

THE CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Directors
City of Barling
Barling, Arkansas

Opinion

I have audited the accompanying financial statements of the City of Barling, Arkansas Water and Sewer System 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 my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Barling, Arkansas Water and Sewer System as of December 31, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Barling, Arkansas and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Barling, Arkansas Water and Sewer System and do not purport to, and do not, present fairly the financial position of the City of Barling, Arkansas, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 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, I:

- 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 City of Barling, Arkansas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

I am 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 I identified during the audit.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Barling, Arkansas Water and Sewer System's basic financial statements. The Schedules of Maintenance and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Schedules of Maintenance and Administrative Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Gemma D. Roy & Anderson, P.A.

Fort Smith, Arkansas
January 31, 2024

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Combined Statements of Net Position
December 31, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<u>Current Assets</u>		
Cash in bank	\$ 775,388	\$ 792,714
Certificate of deposit	-0-	317,380
Accounts receivable – customers	173,309	173,434
Parts and supplies inventories	<u>49,088</u>	<u>49,352</u>
Total Current Assets	<u>997,785</u>	<u>1,332,880</u>
<u>Restricted Funds</u>		
Cash in bank	285,947	248,896
Certificate of deposit	<u>100,996</u>	<u>100,718</u>
Total Restricted Funds	<u>386,943</u>	<u>349,614</u>
<u>Capital Assets</u>		
Land	127,000	127,000
Water plant in service	5,140,709	4,051,312
Sewage collection system	14,166,682	13,966,743
Maintenance equipment	210,968	223,005
Office equipment	12,774	12,774
Trucks	53,942	53,942
Capitalized costs	<u>112,374</u>	<u>112,374</u>
	19,824,449	18,547,150
Less: Accumulated depreciation	(8,351,888)	(7,898,814)
Net Capital Assets	<u>11,472,561</u>	<u>10,648,336</u>
<u>Other Assets</u>		
Construction in progress	-0-	199,939
Contribution to General Fund	<u>35,801</u>	<u>35,801</u>
Total Other Assets	<u>35,801</u>	<u>235,740</u>
Total Assets	<u>12,893,090</u>	<u>12,566,570</u>
<u>Deferred Outflows of Resources</u>		
Unamortized bond discounts and refunding loss	<u>166,725</u>	<u>185,423</u>
Total Assets and Deferred Outflows of Resources	\$ <u>13,059,815</u>	\$ <u>12,751,993</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Combined Statements of Net Position (continued)
December 31, 2022 and 2021

