

**Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas**

**Financial Statements
September 30, 2022
(With Independent Auditor's Reports Thereon)**

**Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas
Cabot, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the **Mid-Arkansas Utilities Public Water Authority of the State of Arkansas** (the Authority) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 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 (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) 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 the Authority 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 the Authority'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 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 U.S. GAAS 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 U.S. GAAS 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 the Authority'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 the Authority'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 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.

Board of Directors Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas
Cabot, Arkansas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
March 22, 2023

Financial Statements

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Statement of Net Position September 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

Cash and cash equivalents	\$ 2,276,890
Restricted cash and cash equivalents	133,083
Investments	1,862,887
Accounts receivable - customers, net	51,167
Accrued unbilled revenues	379,587
Other receivables	18,509
Accrued interest income	14,000
Prepaid expenses	28,211
Total Current Assets	<u>4,764,334</u>

Other Assets 689

Capital Assets, Net 12,613,500

Total Assets 17,378,523

Deferred Outflows of Resources

Deferred amount on bond refunding 160,906

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 17,539,429

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 192,809
Due to other agencies	84,244
Customer deposits	29,265
Accrued interest payable	29,648
Other current liabilities	43,550
Current portion of long-term debt	315,000
Total Current Liabilities	<u>694,516</u>

Long-Term Debt, Less Current Portion 3,910,000

Total Liabilities 4,604,516

Net Position

Net investment in capital assets	8,388,500
Restricted for debt service	133,083
Unrestricted	4,413,330
Total Net Position	<u><u>12,934,913</u></u>

TOTAL LIABILITIES AND NET POSITION \$ 17,539,429

See accompanying notes to financial statements.

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2022

OPERATING REVENUES

Water sales	\$ 2,933,945
Wholesale water sales	93,926
Connection fees and service charges	166,325
Late payment charges	100,671
Water system management and service fees	239,432
Public water system fees	26,808
Other Income	35,256
Total Operating Revenues	<u>3,596,363</u>

OPERATING EXPENSES

Purchased water for resale	641,791
Required contributions-water source	316,550
Distribution	705,800
Administrative	984,588
Depreciation	544,488
Total Operating Expenses	<u>3,193,217</u>

Operating Income	<u>403,146</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	52,981
Loss on investments	(125,851)
Gain on disposal of capital assets	25,668
Interest expense	(104,342)
Net Nonoperating Expenses	<u>(151,544)</u>

INCREASE IN NET POSITION	251,602
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NET POSITION, BEGINNING OF YEAR (AS RESTATED)	<u>12,683,311</u>
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NET POSITION, END OF YEAR	<u><u>\$ 12,934,913</u></u>
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See accompanying notes to financial statements.

Mid-Arkansas Utilities Public Water Authority of the State of Arkansas

Statement of Cash Flows Year Ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from

User fees	\$ 3,557,356
Other sources	56,515
Total Receipts	<u>3,613,871</u>

Disbursements For

Salaries, wages and employee benefits	974,936
Goods and services	1,333,642
Water source	316,550
Total Disbursements	<u>2,625,128</u>

Net Cash Provided by Operating Activities

988,743

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(191,819)
Proceeds from sale of capital assets	53,794
Principal paid on long-term debt	(315,000)
Interest paid on long-term debt	<u>(103,671)</u>

Net Cash Used by Capital and Related Financing Activities

(556,696)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	53,423
Purchase of investments	<u>(244,635)</u>

Net Cash Used by Investing Activities

(191,212)

NET INCREASE IN CASH

240,835

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

2,169,138

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 2,409,973

(Continued)

See accompanying notes to financial statements.

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Statement of Cash Flows (Continued)
Year Ended September 30, 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 403,146
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	544,488
Amortization of debt related deferred outflows	21,259
Changes in operating assets and liabilities:	
Accounts receivable - customers, net	(14,318)
Revenues earned and unbilled	8,333
Other receivables	2,234
Prepaid expenses	(458)
Accounts payable	3,553
Due to other agencies	10,854
Other current liabilities	9,652

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 988,743</u></u>
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**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO
STATEMENT OF NET POSITION**

Current assets	\$ 2,276,890
Restricted assets	<u>133,083</u>

TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 2,409,973</u></u>
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See accompanying notes to financial statements.

