

NORTHEAST ARKANSAS PUBLIC WATER AUTHORITY  
OF THE STATE OF ARKANSAS

Audited Financial Statements

For the Years Ended October 31, 2022 and 2021

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

For the Years Ended October 31, 2022 and 2021

**CONTENTS**

	<b><u>Pages</u></b>
<b>INDEPENDENT AUDITORS' REPORT.....</b>	<b>1-2</b>
<b>FINANCIAL STATEMENTS:</b>	
Statements of Net Position.....	3
Statements of Revenues, Expenses, and Changes in Net Position.....	4
Statements of Cash Flows.....	5
Notes to the Financial Statements.....	6-11
<b>INDEPENDENT AUDITORS' REPORT REQUIRED BY <i>GOVERNMENT AUDITING</i></b>	
<b><i>STANDARDS:</i></b>	
Report on Compliance & on Internal Control Over Financial Reporting.....	12-13



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Northeast Arkansas Public Water Authority

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of Northeast Arkansas Public Water Authority of the state of Arkansas (NEAPWA) as of and for the years ended October 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise NEAPWA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects of NEAPWA, as of October 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NEAPWA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

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

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NEAPWA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NEAPWA's ability to continue as a going concern for a reasonable period of time.

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

#### ***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2023, on our consideration of NEAPWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NEAPWA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NEAPWA's internal control over financial reporting and compliance.

***Thomas, Speight & Noble, CPAs***

Jonesboro, Arkansas

January 31, 2023

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Statements of Net Position**  
**October 31, 2022 and 2021**

	2022	2021
	<u><b>ASSETS</b></u>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - unrestricted	\$ 877,056	\$ 707,747
Customer accounts receivable	71,345	76,857
Inventory	13,548	25,712
Total current assets	<u>961,949</u>	<u>810,316</u>
<b>NON-CURRENT ASSETS</b>		
Cash and cash equivalents - restricted for debt service	503,377	496,783
Capital assets		
Capital assets, net of accumulated depreciation	9,552,525	9,920,135
Total non-current assets	<u>10,055,902</u>	<u>10,416,918</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 11,017,851</u></u>	<u><u>\$ 11,227,234</u></u>
	<u><b>LIABILITIES AND NET POSITION</b></u>	
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,222	\$ 9,249
Accrued compensation	16,659	7,460
Payroll taxes payable	2,206	1,985
Retirement contribution payable	4,791	4,684
Accrued interest	13,453	13,898
Current portion of long-term debt	271,060	265,898
Total current liabilities	<u>314,391</u>	<u>303,174</u>
<b>LONG-TERM DEBT, net of current portion</b>	7,813,942	8,085,231
<b>TOTAL LIABILITIES</b>	<u>8,128,333</u>	<u>8,388,405</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,467,524	1,569,006
Restricted for debt service	503,377	496,783
Unrestricted	918,617	773,040
Total net position	<u>2,889,518</u>	<u>2,838,829</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 11,017,851</u></u>	<u><u>\$ 11,227,234</u></u>

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

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended October 31, 2022 and 2021**

	2022	2021
<b>OPERATING REVENUES</b>		
Wholesale water sales	\$ 970,933	\$ 946,778
Miscellaneous income	-	1,004
Total operating revenue	<u>970,933</u>	<u>947,782</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	101,210	86,971
Payroll taxes	7,226	6,711
Chemicals and testing supplies	54,200	49,007
Licenses and permits	5,035	5,433
Employee health insurance	11,638	10,499
Utilities and telephone	59,523	50,601
Auto and truck expense	10,646	6,789
Insurance	31,970	31,973
Professional fees	17,832	17,593
Repairs and maintenance	35,754	22,299
Depreciation	367,610	372,733
Miscellaneous	106	-
Total operating expenses	<u>702,750</u>	<u>660,609</u>
<b>OPERATING INCOME (LOSS)</b>	<u>268,183</u>	<u>287,173</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	6,682	5,044
Gain on extinguishment of debt	-	18,523
Interest expense	(224,176)	(229,455)
Non-operating revenues (expenses)	<u>(217,494)</u>	<u>(205,888)</u>
<b>CHANGE IN NET POSITION</b>	50,689	81,285
<b>NET POSITION, OCTOBER 31, 2021</b>	<u>2,838,829</u>	<u>2,757,544</u>
<b>NET POSITION, OCTOBER 31, 2022</b>	<u><u>\$ 2,889,518</u></u>	<u><u>\$ 2,838,829</u></u>