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>2021</u>
<u>Current Liabilities</u> (Payable from current assets)		
Accounts payable	\$ 64,547	\$ 68,073
Lawsuit payable	-0-	325,000
Due to City of Barling	155,970	53,537
Payroll payable	35,565	1,202
Sales tax payable	<u>6,621</u>	<u>9,181</u>
Total Current Liabilities (Payable from current assets)	<u>262,703</u>	<u>456,993</u>
<u>Current Liabilities</u> (Payable from restricted assets)		
Revenue bonds due within one year:		
2011 water and sewer revenue bonds	255,000	250,000
Accrued interest	3,927	4,318
Customer meter deposits	<u>180,237</u>	<u>160,841</u>
Total Current Liabilities (Payable from restricted assets)	<u>439,164</u>	<u>415,159</u>
<u>Long-term Debt</u>		
Revenue bonds	2,515,000	2,765,000
Less: Current maturities	(255,000)	(250,000)
Total Long-term Debt	<u>2,260,000</u>	<u>2,515,000</u>
Total Liabilities	<u>2,961,867</u>	<u>3,387,152</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	8,957,561	8,083,275
Restricted	386,943	349,614
Unrestricted	<u>753,444</u>	<u>931,952</u>
Total Net Position	<u>10,097,948</u>	<u>9,364,841</u>
Total Liabilities and Net Position	\$ <u>13,059,815</u>	\$ <u>12,751,993</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Revenues and
 Expenses and Changes in Fund Net Position
 For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Water and Sewer Revenue</u>	\$ 1,840,709	\$ 1,483,750
Sewer Fees and Water Purchased	<u>556,158</u>	<u>513,817</u>
<u>Gross Profit</u>	1,284,551	969,933
<u>Operating Expenses</u>		
Maintenance - Scheduled	491,450	391,842
Administrative - Scheduled	<u>48,087</u>	<u>46,644</u>
Total Operating Expenses	<u>539,537</u>	<u>438,486</u>
<u>Operating Income Before Depreciation Expense</u>	745,014	531,447
Depreciation expense	<u>465,111</u>	<u>450,174</u>
<u>Operating Income</u>	279,903	81,273
<u>Non-operating Revenues (Expenses)</u>		
Interest income	4,837	2,085
Miscellaneous income	20,869	16,910
Grant income	524,530	320,935
Loss on disposition of capital assets	-0-	(68,306)
Lawsuit settlement paid	-0-	(325,000)
Interest and paying agent fees	(54,144)	(63,603)
Amortization of bond discounts and fees	(18,698)	(18,698)
Transfer to street fund	<u>(24,190)</u>	<u>(12,092)</u>
Net Non-operating Revenues (Expenses)	<u>453,204</u>	<u>(147,769)</u>
<u>Increase (Decrease) in Net Position</u>	733,107	(66,496)
<u>Beginning Net Position</u>	<u>9,364,841</u>	<u>9,431,337</u>
<u>Ending Net Position</u>	\$ <u>10,097,948</u>	\$ <u>9,364,841</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Combined Statements of Cash Flows
For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Cash Flows From Operations</u>		
Receipts from customers	\$ 1,860,230	\$ 1,489,841
Payments to suppliers	(1,065,496)	(783,836)
Payments to employees	(176,084)	(170,391)
Payments for other administration costs	(48,087)	(46,644)
Net Cash Provided by Operating Activities	<u>570,563</u>	<u>488,970</u>
<u>Cash Flows From Non-capital Financing Activities</u>		
Addition (reduction) to certificates of deposit	<u>317,102</u>	(1,099)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>317,102</u>	(1,099)
<u>Cash Flows From Capital and Related Financing Activities</u>		
Purchase of property, plant and equipment	(1,089,451)	(584,911)
Principal payment of notes and bonds payable	(250,000)	(250,000)
Interest paid on notes and bonds payable	(52,535)	(57,285)
Agent fees paid on bonds payable	(2,000)	(2,000)
Transfer to street fund and general fund	(24,190)	(12,092)
Net Cash Used by Capital and Related Financing Activities	<u>(1,418,176)</u>	<u>(906,288)</u>
<u>Cash Flows From Investing Activities</u>		
Interest received	4,837	2,085
Miscellaneous and grant income	<u>545,399</u>	<u>337,845</u>
Net Cash Provided by Investing Activities	<u>550,236</u>	<u>339,930</u>
Increase (decrease) in Cash	19,725	(78,487)
<u>Cash, at Beginning of Year</u>	<u>1,041,610</u>	<u>1,120,097</u>
<u>Cash, at End of Year</u>	\$ <u>1,061,335</u>	\$ <u>1,041,610</u>
<u>Reconciliation of Cash to the Statement of Net Assets</u>		
Unrestricted cash	\$ 775,388	\$ 792,714
Restricted cash	<u>285,947</u>	<u>248,896</u>
	\$ <u>1,061,335</u>	\$ <u>1,041,610</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Combined Statements of Cash Flows (continued)
For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities</u>		
Operating income	\$ 279,903	\$ 81,273
Adjustment to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	465,111	450,174
Decrease (Increase) in receivables	125	(4,285)
Decrease (Increase) in inventory	264	(5,833)
Increase (Decrease) in accounts payable	(328,526)	(16,204)
Increase (Decrease) in due to City of Barling	102,433	(27,189)
Increase (Decrease) in payroll payable	34,363	1,001
Increase (Decrease) in sales tax payable	(2,506)	(343)
Increase (Decrease) in customer meter deposits	<u>19,396</u>	<u>10,376</u>
Total Adjustments	<u>290,660</u>	<u>407,697</u>
Net Cash Provided by Operating Activities	\$ <u>570,563</u>	\$ <u>488,970</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM

Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Barling provides water and sewer service to the residents and businesses of Barling, Arkansas and surrounding areas. The revenue to finance the City of Barling, Arkansas Water and Sewer System (the System) is provided through user charges based on usage and monthly service charges.