Mid-Arkansas Utilities Public Water Authority of the State of Arkansas

Notes to Financial Statements September 30, 2022

NOTE 1: REPORTING ENTITY

Mid-Arkansas Utilities Public Water Authority of the State of Arkansas (the Authority) is a public politic and government entity of the State of Arkansas. The Authority was granted a Certificate of Existence as a Public Water Authority of the State of Arkansas by the Arkansas Natural Resources Commission on October 27, 2014. The Authority filed Articles of Incorporation with the Arkansas Secretary of State on November 6, 2014.

The Authority's predecessor entity was North Pulaski Waterworks Public Facilities Board (North Pulaski Water), a public facilities board created by ordinance of the City of Jacksonville, Arkansas. On September 24, 2014, the board of directors of North Pulaski Water adopted a resolution to convert to and become reconstituted as a public water authority. On May 31, 2015, North Pulaski Water ceased operations and transferred substantially all assets and liabilities to the Authority, including North Pulaski Water's approved service area. The Authority began operations on June 1, 2015. The governing body of the Authority is a five-member board of directors.

The Authority owns and operates a water distribution system serving residents of northern Pulaski County, northwest Lonoke County and southeast Faulkner County in Arkansas. The system is supported primarily through service revenue and other user fees.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation

The presentation of Authority's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34) – applicable to enterprise funds, as amended. In accordance with the requirements of GASB Statement No. 34, the Authority' net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable. In addition, operating revenues and expenses derived from or related directly to providing water supply, treatment and distribution services are distinguished from non-operating revenues and expenses for purposes of presentation on the statement of revenues, expenses and changes in net position. Operating revenues consist

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

primarily of user charges, and operating expenses include the costs of maintaining and operating the water supply, treatment and distribution system. Operating revenues and expenses may also include gains and losses on the sale or disposal of utility plant in service assets in the normal course of business.

When both restricted and unrestricted resources are available, the Authority's policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

Cash and Cash Equivalents

For purposes of the presentation on the statement of cash flows, cash and cash equivalents include cash on hand, all demand deposit and money market deposit accounts held with financial institutions and money market mutual funds held with investment banking firms.

Investments

Investments are stated at fair value. Purchases and sales of investments are reported on a trade date basis. Realized gains and losses resulting from investment sales, as well as unrealized gains and losses resulting from changes in the fair value of investments are reported as nonoperating income (expense) in the statement of revenues, expenses and changes in net position. Dividends and capital gain distributions are recorded as investment income on the ex-dividend date.

Accounts Receivable, Net

Accounts receivable include balances due from customers for water provided, net of an allowance for uncollectible accounts. Accounts receivable are ordinarily due approximately 17 days after the billing date. Payments are considered delinquent if not received on or before the due date, and an 18% late charge is assessed.

Accounts receivable are stated net of an allowance for uncollectible accounts, determined by management based upon review of outstanding receivables. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management has chosen not to write-off any balances in anticipation of future collection should a customer return requesting service. If the customer returns, any previous amounts owed must be paid in full before service can be connected. As of September 30, 2022 the established allowance totaled approximately \$487,000.

Unbilled Revenues

The Authority accrues an estimated amount for water service delivered to customers but not billed as of the fiscal year end.

Other Receivables

Other receivables consist of amounts due from Furlow Public Water Authority of Lonoke County, Arkansas for water system management services.

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Net

Capital assets are reported at historical cost. Contributed assets are recorded at their estimated fair value at the time of contribution. Costs related to major additions and betterments of capital assets are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related asset are expensed as incurred.

