

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD



DECEMBER 31, 2022 AND 2021

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
MURFREESBORO, ARKANSAS

AUDIT REPORT - TABLE OF CONTENTS
DECEMBER 31, 2022 AND 2021

	<u>PAGE NO.</u>
Independent Auditors' Report	1 - 3
EXHIBIT A Balance Sheets - December 31, 2022 and 2021	4 - 5
EXHIBIT B Statements of Revenue, Expenses and Changes in Net Position - For the Years Ended December 31, 2022 and 2021	6
EXHIBIT C Statements of Cash Flows - For the Years Ended December 31, 2022 and 2021	7 - 8
Notes to Financial Statements	9 - 14
Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 - 16

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Pike County Arkansas Water Facilities Board

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of South Pike County Arkansas Water Facilities Board as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of South Pike County Arkansas Water Facilities Board as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Pike County Arkansas Water Facilities Board 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.

Responsibility 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 misstatements, 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 South Pike County Arkansas Water Facilities Board'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.

INDEPENDENT AUDITORS' REPORT (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgement 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 South Pike County Arkansas Water Facilities Board'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Pike County Arkansas Water Facilities Board'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.

INDEPENDENT AUDITORS' REPORT (continued)***Required Supplementary Information***

South Pike County Arkansas Water Facilities Board has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2023, on our consideration of South Pike County Arkansas Water Facilities Board'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 South Pike County Arkansas Water Facilities Board'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 South Pike County Arkansas Water Facilities Board's internal over financial reporting and compliance.

Banks CPA, PLLC

June 27, 2023

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD

BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

EXHIBIT A

Page 4

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash - Revenue	\$ 43,541	\$ 44,450
Cash - Operating & Maintenance	15,443	16,834
Accounts Receivable	<u>20,139</u>	<u>17,462</u>
TOTAL CURRENT ASSETS	79,123	78,746
RESTRICTED ASSETS		
Cash - Meter Deposit	30,748	28,878
Cash - Capital Reserve	60,308	44,881
Cash - Debt Service	<u>60,088</u>	<u>59,785</u>
TOTAL RESTRICTED ASSETS	151,144	133,544
CAPITAL ASSETS, NET	2,735,301	2,836,349
TOTAL ASSETS	<u>\$ 2,965,568</u>	<u>\$ 3,048,639</u>

See accompanying Auditor's Report and Notes to Financial Statements.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021EXHIBIT A-1
Page 5

<u>LIABILITIES AND EQUITY</u>	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES		
Sales Tax Payable	\$ 1,424	\$ 1,404
Current Portion of Long Term Liabilities	<u>45,864</u>	<u>44,575</u>
TOTAL CURRENT LIABILITIES	<u>47,288</u>	<u>45,979</u>
Customer Deposits	29,726	27,734
LONG-TERM LIABILITIES		
Notes Payable - United States Department of Agriculture	1,281,112	1,312,747
Note Payable - Arkansas Natural Resources Commission	279,618	292,672
Less Current Portion of Long-Term Liabilities	<u>(45,864)</u>	<u>(44,575)</u>
TOTAL LONG-TERM LIABILITIES	<u>1,514,866</u>	<u>1,560,844</u>
TOTAL LIABILITIES	<u>1,591,880</u>	<u>1,634,557</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	1,128,708	1,230,930
Restricted-Expendable for Debt Service	90,154	82,080
Unrestricted	<u>154,826</u>	<u>101,072</u>
TOTAL NET POSITION	<u>1,373,688</u>	<u>1,414,082</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,965,568</u>	<u>\$ 3,048,639</u>

See accompanying Auditor's Report and Notes to Financial Statements.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION EXHIBIT B
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 Page 6

