821,835
Additions		51,838	1,467		2,930		56,235
Dispositions						-	-
Balance, December 31, 2022	18,910	5,232,551	332,141	119,599	174,869	0	5,878,070
Accumulated depreciation							
Balance, December 31, 2021	0	2,158,242	318,237	102,741	103,603	0	2,682,823
Increases		110,386	7,047	11,900	3,906	1454	134,693
Decreases							-
Balance, December 31, 2022	0	2,268,628	325,284	114,641	107,509	1,454	2,817,516
Capital assets - net	\$ 18,910	\$ 2,963,923	\$ 6,857	\$ 4,958	\$ 67,360	\$ (1,454)	\$ 3,060,554

AMORTIZATION

Loan Fees	\$ 23,792
Amortization	(1,454)
Net	<u>\$ 22,338</u>

APPLICATION OF RESTRICTED ASSETS

When expenditures are incurred for which both restricted and unrestricted net assets are available, policy is to use unrestricted assets first and restricted assets only after unrestricted assets are depleted.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

INCOME TAXES

Northeast Public Water Authority is a non-corporate, public water authority which is exempt from federal income taxes.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Authority uses the direct write-off method of accounting for bad debts. This method is not in accordance with generally accepted accounting principle. Management has determined that the direct write-off method is not materially different than using an allowance account which is generally accepted. No allowance for uncollectible accounts has been provided since historically such accounts have been minimal. Accounts are written off when deemed uncollectible.

ACCOUNTING RECORDS

The financial statements are in agreement with the accounting records of the Authority.

PHYSICAL CONTROL

The physical control over assets appears to be adequate.

INFRASTRUCTURE (GASB 34)

Under the transition provisions of GASB 34, the Authority is not required to retroactively report major general infrastructure assets.

BUDGETS AND BUDGETARY ACCOUNTING

Enterprise Fund service delivery levels are determined by the context of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with the changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons have not been included.

The budget for operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that applicable purchases are expected to be made.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

INTANGIBLE ASSETS

Intangible assets are amortized using the straight line method over the estimated life of the asset.

NOTE 2 - ASSETS WHOSE USE IS LIMITED

All Farmers Home Administration regulations stipulate that all revenues shall be set aside into a separate account to be designated. The revenue fund account and monies so deposited therein shall be expended and used only in the manner and order as follows:

(A) DEBT SERVICE ACCOUNT

From the monies set aside and deposited in the revenue fund account, there shall first be paid and deposited in the debt service account each month an amount that will be sufficient to pay one-third (1/3) of the annual installment on the loan next becoming due and to provide and maintain a debt service reserve of \$27,816 or \$232 per month until that amount is reached. In addition, an amount of \$1,400 per month to a Short-Lived Asset Fund until \$244,000 has been reached for the USDA (FHA). The debt service fund consists of the following:

	<u>2023</u>
First Security Bank and Trust	<u>\$ 51,797</u>
Total funds in debt service fund	51,797
Fund requirements	<u>24,000</u>
FUNDS IN EXCESS OF REQUIREMENTS	<u><u>\$ 27,797</u></u>

This bank listed above is insured by the Federal Government and is adequately collateralized.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 - ASSETS WHOSE USE IS LIMITED (CONTINUED)

(B) OPERATIONS AND MAINTENANCE ACCOUNT

From the balance in the revenue fund account after deposits in the debt service account, there shall be set aside and deposited each month sufficient money to pay the reasonable and necessary current expenses of operating and maintaining the facility for the current month and to make reasonable provisions for repair and maintenance of the facility. This account is insured by the Federal Government and adequately collateralized.

(C) DEPRECIATION ACCOUNT

From the balance remaining in the revenue fund account after deposits in the debt service account and operation and maintenance account, there shall be deposited each month in the depreciation account five percent (5%) of the gross revenue until there is accumulated the sum of \$ 5,000 to be used for the purpose of paying the cost of major repairs of damage caused by unforeseen catastrophe and for the replacements made necessary by the depreciation of the project facilities. In addition, an amount of \$1,300 per month is to be deposited to the reserve for other notes payable.

The depreciation fund consists of the following:

	<u>2022</u>
First Security Bank and Trust	<u>77,838</u>
Total in depreciation fund	77,838
Total Fund requirements	<u>64,000</u>
FUND DEFICIENT OF REQUIREMENTS	<u><u>\$13,838</u></u>

The depreciation and debt service funds which are necessary to meet FHA requirements are restricted as mentioned above. The amounts in excess of fund requirements have been informally restricted by the Board. The bank listed above is insured by the Federal Government and adequately collateralized.