Depreciation is provided using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Original water distribution system and major expansions	40-50
Other system improvements	5-10
Building and improvements	10-50
Equipment and vehicles	5-10

As required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB Statement No. 42), management evaluates events or changes in circumstances affecting assets comprising capital assets to determine whether impairment has occurred. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded in accordance with GASB Statement No. 42. There were no impairment losses recorded for the year ended September 30, 2022.

Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Authority only has one item that qualifies for reporting in this category, the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Due to Other Agencies

The Authority acts as a billing agent for other public utility service providers. Amounts billed on behalf of these other entities are initially recorded as accounts receivable and a liability due to other agencies, until such time as the amounts are collected and remitted to the appropriate entity.

Revenue Recognition

Revenues for water supply, distribution and administration services are recognized in the period during which the related services are provided. Therefore, revenues reported on the Authority's financial statements include an estimate of charges for services provided but unbilled at year end.

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as expenses in the period in which the debt is issued.

Tax Status

As an essential government function of the State of Arkansas, the Authority is exempt from income taxes under Section 115 for the Internal Revenue Code and a similar provision of state law.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

The useful lives of assets comprising capital assets are significant estimates used to determine the amount of depreciation expense and the net book value of capital assets reported in the Authority's financial statements.

Recently Adopted Accounting Standards

Effective October 1, 2021, the Department implemented GASB Statement No. 87, *Leases* (GASB Statement No. 87). The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments and increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will now be required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor will now be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. The adoption of GASB Statement No. 87 had no effect on the Authority's financial statement.

NOTE 3: DEPOSITS AND INVESTMENTS

GASB Statement No. 3, *Deposits with Financial Institutions*, *Investments* (including *Repurchase Agreements*), and *Reverse Repurchase Agreements*, GASB Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Statement No. 59, *Financial Instrument Omnibus*, require that certain disclosures be made related to the Authority's exposure to credit risk and interest rate risk, which are included in the paragraphs that follow:

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Deposits

State of Arkansas (the State) statutes require the Authority to maintain cash balances on deposit with financial institutions located within the State. Custodial credit risk is the risk that, in the event of failure of a financial institution, the Authority will not be able to recover the value of the deposits, investments or collateral securities that are in the possession of the institution. It is generally the Authority's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Authority's name by an agent of the Authority. At September 30, 2022, all of the Authority's deposits were fully covered by FDIC insurance and collateral held by the Authority's agent in the Authority's name.

Investments

Arkansas statute (AR § Code 19-1-501) authorizes the Authority to invest in eligible investment securities such as: (1) direct or guaranteed obligations of the United States that are backed by the full faith and credit of the U.S. Government; (2) A direct obligation of an agency, instrumentality, or government-sponsored enterprise created by act of the United States Congress and authorized to issue securities or evidences of indebtedness are guaranteed for repayment by the U.S. Government; and (3) a bond or other debt of the state, a school district, a county government, a municipal government or an authority of a governmental entity that: (A) is issued for an essential governmental purpose or is guaranteed by a state agency; and (B) has a debt rating from a nationally recognized credit rating agency of "A" or better at the time of purchase.

Cash equivalents at September 30, 2022 consisted of money market mutual funds with a stable net asset value of one dollar. Investments at September 30, 2022, consisted of municipal bonds issued by state and local governments and negotiable certificates of deposit and are stated at fair value. Net unrealized loss for the year ended September 30, 2022 was \$125,851.

Investment Type	Fair Value	Less than 1 Year	1-5 Years	Credit Rating S&P/Moody's
Cash Equivalents and Investments				
Cash equivalents:				
Money market mutual funds	\$ 133,865	\$ 133,865	\$ -	AAA/Aaa
Investments:				
Certificates of deposit	1,245,352	398,183	847,169	N/A
Municipal bonds	617,535	-	617,535	AA to A/Aa2 to A2
Total investments	1,862,887	398,183	1,464,704	
Total	\$ 1,996,752	\$ 532,048	\$ 1,464,704	

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk which is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that addresses interest rate risk. Arkansas statute (AR Code § 19-1-504) limits the eligible investment securities to having a maturity of no longer than five (5) years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity.