USE OF ESTIMATES

The System's management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

CRITERIA USED IN DETERMINING THE SCOPE OF THE REPORTING ENTITY FOR FINANCIAL PURPOSES

The City of Barling, Arkansas Water and Sewer System is a component unit of the City of Barling. As such, a presentation of financial position and results of operations in accordance with accounting principles generally accepted in the United States of America for the City of Barling would require inclusion of the City of Barling, Arkansas Water and Sewer System in the financial statements of the City of Barling. The City of Barling exercises oversight responsibility over the City of Barling, Arkansas Water and Sewer System. Factors considered in determining this relationship were as follows:

- a. Financial interdependency
- b. Selection of governing authority
- c. Designation of management
- d. Ability to significantly influence operations
- e. Accountability for fiscal matters

These financial statements present only the City of Barling, Arkansas Water and Sewer System and are not intended to present fairly the financial position and results of operations of the City of Barling in conformity with accounting principles generally accepted in the United States of America.

BASIS OF ACCOUNTING

The City of Barling, Arkansas Water and Sewer System maintains its books on a modified cash basis. The books have been converted to an accrual basis for audited financial statement presentation. Under the accrual basis of accounting, all assets and liabilities (whether current or noncurrent) associated with the activities of the water and sewer system are recorded on its statement of net position.

Revenues are recognized when earned and expenses are recognized when incurred. The System implemented *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Under GASB 34, the System qualifies as a special purpose government engaged only in business type activities. Accordingly, only the financial statements required for enterprise funds are presented.

The accompanying financial statements include the following funds of the Water and Sewer System:

Revenue Fund
Operating and Maintenance Fund
Deposits Fund
Depreciation Fund
2020 Water and Sewer Refunding Revenue Bond Fund

Transfers between funds have been eliminated in combining these funds.

REGULATORY ENVIRONMENT

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Department of Environmental Quality (ADEQ). The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the ADEQ.

DEPOSITORY ACCOUNTS

The City of Barling, Arkansas Water and Sewer System maintains depository accounts in excess of \$250,000 with one local bank. The FDIC insures up to \$250,000 for all time and savings accounts, all demand deposit accounts, and all funds deposited in bond and interest sinking funds. The banks have pledged securities which provide adequate collateral for these deposits. The amount of deposits over FDIC coverage as of December 31, 2022, amounted to \$901,936.

ACCOUNTS RECEIVABLE

Uncollectible accounts receivable are charged directly against income in the year they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

INVENTORIES

Inventories were stated at average cost at December 31, 2022 and 2021.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

CAPITAL ASSETS

Additions and major renewals and improvements which have the effect of extending the useful lives of property are carried at cost. Depreciation of property and equipment of the Water and Sewer System is computed using the straight-line method over the following useful lives:

Water plant in service	15 - 40 years
Sewage collection system	10 - 40 years
Meters and meter boxes	20 years
Maintenance equipment	5 - 7 years
Office equipment	5 years
Leasehold improvements	10 years
Maintenance building	20 - 31.5 years
Trucks	5 years

Additions and deletions to the major groups of capital assets are as follows:

	Balance <u>12-31-21</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-22</u>
Land	\$ 127,000	\$ -0-	\$ -0-	\$ 127,000
Water plant in service	4,051,312	1,089,397	-0-	5,140,709
Sewer collection system	13,966,743	199,939	-0-	14,166,682
Maintenance equipment	223,005	-0-	12,037	210,968
Office equipment	12,774	-0-	-0-	12,774
Trucks	53,942	-0-	-0-	53,942
Capitalized costs	<u>112,374</u>	<u>-0-</u>	<u>-0-</u>	<u>112,374</u>
Total	\$ <u>18,547,150</u>	\$ <u>1,289,336</u>	\$ <u>12,037</u>	\$ <u>19,824,449</u>

	Balance <u>12-31-20</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-21</u>
Land	\$ 127,000	\$ -0-	\$ -0-	\$ 127,000
Water plant in service	4,051,312	-0-	-0-	4,051,312
Sewer collection system	13,401,430	671,328	106,015	13,966,743
Maintenance equipment	223,005	-0-	-0-	223,005
Office equipment	12,774	-0-	-0-	12,774
Trucks	53,942	-0-	-0-	53,942
Capitalized costs	<u>112,374</u>	<u>-0-</u>	<u>-0-</u>	<u>112,374</u>
Total	\$ <u>17,981,837</u>	\$ <u>671,328</u>	\$ <u>106,015</u>	\$ <u>18,547,150</u>