Subject to the foregoing, any balance in the revenue fund account shall be used for prepaying on the loan or for making improvements to the proper activities.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 2 - ASSETS WHOSE USE IS LIMITED (CONTINUED)

(D) SUMMARY OF ASSETS WHOSE USE IS LIMITED

The following accounts are restricted by board for future use, loan covenants, and board rule for customer deposits.

	<u>Cash</u>	<u>Certificates of deposits</u>	<u>TOTAL 2022</u>
Debt service fund	\$ 5,964	\$ 45,832	\$ 51,797
Depreciation fund	-	99,651	99,651
Customer deposit fund	33,621	80,000	113,621
Construction reserve	6,324	-	6,324
ASWC Bond reserve	-	-	-
Escrow Account	-	-	-
USDA (FHA) SLA Account	77,838	-	77,838
	<u>\$ 123,747</u>	<u>\$ 225,483</u>	<u>\$ 349,230</u>

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

A summary of the utility plant in service at December 31, 2022 is as follows:

	<u>2022</u>
Land	\$ 18,910
Building	159,253
Water tank	558,273
Water distribution system	4,674,278
Furniture and fixtures	11,901
Equipment	191,949
Trucks	119,599
Roadways	15,616
Telemetry equipment	95,763
Computer & office machines	32,529
Loan Fees	<u>23,792</u>
	5,901,863
Less accumulated depreciation	<u>(2,817,516)</u>
PROPERTY, PLANT AND EQUIPMENT IN SERVICE, NET	<u>\$ 3,084,347</u>

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 - LONG-TERM DEBT

<u>OTHER NOTES PAYABLE</u>	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Arkansas Soil and Water Commission bonds \$475,000 bond, dated 02/17/05, bearing interest at 4.9% annually, due in 360 monthly installments of \$2,532 each, maturing 12/1/2034, secured by system	\$ 289,643	-	289,643	\$ -
Sub-total Arkansas Soil and Water Commission	-	-	-	-
 \$ 250,000 bond, dated July 17, 2014, maturing 07/17/2034 bearing interest at 4.65% annually, due in monthly installments of \$ 1,616 each, secured by system	183,470	-	183,470	-
 \$ 1,015,000 installment note, dated October 15, 2009 bearing interest at 4.65% annually, due in monthly installments of \$ 6,537 each, maturing 10/10/2029 secured by system.	496,003	-	496,003	-
 \$ 419,000 installment note, dated October, 2012 bearing interest at 4.25% annually, due in monthly installments of \$ 2,597 each, maturing 10/10/2032 secured by system.	270,058	-	270,058	-
 \$731,000 USDA installment note, dated May 8, 2019 bearing interest at 2.25% annually, due in monthly installments of \$ 2,318 each, maturing 3/8/2059 secured by system. The borrowing is for the removal of old lines made with asbestos per government direction. Draws are made as project progresses. Through December 31, 2022, the amount drawn to date equaled \$450,956. Completion is expected in 2022.	691,541	-	12,384	679,157
 \$1,305,000 bond payable dated January 20, 2022 bearing interest at \$2.975% annually due in monthly installments of \$9023 each, maturing 1/20/37. Secured by system.	-	1,305,000	107,799	1,197,201
Sub-total other notes payable	\$ 1,641,072	\$ 1,305,000	\$ 1,069,714	\$ 1,876,358

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 - LONG-TERM DEBT (CONTINUED)

A summary of long-term debt at December 31, 2022 is as follows:

DESCRIPTION:	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Total long-term debt	\$ 1,641,072	\$ 1,305,000	\$ 1,069,714	\$ 1,876,358
Less current maturities	<u>\$ (86,302)</u>	<u>-</u>	<u>-</u>	<u>\$ (86,302)</u>
NET LONG-TERM DEBT	<u>\$ 1,554,770</u>	<u>\$ 1,305,000</u>	<u>\$ 1,069,714</u>	<u>\$ 1,790,056</u>

MATURITIES OF LONG-TERM DEBT FOR THE NEXT FIVE YEARS IS AS FOLLOWS:

	<u>Principal</u>	<u>Interest</u>
2023	\$ 86,302	\$ 49,768
2024	88,810	47,260
2025	91,393	44,678
2026	94,052	42,019
2027	96,787	39,283
2028-2032	527,871	152,752
2033-2037	435,008	74,820
2038-2042	92,689	46,284
Thereafter	<u>363,446</u>	<u>80,770</u>
TOTAL	<u>\$ 1,876,358</u>	<u>\$ 577,634</u>

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5: FUND REQUIREMENTS

Meter deposits are refundable customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposits totaled \$113,210, with reserve funds of \$113,621 at December 31, 2022.