Credit Risk

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligation. The Authority manages its credit risk by investing in government-issued treasuries and agencies, and FDIC insured certificates of deposit. All the Authority's investments at September 30, 2022, are insured or registered and held in the Authority's name.

Fair Value Disclosure

Accounting standards categorize fair value measurements according to a hierarchy based on valuation inputs that are used to measure fair value. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable and significant to the fair value measurement.

The Authority's investments in municipal bonds issued by state and local governments of \$617,535 and negotiable certificates of deposit of \$1,245,352 at September 30, 2022, respectively, are valued using quoted market prices (Level 2 inputs).

NOTE 4: RESTRICTED CASH

Bond trust indentures require the establishment and maintenance of debt service reserve and bond fund accounts. Use of funds in these accounts is restricted by bond trust indentures.

Restricted cash and cash equivalents consists of a debt service reserve account maintained for the Authority's bond issue and includes amounts as stipulated by the underlying bond agreement to ensure the Authority's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service reserve account is based on a percentage of the maximum annual debt service requirements.

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Notes to Financial Statements September 30, 2022

NOTE 5: CAPITAL ASSETS, NET

A summary of changes in capital assets that occurred during the year ended September 30, 2022 is as follows:

	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>
Non-depreciable:				
Land and easements	\$ 497,805	\$ -	\$ (28,105)	\$ 469,700
Water storage/use rights	878,553	-	-	878,553
Construction in progress	151,347	53,956	(205,303)	-
	<u>1,527,705</u>	<u>53,956</u>	<u>(233,408)</u>	<u>1,348,253</u>
Depreciable:				
Water distribution system	19,057,121	310,685	-	19,367,806
Buildings and improvements	1,187,058	-	-	1,187,058
Equipment and vehicles	933,144	32,460	(38,065)	927,539
Accumulated depreciation	(9,710,733)	(544,488)	38,065	(10,217,156)
	<u>11,466,590</u>	<u>(201,343)</u>	<u>-</u>	<u>11,265,247</u>
Capital assets, net	<u>\$ 12,994,295</u>	<u>\$ (147,387)</u>	<u>\$ (233,408)</u>	<u>\$ 12,613,500</u>

NOTE 6: LONG-TERM DEBT, NET

Long-term debt activity for the year ended September 30, 2022 is as follows:

Beginning principal balance	\$ 4,540,000
Retirements	<u>(315,000)</u>
Ending principal balance	<u>\$ 4,225,000</u>

2020 Water Refunding Revenue Bonds

Series 2020 Water Revenue Acquisition Bonds were issued in March, 2020 in the amount of \$4,890,000 at interest rates ranging from 1.1% to 2.0% to refund 2015 Water Revenue Acquisition Bonds. The Bonds are primarily payable from, and secured by a pledge of, the Authority's revenues and other resources, including particularly revenues derived from the sale of water. Principal payments are due annually on June 1 with the final payment scheduled in 2034. Interest payments are due semiannually on December 1 and June 1. The bonds are subject to redemption at the option of the Authority from funds from any source, in whole at any time or in part on any interest payment date on and after June 1, 2020 at the redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

Mid-Arkansas Utilities

Public Water Authority of the State of Arkansas

Notes to Financial Statements September 30, 2022

NOTE 6: LONG-TERM DEBT, NET (Continued)

Balances and repayment terms of the Authority's long-term debt are as follows for the year ended September 30, 2022:

\$4,890,000 Water Revenue Bonds, Series 2020; payable in annual installments; interest payable semiannually at 1.1% - 2.0%; maturing on June 1, 2034; secured by a pledge of the revenues and other resources derived from operation of the Authority.		\$ 4,225,000
Less current portion		<u>(315,000)</u>
Long-term debt, net of current portion		<u><u>\$ 3,910,000</u></u>