Depreciation expense for 2022 and 2021 was \$465,111 and \$450,174, respectively.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

AMORTIZATION OF BOND DISCOUNTS AND FEES

Bond discounts and refunding losses are amortized over the life of the bonds using the straight-line method. Amortization expense for 2022 and 2021 was \$18,698 and \$18,698. At December 31, 2022, unamortized bond discounts and refunding losses consisted of the following:

2020 Revenue and Refunding Bonds	\$166,725
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INCOME TAX

The System is municipally owned and is exempt from federal and state income tax.

CASH FLOWS

For the purpose of the Statements of Cash Flows, the System considers cash equivalents to be all highly liquid securities with an original maturity of three months or less. At December 31, 2022 and 2021, the System had no cash equivalents.

NONOPERATING REVENUE

Revenue derived from sources other than customers of the System are classified as nonoperating and reported under the nonoperating revenues/expenses section of the Combined Statement of Revenues and Expenses and Changes in Fund Net Position.

NOTE 2 - RESTRICTED FUNDS

WATER AND SEWER SYSTEM REVENUE FUND

The Water and Sewer System Revenue Fund is a restricted fund into which all income and revenues arising from the operation or ownership of the water and sewer system are to be paid. Payment is to be made from this fund monthly in the amount of 1/12 of the next installment of principal and interest due on the 2011 Water and Sewer Revenue and Refunding Bonds. The remainder of the water and sewer revenue is to be paid into the Water and Sewer System Operating and Maintenance Fund to pay the reasonable and necessary monthly expenses of operations, repairs, maintenance, and insurance of the System.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 - RESTRICTED FUNDS (continued)

DEPOSITS FUND

The Deposits Fund is a restricted fund used to hold customer meter deposits.

DEPRECIATION FUND

The Depreciation Fund is a restricted fund used to hold 3% of gross customer billings that are set aside to fund needed repairs to the water and sewer system.

2020 WATER AND SEWER REFUNDING REVENUE BONDS FUND

The 2020 Bond Fund is a restricted fund to be used solely for the payment of principal and interest on the 2020 Refunding Revenue Bonds.

COMPLIANCE WITH COVENANTS OF BOND ORDINANCES

The above restricted funds were created by various ordinances of the City. At December 31, 2022 and 2021, the City of Barling, Arkansas Water and Sewer System was in substantial compliance with all covenants of the bond ordinances.

NOTE 3 - LONG-TERM DEBT

Long-term notes and bonds payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2022:

	<u>Interest Rate</u>	<u>Balance 2022</u>	<u>Balance 2021</u>
City of Barling, Arkansas 2020 Water and Sewer Refunding Revenue Bonds with principal payment due each December 1 in amounts ranging from \$250,000 to \$300,000. Interest is payable each December 1. These bonds mature serially through 2031.	1.90%	\$ 2,515,000	\$ 2,765,000
Less: Current maturities		(255,000)	(250,000)
		\$ <u>2,260,000</u>	\$ <u>2,515,000</u>

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3 - LONG-TERM DEBT (continued)

The repayment schedule for the long-term note and revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 255,000	\$ 47,785
2024	265,000	42,940
2025	270,000	37,905
2026	275,000	32,775
2027	280,000	27,550
2028-2031	1,170,000	56,050

Activity of the long-term notes and bonds payable consists of the following:

	<u>Balance at</u> <u>01/01/2022</u>	<u>Loan</u> <u>Advances</u>	<u>Loan</u> <u>Repayments</u>	<u>Balance at</u> <u>12/31/2022</u>
City of Barling, Arkansas, Series 2020 Water and Sewer Refunding Revenue Bond	\$ <u>2,765,000</u>	\$ <u>-0-</u>	\$ <u>250,000</u>	\$ <u>2,515,000</u>

	<u>Balance at</u> <u>01/01/2021</u>	<u>Loan</u> <u>Advances</u>	<u>Loan</u> <u>Repayments</u>	<u>Balance at</u> <u>12/31/2021</u>
City of Barling, Arkansas, Series 2020 Water and Sewer Refunding Revenue Bond	\$ <u>3,015,000</u>	\$ <u>-0-</u>	\$ <u>250,000</u>	\$ <u>2,765,000</u>

The above liabilities are not a general obligation of the City, but special obligations that are secured and are payable solely from revenues derived from operation of the City of Barling, Arkansas Water and Sewer System.