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

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Statements of Cash Flows**  
**For the Years Ended October 31, 2022 and 2021**

	2022	2021
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 976,445	\$ 945,376
Cash payments to suppliers for goods and services	(224,572)	(209,665)
Cash payments to employees	(91,904)	(85,331)
Net cash provided by (used in) operating activities	<u>659,969</u>	<u>650,380</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(266,127)	(279,579)
Interest payments on long-term debt	(224,621)	(229,892)
Gain on extinguishment of debt	-	18,523
Net cash provided by (used in) financing activities	<u>(490,748)</u>	<u>(490,948)</u>
<b>Cash flows from investing activities:</b>		
Interest received	6,682	5,044
Net cash provided by (used in) investing activities	<u>6,682</u>	<u>5,044</u>
<b>NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH</b>	175,903	164,476
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,204,530</u>	<u>1,040,054</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 1,380,433</u></u>	<u><u>\$ 1,204,530</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 268,183	\$ 287,173
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	367,610	372,733
(Increase)/Decrease In:		
Customer accounts receivable	5,512	(2,406)
Inventory	12,164	(17,628)
Increase/(Decrease) In:		
Accounts payable	(3,027)	9,249
Accrued compensation	9,199	1,643
Payroll taxes payable	221	(380)
Retirement contribution payable	107	(4)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u><u>\$ 659,969</u></u>	<u><u>\$ 650,380</u></u>

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

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Organization**

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

Membership into NEAPWA is open to any city, town, or regional water system within the area served by the authority. Members participating consist of the cities of Sedgwick, Portia, Alicia, Walnut Ridge, and Hoxie, and Lawrence County Regional Water District. Each participating member shall have no less than one member on the Board of Directors. Election of officers is by majority vote of the members of the board present at the election. No board member shall receive compensation, whether in form of a salary or per diem.

**Basis of Presentation and Accounting**

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

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Customer Accounts Receivable**

NEAPWA uses the direct write-off method for accounting for bad debt. Water charges receivable as shown the balance sheets are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

**Inventory**

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

**Restricted assets**

Certain proceeds of the NEAPWA's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements are classified as restricted assets on the statement of net position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.



**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

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

**Capital Assets**

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

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

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

**Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Net Position**

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

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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

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

**Compensated Absences**

Vested or accumulated vacation, sick leave, and compensatory time are recorded as an expense and liability as the benefits accrue to employees and are included as part of accrued compensation on the statements of financial position.

**Budgets and Budgetary Accounting**

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

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

**NOTE 2: CAPITAL ASSETS**

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

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

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

**NOTE 2: CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>10/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>10/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 256,936	\$ -	\$ -	\$ 256,936
Total capital assets not being depreciated	256,936	-	-	256,936
Other capital assets				
Buildings	11,273	-	-	11,273
Water plant	8,354,453	-	-	8,354,453
Water transmission lines	4,781,403	-	-	4,781,403
Furniture and equipment	39,661	-	-	39,661
Vehicles	83,523	-	-	83,523
Total other assets at historical cost	13,270,313	-	-	13,270,313
Less accumulated depreciation for:				
Buildings	(1,145)	(225)	-	(1,370)
Water plant	(1,493,997)	(167,961)	-	(1,661,958)
Water transmission lines	(1,640,435)	(191,256)	-	(1,831,691)
Furniture and equipment	(33,069)	(3,796)	-	(36,865)
Vehicles	(65,735)	(9,495)	-	(75,230)
Total accumulated depreciation	(3,234,381)	(372,733)	-	(3,607,114)
Total capital assets, being depreciated, net	10,035,932	(372,733)	-	9,663,199
Total capital assets, net	\$ 10,292,868	\$ (372,733)	\$ -	\$ 9,920,135

**NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS**

Custodial credit risk is the risk that in the event of a bank failure, NEAPWA's deposits may not be returned to it. NEAPWA's deposit policy for custodial risk is compliant with bond requirements. Due to the dollar amounts of cash deposits and investments, and the limits of the Federal Deposit Insurance Corporation (FDIC), NEAPWA was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end October 31, 2022. At year end October 31, 2022, NEAPWA had bank deposits in the amount of \$1,380,432. Due to the dollar amounts of cash deposits and investments, and the limits of FDIC insurance, NEAPWA has secured deposits by pledging securities held by the pledging financial institution's trust department or agent but not in NEAPWA's name. However, cash at one of these institutions exceeded federally insured limits and pledged securities as of October 31, 2022, \$81,483 was uninsured/collateralized. As a result, NEAPWA evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4: RETIREMENT PLAN**

The Northeast Arkansas Public Water Authority's board of directors agreed to a 3% matching contribution of the annual salary of management personnel to their Individual Retirement Accounts. The matching contribution amount accrued for the twelve months ended October 31, 2022, and 2021 was \$1,533 and \$1,439, respectively.

**NOTE 5: RISK MANAGEMENT AND LITIGATION**

NEAPWA is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

**NOTE 6: LONG-TERM DEBT**

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

	<u>2022</u>	<u>2021</u>
2013 Water Revenue Bond issue – USDA, 2.500%, \$348,000; principal and interest payable semi-annually beginning July 11, 2014; interest payments began on June 11, 2014; matures June 11, 2053.	299,036	305,683
Water Revenue Refunding Bonds, Series 2020 – Farmers' Bank and Trust, 2-3%, \$8,655,000 less unamortized discount of \$160,074; principal payable annually and interest payable semi-annually beginning October 1, 2020 maturing October 1, 2049.	7,785,966	8,045,446
	<u>\$ 8,085,002</u>	<u>\$ 8,351,129</u>

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

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

	<u>2022</u>	<u>2021</u>
Total long-term debt at beginning of year	\$ 8,351,129	\$ 8,630,708
Note payable retirements	(266,127)	(279,579)
Total long-term debt at the end of the year	8,085,002	8,351,129
Less: current portion	(271,060)	(265,898)
Long-term debt, net of current portion	<u>\$ 7,813,942</u>	<u>\$ 8,085,231</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	271,060	213,868	484,928
2024	276,207	208,321	484,528
2025	276,397	202,631	479,028
2026	286,572	196,956	483,528
2027	291,752	191,077	482,829
Thereafter	6,683,014	2,097,325	8,780,339
	<u>\$ 8,085,002</u>	<u>\$ 3,110,178</u>	<u>\$ 11,195,180</u>

Interest expense was \$224,176 for year ended October 31, 2022, and \$229,455 for year ended October 31, 2021.

NEAPWA's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

**Northeast Arkansas Public Water Authority of the State of Arkansas**  
**Notes to the Financial Statements**  
**October 31, 2022 and 2021**

**NOTE 6: LONG-TERM DEBT (Continued)**

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and execute or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

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

**NOTE 7: BOND REQUIREMENTS**

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

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

Farmers Bank & Trust issued the 2.00-3.00% 2020 Water Revenue Refunding Bonds in the amount of \$8,655,000 on February 27, 2020. NEAPWA is required to deposit a sum equal to one-sixth (1/6) of the next installment of interest on the outstanding bonds plus one-twelfth (1/12) of the next installment of principal on the outstanding bonds.

These funds with deposits in excess of the amounts insured by FDIC must be secured by bonds or other direct or fully guaranteed obligations of the United States of America.

**NOTE 8: MONTHLY WATER RATES**

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

**NOTE 9: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 31, 2023, the date on which the financial statements were available to be issued.



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

To the Board of Directors  
Northeast Arkansas Public Water Authority of the State of Arkansas

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

**Report on Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a material weakness.

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. NEAPWA's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend that the financial accounting duties be segregated among employees to the extent possible.

Management responded and indicated that accounting duties related to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the NEAPWA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

2022-2 To ensure proper payroll processing for retirement payables. The Board directly pays management for all retirement for management to put into an IRA account. The bookkeeper also withholds taxes on a 3% match offered to management. We recommend NEAPWA directly paying the firm over the IRA as opposed to management, and not withholding taxes on the 3% match to management.

Management has responded and indicated that payroll transactions related to retirement will be recorded and distributed as stated above.

### **NEAPWA's Response to Findings**

Management's response to the findings identified in our audit is described above. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Thomas, Speight & Noble, CPAs*

Jonesboro, Arkansas

January 31, 2023