NOTE 6: SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated by management through December 12, 2023. This is the first date the financial statements were available for issuance.

NOTE 7: COMMITMENT

The authority has a contract with the City at Mountain Home to purchase water. The contract does not require the Authority to purchase a minimum number of gallons. The water rate is adjusted annually based on most recent costs of the City of Mountain Home.

The estimated purchase commitment for the next five (5) years is as follows:

2023	100,000,000
2024	100,000,000
2025	100,000,000
2026	100,000,000
2027	100,000,000

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2022

NOTE 8: CUSTODIAL CREDIT RISK

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "cash" and "assets whose use is limited". The Authority does not have a policy for custodial credit risk. During the year the Authority occasionally exceeds insurance amounts, collateralization pledges are in place for coverage.

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 456,420	\$450,796
Uninsured, collateral held by Authority's agent in agent's name	-	-
Total Deposits	<u>\$ 456,420</u>	<u>\$450,796</u>

NOTE 9: CREDIT RISK

The Authority has no formal policy on credit risk. The Authority has relied on the depository institutions to provide sufficient collateralization.

NOTE 10: PENSION PLAN

The Arkansas Public Employees Retirement System is a separate entity, which issues separate audited financial statements. A copy of the most current financial report, for the fiscal year ended December 31, 2022, is on file at the Authority's office.

All full-time employees are required to participate upon their date of hire in the Arkansas Public Employee Retirement System (APERS) pension plan. This is a multiple-employer, cost sharing defined benefit pension plan that was established by Act 177 of 1957. Act 793 of 1977 established a contributory plan. The Authority's employees participate in the contributory plan.

NORTHEAST PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2022

NOTE 11: PENSION PLAN (CONTINUED)

Benefits:

Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits as follows:

1. At age sixty-five (65) with five (5) years of actual service,
2. At any age with twenty-eight (28) years of actual service, or
3. Under the non-contributory plan, at age fifty-five (55) with thirty-five (35) years of credited service.

The normal benefit amount, paid on a monthly basis is determined by the member's final average salary and the number of years of service, five (5) or at any age with twenty-eight (28) years of actual service. APERS also provided for disability and survivor benefits.

Funding policy:

Contribution provisions applicable to the State, County, Municipal, and School Divisions are established by state law and may be amended only by the Arkansas General Assembly. The employer contribution rate for the Municipal Division contributory plan, as established by an actuarially determined reserve requirement for benefit payments, is 15.32% of gross pay. The employee contributes 5% of gross pay.

The Authority's total required contribution for the year ended December 31, 2022 was \$34,976 and included an allowable purchase for the years of service prior to the Authority's enrollment in the System in 1995. The required contributions for the year have been made.

Funding status and progress:

Per the most current APERS audit report, the excess of the accrued liability of the System over the actuarial value of assets, as adjusted to fair value based on the Entry Age Normal Cost Method, was \$2.01 [dollars in billions] at June 30, 2022. Total actuarial accrued liabilities were \$12.23 [dollars in billions], and total applicable assets at smoothed market related value were \$10.22 [dollars in billions], at June 30, 2022. APERS does not conduct separate measurements for the separate divisions or employers of the System.

Significant assumptions used to compute the actuarial value of assets and accrued liabilities along with the schedule of funding status and progress, which presents the progress in accumulating sufficient assets to pay benefits when due, and other statistical data are also presented in the APERS annual financial report which can be found at www.apers.org/annualreports.

SUPPLEMENTARY INFORMATION

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF GOVERNMENTAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>DEPARTMENT/DIVISION PROGRAM</u>	<u>CFDA Number</u>	<u>Disbursements/ Expenditures</u>
FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE		
<u>Department of Health and Human Services</u>		
Passed through Arkansas Department of Human Services:		
USDA	10.760	\$ 155,000
Total Federal Assistance		<u>\$ 155,000</u>

NORTHEAST PUBLIC WATER AUTHORITY
SCHEDULE OF OTHER REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2022

OTHER REVENUE:

Installation charges	\$ 18,880
Reconnect fees	0
Records and transfers	2,445
Miscellaneous	19,305
New meters	0
Plumbing permits	1,735
Extension income	2,000
Fire protection fee	<u>9,950</u>
TOTAL OF OTHER REVENUE	<u>\$ 54,315</u>

See accompanying independent auditor's report.