	<u>2022</u>	<u>2021</u>
OPERATING REVENUE		
Water Revenue	\$ 242,529	\$ 232,640
Penalties	2,845	4,816
Water System Public Service Fee	1,528	1,472
Miscellaneous Income	266	2,520
Water Tap Fees/Connection Fees	7,375	6,872
TOTAL OPERATING REVENUE	<u>254,543</u>	<u>248,320</u>
OPERATING EXPENSES		
Purchases - Water	49,345	40,045
Water System Public Service Fee	1,565	1,464
Contract Labor	56,781	50,961
Tap/Bore Fees	-	-
Supplies	7,899	472
Rent	3,250	3,000
Utilities, Telephone, Internet	14,697	15,344
Repairs & Maintenance	2,206	20,895
Depreciation	102,591	102,308
Accounting & Legal	6,510	6,480
Insurance	4,435	4,127
Dues & Subscriptions	3,526	3,295
Office Supplies	988	635
Postage	1,631	1,589
Miscellaneous	52	54
Bank Charges	6	2
TOTAL EXPENSES	<u>255,482</u>	<u>250,671</u>
OPERATING INCOME (LOSS)	<u>(939)</u>	<u>(2,351)</u>
NONOPERATING INCOME (EXPENSES)		
Interest Earned	1,144	1,015
Interest Expense	(40,599)	(41,847)
TOTAL OTHER INCOME (EXPENSE)	<u>(39,455)</u>	<u>(40,832)</u>
CHANGE IN NET POSITION	(40,394)	(43,183)
TOTAL NET POSITION - BEGINNING OF YEAR	1,414,082	1,485,384
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(28,119)</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,373,688</u>	<u>\$ 1,414,082</u>

See accompanying Auditors' Report and Notes to Financial Statements.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

EXHIBIT C
Page 7

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 251,866	\$ 251,483
Customer Deposits Received (Refunded)	1,870	1,918
Cash Paid to Suppliers	(152,749)	(148,151)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>100,987</u>	<u>105,250</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	<u>1,144</u>	<u>1,015</u>
NET CASH PROVIDED (USED) BY INVESTING	1,144	1,015
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash Payments for the Purchase of Property	(1,543)	-
Principal Payments on Debt Obligations	(44,689)	(43,441)
Interest Payments on Debt Obligations	<u>(40,599)</u>	<u>(41,847)</u>
NET CASH USED BY FINANCING	(86,831)	(85,288)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>15,300</u>	<u>(20,977)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	194,828	173,851
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 210,128</u></u>	<u><u>\$ 194,828</u></u>

See accompanying Auditors' Report and Notes to Financial Statements.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD

STATEMENTS OF CASH FLOWS

EXHIBIT C-1

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 8

Reconciliation of net increase in net assets to net cash provided by operating activities:

	<u>2022</u>	<u>2021</u>
OPERATING INCOME	\$ (939)	\$ (2,351)
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	102,591	102,308
(Increase) Decrease in Accounts Receivable	(2,677)	3,209
Increase (Decrease) in Customer Meter Deposits	1,992	1,985
Increase (Decrease) in Sales Tax Payable	20	99
TOTAL ADJUSTMENTS	<u>101,926</u>	<u>107,601</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>\$ 100,987</u>	<u>\$ 105,250</u>
Summary of Cash and Cash Equivalents		
Cash - Revenue	\$ 43,541	\$ 44,450
Cash - Operating and Maintenance	15,443	16,834
Restricted Cash	151,144	133,544
Total Cash and Cash Equivalents	<u>\$ 210,128</u>	<u>\$ 194,828</u>

See accompanying Auditors' Report and Notes to Financial Statements.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 9

Note 1. Summary of Significant Accounting Policies

NATURE OF ACTIVITIES - The Organization is a Public Facilities Board created by Ordinance No. 99-2 of Pike County, Arkansas on February 5, 1999 pursuant to the provisions of the Arkansas Code annotated Sections 13-137-101 through 14-137-123 to serve the rural residents of Pike County, Arkansas with adequate water facilities. In 2007, the Organization received loans and grants from United States Department of Agriculture - Rural Development (USDA-RD) and a deferred loan from the Arkansas Natural Resources Commission (ANRC) to construct a water distribution system. The main system was substantially completed and customers began receiving water services in December 2007. The Organization purchases water from the City of Murfreesboro (Murfreesboro Water & Sewer System) under a thirty (30) year contract dated December 5, 2005.