Scheduled principal and interest payments of long-term debt are as follows at September 30, 2022:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 315,000	\$ 80,631	\$ 395,631
2024	325,000	74,331	399,331
2025	330,000	67,831	397,831
2026	340,000	61,231	401,231
2027	345,000	56,131	401,131
2028-2032	1,795,000	185,625	1,980,625
2033-2034	<u>775,000</u>	<u>23,300</u>	<u>798,300</u>
	<u><u>\$ 4,225,000</u></u>	<u><u>\$ 549,080</u></u>	<u><u>\$ 4,774,080</u></u>

The terms of the bond agreement impose certain restrictive covenants on the Authority. Generally, the Authority is required to establish and maintain water rates which are sufficient to pay reasonable expenses of operation and maintenance of the water system, provide for the payment of principal and interest on outstanding obligations when due, and to establish and maintain debt service funds as set forth in the agreement.

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 7: RETIREMENT PLAN

The Authority maintains an employee retirement plan. The plan is a salary deferral plan covering full-time employees who have one year of service and are age twenty-one or older. Participants may elect to contribute up to 15% of their annual wages on an after-tax basis. The Authority will match 50% of the participant's contributions up to 3% of annual wages. In addition to the matching contributions, the Authority may make an additional discretionary contribution. The Authority has approved a resolution authorizing a discretionary contribution on a continuing basis of 6% of eligible compensation. Although the Authority has not indicated it will do so, the Authority may change the discretionary contribution. For the year ended September 30, 2022, employer contributions were \$47,698.

NOTE 8: TRANSACTIONS WITH OTHER CITY FUNDS

The Authority has an agreement with Furlow Public Water Authority of Lonoke County, Arkansas to provide billing and collection services and to operate and manage its water system. Revenues received under this agreement were \$170,870 for the year ended September 30, 2022.

The Authority has an agreement with Pulaski County Public Works Sanitation Department to provide billing and collection services at the rate of \$2.00 per customer per billing cycle for those customers in the Authority's service area receiving County services. Revenues received under this agreement were \$68,562 for the year ended September 30, 2022.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Water Source

The Authority has an agreement with Lonoke White Public Water Authority to purchase water up to a maximum of 1.2 million gallons per day. Water purchased from Lonoke White Public Water Authority for the year ended September 30, 2022 totaled \$523,805. In addition to the contracted minimum water purchase, the Authority has also contracted to pay a monthly fee for each water meter in the system. These payments are shown in the statement of revenues, expenses and changes in net position as required contributions-water source. The Authority has added a surcharge to customer bills to recover this charge.

The Authority has an agreement with Jacksonville Water Works to purchase a minimum of fifty thousand (50,000) gallons of water per day. Water purchased from Jacksonville Water Works for the year ended September 30, 2022 totaled \$34,154.

Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)

Water Source (Continued)

The Authority has an agreement with Central Arkansas Water to purchase a minimum of one hundred thousand (100,000) gallons of water per day, up to a maximum of three hundred thousand (300,000) per day. Water purchased from Central Arkansas Water for the year ended September 30, 2022 totaled \$83,832.

NOTE 10: RISK MANAGEMENT

The Authority is exposed to various levels of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased insurance to address these risks. There have been no significant reductions in the Authority's coverage during the year ended September 30, 2022. In addition, there have been no settlements in excess of the Authority's coverage in any of the prior three fiscal years.

NOTE 11: RISKS AND UNCERTAINTIES

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of the investments; at this time, an aggregate effect on assets and performance of investments cannot be reasonably estimated. Management of the Authority is continuing to monitor these developments and evaluate other impacts they may have on the investments.

NOTE 12: PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2022, the Authority discovered that the negotiable certificates of deposits were not reported at fair market value and investments were understated. Therefore, an adjustment of \$35,029 was made to net position, beginning of year for the year ended September 30, 2022.



**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 Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas
Cabot, 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 the **Mid-Arkansas Utilities Public Water Authority of the State of Arkansas** (the Authority), as of and for the year ended September 30, 2022, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 have not been identified.

Board of Directors Mid-Arkansas Utilities
Public Water Authority of the State of Arkansas
Cabot, Arkansas

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
March 22, 2023