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF EMPLOYEE BENEFIT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

SCHEDULE OF EMPLOYEE BENEFITS:

Health insurance	\$50,222
Uniform rental	5,315
Payroll taxes	21,766
Pension plan	<u>34,976</u>
TOTAL EMPLOYEE BENEFITS	<u><u>\$112,279</u></u>

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF PURCHASED SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2022

SCHEDULE OF PURCHASED SERVICES:

Water purchased	\$ 561,501
Utilities	<u>17,984</u>
TOTAL PURCHASED SERVICES	<u><u>\$ 579,485</u></u>

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF SUPPLIES AND OTHER EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

SCHEDULE OF SUPPLIES AND OTHER EXPENSES:

Accounting and legal	\$ 21,399
Auto and travel	4,463
Bank draft charges	1,269
Insurance	27,689
Conference meeting	2,262
Miscellaneous	964
Small equipment repair	85
Office supplies and expense	7,552
Postage	8,478
Property taxes	608
Repair and maintenance	27,986
Miscellaneous shop supplies	1,572
Sales tax expense	474
Meter installation and other repairs	9,203
Dump truck, Kubota, & Boring	127
Security System Fee	284
Dirt, Gravel & Base	1,470
Fuel	7,341
Licenses and dues	5,749
Main tanks	47,307
Small tools	334
Employee Drug Testing	35
Fire Extinguisher Inspection	125
Customer Relations	60
Company Lunches	1,163
Employee Reimbursements (Phone, Insurance)	2,415
Billing Software (Intedata)	835
Electric Bill, Office	-
Natural Gas Bill	-
Check returned account	692
Extension Expense	50
Hwy Bond Ins. Policy 0106770294	100
Insurance - Work Comp	203
Interest Paid on Loans	-
Backflow Testing	420
Billing Expense	636
Amortization Expense	1,461
TOTAL SUPPLIES AND OTHER EXPENSES	<u>\$ 184,809</u>

See accompanying independent auditor's report.