NOTE 4 - RESTRICTION OF NET ASSETS

Net position of the System are classified in three components. Net position invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase of 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 System, including amounts deposited with trustees as required by bond indentures, 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 expendable.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 4 - RESTRICTION OF NET ASSETS (continued)

The following details the description and amount of all restrictions on net position by the Water and Sewer System at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
a. Restricted for repayment of debt	\$ 137,232	\$ 134,293
b. Restricted for system repairs	119,259	95,205
c. Restricted for customer meter deposits	<u>130,452</u>	<u>120,116</u>
Total Restricted Net Assets	\$ <u>386,943</u>	\$ <u>349,614</u>

NOTE 5 - WATER AND SEWER COMMITMENTS

The City of Barling has a contract with the City of Fort Smith in which the City of Barling is committed to purchase water from the City of Fort Smith, and is therefore subject to rate changes for water services.

NOTE 6 - CAPITALIZED COSTS

The System incurred construction and engineering costs during 1995, 1993 and 1992, relating to improvements to the water system, water tank, and pump station. These costs of \$112,374 have been capitalized to reflect their long-term nature.

NOTE 7 - RETIREMENT PLAN

Eligible employees of the System may elect to participate in the Section 457 Deferred Compensation Plan maintained by the City. Participating employees may defer up to \$7,500 of wages. The City matches up to 3% of participating employees' wages. For 2022 and 2021, the System's matching expense was \$2,667 and \$2,008, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

As various employees of the City perform duties that benefit funds other than the fund from which they are paid, reimbursements are paid from fund to fund to more closely match expenses. For 2022 and 2021, the Water and Sewer System paid other funds \$11,112 and \$41,570, respectively, to reimburse them for work that employees of those funds performed that benefitted the Water and Sewer System. This amount is included under maintenance expense in salaries and payroll transfers.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 9 - CONTINGENCIES AND SUBSEQUENT EVENTS

Subsequent events were evaluated through January 31, 2024 - the date the financial statements were available for issuance.

The City of Fort Smith filed a lawsuit on November 13, 2019, alleging that the System failed to meet provisions of a take or pay provision under a 2002 agreement between the parties. The System has answered the suit denying the claim and has asserted certain affirmative defenses. The matter was settled on September 14, 2022, under the settlement agreement the System agreed to pay the sum of \$325,000 in a one-time payment. This amount has been recorded as a liability on the financial statements as of December 31, 2021, and was subsequently paid in 2022.

As of the date of the independent auditor's report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the pandemic will affect the results of the system due to uncertainties surrounding the severity and duration of the outbreak. However, it is presumed that the system will be impacted.

At December 31, 2022, outstanding commitments for capital improvement projects existed in the amount of -0-.

SUPPLEMENTAL INFORMATION

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM

Supplemental Information
Schedules of Maintenance and Administrative Expenses
For the Years Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Maintenance Expenses</u>		
Salaries and payroll transfers	\$ 176,083	\$ 170,391
Payroll taxes and retirement	14,815	11,159
Repairs and maintenance	126,135	75,215
Vehicle expense	8,439	6,209
Utilities and telephone	38,560	27,774
Miscellaneous	15,745	577
Insurance	35,165	29,972
Materials and supplies	42,520	40,161
Water sampling and testing	26,113	22,509
Licenses and permits	<u>7,875</u>	<u>7,875</u>
Total Maintenance Expenses	\$ <u>491,450</u>	\$ <u>391,842</u>
<u>Administrative Expenses</u>		
Office supplies	\$ 10,537	\$ 7,761
Professional fees	13,668	14,770
Postage	4,392	8,568
Insurance	<u>19,490</u>	<u>15,545</u>
Total Administrative Expenses	\$ <u>48,087</u>	\$ <u>46,644</u>

The accompanying Notes to Financial Statements are an integral part of this report.