BASIS OF ACCOUNTING AND PRESENTATION- The financial statements of the Organization have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Organization first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Organization prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB) pursuant to GASB Statement No. 62.

ACCOUNTS RECEIVABLE - Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management expects all receivables to be collectible, therefore, no valuation allowance has been established. Balances that are still outstanding after management has used reasonable collection efforts, which have been immaterial to the financial statements, are written off through a charge to bad debt expense and a credit to the applicable accounts receivable.

CAPITAL ASSETS - Property and equipment are recorded at acquisition cost or fair market value of donated property and equipment. Depreciation is provided primarily by the straight-line method based upon the estimated useful lives of the respective assets as follows:

	<u>ESTIMATED LIFE</u>
Water Distribution System	40 Years
Equipment	5 - 20 Years

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 10

Note 1. Summary of Significant Accounting Policies (Continued)

The Organization follows the practice of capitalizing all expenditures in excess of \$500 for water distribution system equipment and office equipment.

The Organization capitalizes interest cost incurred on funds used to construct the water distribution system. The capitalized interest is recorded as part of the asset and is amortized over the asset's estimated useful life.

CASH EQUIVALENTS - For purposes of the cash flow statement, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

LOAN COSTS -In accordance with GASB 65, loan costs are expensed when incurred. GASB 65 required the removal of loan costs in a prior period. Therefore, the Organization has made an adjustment to reduce net position and the asset Loan Costs by \$28, 119 as of January 1, 2021.

NET POSITION-The Net Position of the Organization is classified in three components. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing used to finance the purchase or construction of those assets. Restricted net position are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Organization, reduced by the outstanding balances of any related borrowings. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted net position.

Note 2. Cash on Deposit with Banks

The Organization uses a financial institution for placement of its cash deposits. At December 31, 2022 and 2021, all deposits were insured and within the insurance limits of the Federal Deposit Insurance Corporation (FDIC). The Organization has no formal policy regarding custodial credit risk.

Note 3. Customer Deposits

Meter deposits received from customers are deposited into a separate account as required by the loan agreement with USDA-RD. At December 31, 2022, \$30,748 was on deposit compared to a related liability of \$29,726. At December 31, 2021, \$28,878 was on deposit compared to a related liability of \$27,734.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 11

Note 4. Capital Assets

Capital assets activity for the year ended December 31, 2022 was:

	Beginning of Year	Additions	Disposals	End of Year
Water Distribution System	\$ 4,068,242	\$ -	\$ -	\$ 4,068,242
Equipment	17,776	1,543	-	19,319
Total Capital Assets	\$ 4,086,018	\$ 1,543	\$ -	\$ 4,087,561
Accumulated Depreciation	\$ (1,249,670)	\$ (102,590)	\$ -	\$ (1,352,260)
CAPITAL ASSETS, NET	<u>\$ 2,836,348</u>	<u>\$ (101,047)</u>	<u>\$ -</u>	<u>\$ 2,735,301</u>

Note 5. Long-term Liabilities

The Organization received two loans from USDA-RD in April 2007 in the amounts of \$777,700 and \$825,300. These loans were secured with water revenue and a real estate mortgage. Interest only payments were required for the first two annual payments on the loans with principal and interest payments to begin May 25, 2009 for a term not to exceed forty years.

The two loans from USDA-RD were refinanced on June 28, 2012 at a rate of 2.0% interest. Interest accrued at that time of \$27,944 was rolled into the principal balance refinanced.

The Organization also received a \$345,050 loan from ANRC dated June 1, 2007. The loan was secured by water revenue. Principal and interest were deferred for the first ten years, interest accrual began June 1, 2018, principal and interest payments began June 1, 2019 and continue for the remaining twenty years of the term.