NORTHEAST PUBLIC WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

ACCOUNT			BUDGET		Variance over(under)	Original Budget
	Actual	%	Final Budget	%		
Income						
Backflow Income	\$ 600	0.0%	0	0.0%	\$ 600	0
Water sales	1,262,287	91.4%	1,180,000	93.3%	82,287	\$ 1,180,000
Water sales-Teal Point	24,328	1.8%	20,000	1.6%	4,328	20,000
Water sales-CR 30	13,148	1.0%	11,000	0.9%	2,148	11,000
Water sales-Panther Heights	10,861	0.8%	12,000	0.9%	(1,139)	12,000
Sales - non-taxable	10,279	0.7%	15,000	1.2%	(4,721)	15,000
Extension income	2,000	0.1%	0	0.0%	2,000	0
Install-new meters	18,880	1.4%	7,000	0.6%	11,880	7,000
Reconnect	16,815	1.2%	6,000	0.5%	10,815	6,000
Rec & Transfers	3,215	0.3%	1,800	0.1%	1,415	1,800
Plumbing & Permits	1,735	0.1%	500	0.0%	1,235	500
Fire protection fee	9,950	0.7%	6,000	0.5%	3,950	6,000
Interest Income	2,422	0.2%	2,500	0.2%	(78)	2,500
Miscellaneous income	1,553	0.1%	2,500	0.2%	(947)	2,500
Discounts Earned	1,690	0.1%	0	0.0%	1,690	0
Repair Income	1120	0.1%	0	0.0%	1120	0
Total	<u>\$ 1,380,884</u>	100.0%	<u>\$ 1,264,300</u>	100.0%	<u>\$ 116,583</u>	<u>\$ 1,264,300</u>
Expenses						
Auto & Travel	\$ 4,463	0.3%	\$ 8,500	0.7%	\$ (4,037)	\$ 8,500
Accounting & Legal	21,399	1.6%	14,000	1.1%	7,399	14,000
Backhoe,Boring,Bond	127	0.0%	2,000	0.2%	(1,873)	2,000
Bad debt	1,179	0.1%	300	0.0%	879	300
Bank draft charges	1,269	0.1%	1,200	0.1%	69	1,200
Conference meetings	2,262	0.2%	2,000	0.2%	262	2,000
Dues & Fees	5,431	0.4%	3,000	0.2%	2,431	3,000
Dirt, Gravel & Base	1,470	0.1%	3,000	0.2%	(1,530)	3,000
Extension expense	50	0.0%	0	0.0%	50	0
Freight	45	0.0%	0	0.0%	45	0
Fuel-BH,Shop,Mow	6,516	0.5%	900	0.1%	5,616	900
Health Insurance	50,222	3.8%	42,000	3.4%	8,222	42,000
Insurance Expense	27,892	2.1%	26,000	2.1%	1,892	26,000
Interest Expense FNBC/USDA	52,675	4.0%	53,350	4.3%	(675)	53,350
Meter Install	9,203	0.7%	6,000	0.5%	3,203	6,000
Misc Expense	5,676	0.4%	2,600	0.2%	3,076	2,600
Misc Shop Supplies	1,572	0.1%	1,000	0.1%	572	1,000
Office Supplies	7,552	0.6%	5,500	0.4%	2,052	5,500
Payroll	249,916	19.0%	209,000	16.9%	40,916	209,000
Payroll Tax Expense	21,766	1.7%	16,200	1.3%	5,566	16,200
Postage	8,433	0.6%	6,900	0.6%	1,533	6,900
Repairs & Maintenance	67,874	5.2%	60,000	4.9%	7,874	60,000
Main Tanks-Utility Sales	8,027	0.6%	0	0.0%	8,027	0
Retirement Expense	34,976	2.7%	30,000	2.4%	4,976	30,000
Sales Tax Expense	474	0.0%	2,500	0.2%	(2,026)	2,500
Security System Fee	284	0.0%	300	0.0%	(16)	300
Small Equip Repairs	85	0.0%	700	0.1%	(615)	700
Telephone/Utilities	17,984	1.4%	20,000	1.6%	(2,016)	20,000
Uniform Rent	5,315	0.4%	5,000	0.4%	315	5,000
Water Purchases	561,501	42.7%	580,000	47.0%	(18,499)	580,000
Depreciation/Amortization	136,155	10.4%	133,000	10.8%	3,155	133,000
Employee Reimbursem.	3240	0.2%	0	0	3240	0
Total	<u>\$ 1,315,033</u>	100.0%	<u>\$ 1,234,950</u>	100.0%	<u>\$ 80,083</u>	<u>\$ 1,234,950</u>

See accompanying independent auditor's report

NORTHEAST PUBLIC WATER AUTHORITY
BOARD OF DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 2022

The Board of Directors of Northeast Public Water Authority was composed of the following individuals at December 31, 2022:

Jay Sabella	President	01/01/2022 - 12/31/2025
Robert Craig	Vice President	01/01/2022 - 12/31/2023
Matt Bennett	Treasurer	01/01/2022 - 12/31/2023
Linda McClellan	Board Member	01/01/2022 - 12/31/2024
Sonia Boling	Board Member	01/01/2022 - 12/31/2025
Mike Hawkins	Board Member	01/01/2022 - 12/31/2024
Matt Stone	Board Member	01/01/2022 - 12/31/2023
Gerry Lance	General Manager	

See accompanying independent auditor's report.

NORTHEAST PUBLIC WATER AUTHORITY

INSURANCE COVERAGE

December 31, 2022

Coverage

GENERAL LIABILITY:

Damage	\$1,000,000
Personal injury	1,000,000
Medical	5,000

Property	2,555,480
----------	-----------

VEHICLES:

Property damage	1,000,000
Medical	5,000

Theft loss	447,000
------------	---------

Mechanical equipment	82,196
Additional debris cleanup	5,000
Pollutant Cleanup & Removal	10,000

Umbrella	1,000,000
----------	-----------

Linebacker Public Officials & Employment Practices Liability	1,000,000
Aggregate for Each Policy Term	1,000,000

Cybersolutions Reclamations	50,000
-----------------------------	--------

See accompanying independent auditor's report.