Loan activity for the year ended December 31, 2022 is as follows:

	Balance 1/1/2022	Additions	Retirements	Balance 12/31/2022
USDA	\$ 1,312,747	\$ -	\$ (31,635)	\$ 1,281,112
ANRC	292,672	-	(13,054)	279,618
Total	<u>\$ 1,605,419</u>	<u>\$ -</u>	<u>\$ (44,689)</u>	<u>\$ 1,560,730</u>

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 12

Note 5. Long-term Liabilities (continued)

			LONG		
	<u>CURRENT</u>	<u>TERM</u>	<u>TOTAL</u>	<u>COLLATERAL</u>	
USDA-RD Loan 91-08					
\$762,545					
\$2,311 monthly beginning					
June 28, 2012 at 2.0%	\$ 15,510	\$ 601,363	\$ 616,873	Real Estate and	
				Water Revenue	
USDA-RD Loan 91-09					
\$821,158					
\$2,489 monthly beginning					
June 28, 2012 at 2.0%	\$ 16,702	\$ 647,537	\$ 664,239	Real Estate and	
Interest				Water Revenue	
ANRC					
\$345,050 Deferred Loan					
\$27,689 annually beginning					
June 1, 2019 at 5.0%					
Interest	\$ 13,652	\$ 265,966	\$ 279,618	Water Revenue	
TOTALS	<u>\$ 45,864</u>	<u>\$ 1,514,866</u>	<u>\$ 1,560,730</u>		

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 13

Note 5. Long-term Liabilities (continued)

Maturities of notes payable are:

YEAR	Principal	Interest	Total to be Paid
2023	\$ 45,864	\$ 39,374	\$ 85,238
2024	47,196	38,042	85,238
2025	48,209	37,029	85,238
2026	50,372	34,866	85,238
2027	51,485	33,753	85,238
2028-2032	281,589	144,603	426,192
2033-2037	312,694	97,336	410,030
2038-2042	226,304	61,447	287,753
2043-2047	250,084	29,917	280,001
2048-2052	246,933	11,509	258,442
	<u>\$ 1,560,730</u>	<u>\$ 527,876</u>	<u>\$ 2,088,606</u>

Note 6. Concentration of Risk

South Pike County Arkansas Water Facilities Board operates in Pike County, Arkansas and serves rural residents in that county. Water purchase is dependent on the City of Murfreesboro.

Note 7. Water Revenue

Effective January 1, 2019, South Pike County Arkansas Water Facilities Board increased rates for all customers. There was no rate increase in 2022 or 2021.

The current rate structure is:

Residential rate	\$35.00 minimum \$5.19 per 1,000 gallons
Commercial	\$101.00 minimum \$4.16 per 1,000 gallons
Corps of Engineers	\$2,004 up to 68,000 gallons \$4.00 per 1,000 over 68,000 gallons

There were 321 active meters at December 31, 2022 and 315 active meters at December 31, 2021.

SOUTH PIKE COUNTY ARKANSAS WATER FACILITIES BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Page 14

Note 8. Subsequent Events and Review

In preparing these financial statements, the Organization has evaluated events and transaction for potential recognition or disclosure through June 27, 2023, the date the financial statements were available to be issued.

BANKS CPA, PLLC

204 North 27th Street, Arkadelphia, AR 71923-5309 PHONE 870-245-3975 FAX 870-246-7149

Page 15

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

To The Board of Directors
South Pike County Arkansas Water Facilities Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-like activities of South Pike County Arkansas Water Facilities Board, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise South Pike County Arkansas Water Facilities Board's basic financial statements, and have issued our report thereon dated June 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit, we considered South Pike County Arkansas Water Facilities Board's 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 South Pike County Arkansas Water Facilities Board's internal control. Accordingly, we do not express an opinion on the effectiveness of South Pike County Arkansas Water Facilities Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. *A material weakness* is a significant deficiency, or 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 were not identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIALS STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* (continued)

Report on Compliance and Other Matters

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

Purpose of this Report

This 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.

Banks CPA, PLLC

June 27, 2023