NORTHEAST PUBLIC WATER AUTHORITY

WATER RATE SCHEDULE

December 31, 2022

3/4 INCH METER:

Minimum water bill	\$36.91/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

3/4 INCH METER - TEAL POINT:

Minimum water bill	\$ 43.00/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

3/4 INCH METER - PANTHER HEIGHTS:

Minimum water bill	\$ 44.13/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

1 INCH METER:

Minimum water bill	\$ 46.64/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

1 INCH METER - TEAL POINT:

Minimum water bill	\$ 83.96/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

1 1/2 INCH METER:

Minimum water bill	\$ 56.35/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

2 INCH METER:

Minimum water bill	\$ 77.00/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

2 INCH METER - TEAL POINT:

Minimum water bill	\$ 120.12/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

3 INCH METER:

Minimum water bill	\$ 231.56/2,000 gallons
	\$ 8.45/1,000 gallons after 2,000 gallons

None of the above rates include sales tax.

There is a .40 cent safe water act fee charged on each bill.

See accompanying independent auditor's report.

NORTHEAST PUBLIC WATER AUTHORITY

USERS BY CLASS December 31, 2022

<u>Customer category (usage in gallons)</u>	<u>Customer Count</u>
	<u>Total</u>
< 2,000	984
2001 - 4,000	550
4,001 - 6,000	203
6,001 - 10,000	79
> 10,000	<u>58</u>
	<u><u>1,874</u></u>

ADDITIONAL INFORMATION:

Water loss figures for the year ended December 31, 2022 are as follows:

Gallons of water purchased	125,505,130
Gallons of water sold and used	<u>90,385,401</u>
Gallons of water lost	<u><u>35,119,729</u></u>

Note: Required Supplementary Information - Budget Reconciliation

The differences between legally adopted expenditures for the Authority budgets and generally accepted accounting principles figures are as follows:

(Capitalization of asset expenditures and nonrevenue treatment of loan proceeds.)

Expenditures	Water
Legal budget	\$ 1,101,950
Depreciation	<u>133,000</u>
GAAP	<u><u>\$ 1,234,950</u></u>

See accompanying independent auditor's report.

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

Board of Directors
Northeast Public Water Authority

I 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 Public Water Authority which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated December 12, 2023.

Internal control over financial reporting

In planning and performing my audit of the financial statements, I considered Northeast Public Water Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Public Water Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Northeast Public Water Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or their 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.

My 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 may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies (Finding #2).

Northeast Public Water Authority's Response to Findings

Northeast Public Water Authority's response to the findings identified in my audit is described in the accompanying schedule of findings. Northeast Public Water Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Prior year findings

Northeast Public Water Authority's findings and response to the prior year findings are also presented in the schedule of findings. The response was not subject to the audit procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northeast Public Water Authority's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests did not disclose any 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 my testing of internal controls and compliance and for 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.



Brian L. Haas, CPA
1616 Highway 62 West
Mountain Home, Arkansas 72653

December 12, 2023

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2022

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Northeast Public Water Authority.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the report on compliance and internal control. The conditions reported are not a material weakness.

FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES:

1. Segregation of duties:

Criteria:	Duties should be segregated to provide reasonable assurance that transactions are handled properly.
Condition:	The company does not have a proper segregation of duties. This condition also existed in prior years.
Causes:	The staff is so small there are only a limited number of people for certain functions.
Effect:	Transactions could be mishandled, which could affect accuracy of the financial statement.
Recommendation:	Duties should be separated as much as possible and alternative controls used to compensate for lack of separation.
Response:	Management has determined that it is not economically feasible to have the necessary segregation of duties required to have a more adequate internal control system.

NORTHEAST PUBLIC WATER AUTHORITY

SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

2. Establish internal control over financial statement preparation and review:

Criteria:	Management is responsible for establishing and maintaining control and for the fair presentation of the net assets, supplementary information, and disclosures in the financial statements, in conformity with generally accepted accounting standards.
Condition:	Northeast Public Water Authority does not have a system of internal control that would provide management with reasonable assurance that the financial statements and related disclosures are complete and presented in accordance with generally accepted accounting standards. As such, management requested me to compile and prepare a draft of the financial statements, including the related note disclosures. This condition also existed in prior years.
Cause:	There are limited personnel with proper training and skills to provide the necessary reporting skills for fair presentation of all the financial information.
Effect:	Financial statements and related footnote disclosures and supplementary information required by generally accepted accounting standards, and accounting standards would not be complete.
Recommendation:	Use of an outside consultant to use as an aid to drafting the financial statements.
Response:	Management has determined that it is not economically feasible to acquire an employee capable of drafting the financial statements. These conditions have persisted from prior years into the current year which has not allowed the company to improve this aspect of controls.