

BROOKLAND UTILITIES DEPARTMENT

Audited Financial Statements

For the Years Ended December 31, 2022 and 2021

Thomas, Speight & Noble
Certified Public Accountants
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Brookland Utilities Department
Audited Financial Statements
For the Year Ended December 31, 2022 and 2021

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A Professional Association of Certified Public Accountants
Member of the Private Companies Section of the American Institute of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Brookland Utilities Department
Brookland, AR 72417

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Brookland Utilities Department as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise Brookland Utilities Department'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 Brookland Utilities Department, as of December 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 Brookland Utilities Department 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 Brookland Utilities Department'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.

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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 Brookland Utilities Department'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 Brookland Utilities Department'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.

Other Matters

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 the missing information.

The financial statements for the year ended December 31, 2021 and 2020, were audited by a predecessor auditor issuing an unmodified opinion in the report dated August 31, 2022, and are included for comparative purposes in the accompanying financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, on our consideration of Brookland Utilities Department'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 Brookland Utilities Department'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 Brookland Utilities Department's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

December 8, 2023

Brookland Utilities Department
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 548,945	\$ 593,038
Customer accounts receivable	<u>98,491</u>	<u>93,344</u>
Total current assets	647,436	686,382
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	1,374,364	1,433,726
Capital assets	11,382,511	11,131,387
Less accumulated depreciation	<u>(3,972,504)</u>	<u>(3,620,380)</u>
Total non-current assets	8,784,371	8,944,733
TOTAL ASSETS	<u><u>\$ 9,431,807</u></u>	<u><u>\$ 9,631,115</u></u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 6,719	\$ 13,758
Accrued taxes payable	10,838	8,745
Accrued interest payable	2,947	3,171
Accrued compensated absences	16,835	18,930
Current portion of long-term debt	<u>46,616</u>	<u>55,589</u>
Total current liabilities	83,955	100,193
LONG-TERM DEBT, net of current portion	711,045	757,660
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	<u>175,138</u>	<u>164,160</u>
TOTAL LIABILITIES	<u>970,138</u>	<u>1,022,013</u>
NET POSITION		
Net investment in capital assets	6,652,346	6,697,758
Restricted for debt service	152,741	1,269,566
Restricted for sewer construction	1,046,485	-
Unrestricted	<u>610,097</u>	<u>641,778</u>
Total net position	8,461,669	8,609,102
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 9,431,807</u></u>	<u><u>\$ 9,631,115</u></u>

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

Brookland Utilities Department
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water sales	\$ 384,155	\$ 357,135
Sewer service revenue	357,582	341,642
Late charges	19,293	16,940
Other fees & operating revenue	119,788	88,141
Total operating revenue	<u>880,818</u>	<u>803,858</u>
OPERATING EXPENSES		
Salaries	150,851	134,631
Payroll taxes	11,540	9,914
Utilities & telephone	85,344	79,728
Chemicals	87,499	29,590
Repairs & maintenance	124,579	117,458
Materials & supplies	60,326	55,267
Fuel & oil	8,885	6,338
Insurance	17,133	13,091
Employee health insurance	52,057	50,650
Employee retirement	10,793	9,719
Professional fees	18,927	12,273
Office supplies & expense	12,459	10,378
Postage	-	6,742
Licenses, dues & subscriptions	5,801	11,521
Uniform rental & laundry	2,971	2,894
Advertising	2,098	433
Miscellaneous	2,482	12,217
Depreciation	352,124	357,816
Bad debts	4,355	-
Total operating expenses	<u>1,010,224</u>	<u>920,660</u>
OPERATING INCOME (LOSS)	(129,406)	(116,802)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	17,140	4,761
2% Sales tax collected	-	526,435
Interest expense (bonds / loans)	(35,167)	(37,527)
Interest expense (2% sales tax bonds)	-	(70,210)
Loss bond refunding	-	(37,435)
Donated water & sewer improvements	-	1,098,900
Total non-operating revenues (expenses)	<u>(18,027)</u>	<u>1,484,924</u>
CAPITAL CONTRIBUTIONS / TRANSFERS		
From (to) other city funds	-	3,482,449
CHANGE IN NET POSITION	(147,433)	4,850,571
NET POSITION AT BEGINNING OF YEAR	<u>8,609,102</u>	<u>3,758,531</u>
NET POSITION AT END OF YEAR	<u>\$ 8,461,669</u>	<u>\$ 8,609,102</u>

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

Brookland Utilities Department
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 886,649	\$ 810,841
Cash payments to suppliers for goods and services	(512,195)	(439,390)
Cash payments to employees	(152,946)	(134,631)
Net cash provided by (used in) operating activities	221,508	236,820
Cash flows from capital and related financing activities:		
Purchases of capital assets	(251,124)	(254,755)
Sale proceeds - house at 247 Brady ln	-	126,787
2% Sales tax collected	-	526,435
Principal payments on long-term debt	(55,588)	(3,423,276)
Interest payments on long-term debt	(35,391)	(133,295)
Transfer from (to) other city funds	-	3,482,449
Net cash provided by (used in) financing activities	(342,103)	324,345
Cash flows from investing activities:		
Interest received	17,140	4,761
Net cash provided by (used in) investing activities	17,140	4,761
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(103,455)	565,926
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,026,764	1,460,838
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,923,309</u>	<u>\$ 2,026,764</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (129,406)	\$ (116,802)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	352,124	357,816
(Increase)/Decrease In:		
Customer accounts receivable	(5,147)	(2,316)
Increase/(Decrease) In:		
Accounts payable	(7,039)	(17,028)
Accrued payroll taxes	2,093	1,296
Compensated absences	(2,095)	4,555
Customer deposits	10,978	9,299
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 221,508</u>	<u>\$ 236,820</u>

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

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Nature of Entity and Activities

The Brookland Utilities Department (Department) is charged with the full responsibility for the efficient operation and control of the Water & Sewer Department and to provide water and sewer services to the citizens of the City of Brookland. The Brookland Utilities Department is an enterprise fund and for financial statement purposes is being presented as an enterprise fund activity. Enterprise funds are used to account for operations (a) that are financial and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements present only the Brookland Utilities Department funds, accounts and balances and are not intended to present the financial position, the results of operations, and the cash flows of the City of Brookland, Arkansas and its proprietary and similar trust fund types.

Measurement Focus and Financial Statement Preparation

The term “measurement focus” is used to denote what is being measured and reported in the Brookland Utilities Department’s operating statement. The Brookland Utilities Department is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Brookland Utilities Department is better or worse off economically as a result of events and transactions of the period.

The Department adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets—This component of net position consists of capital assets, including restricted 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same statement of net position component as unspent proceeds.
- Restricted—This component of net position consists of constraints placed on asset use through external 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.
- Unrestricted net assets—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Management’s Discussion and Analysis is intended to be presented for the reporting entity as a whole, not for individual Departments or component units; therefore, it has not been included as supplemental information to these financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Department uses the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Allowance for Doubtful Accounts

Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. The Department uses the direct write-off method, which is to say that bad debts are recognized as they occur. This practice does not have a material effect on the financial statements because customers are required to make a “meter deposit” that may be applied to customer final billings (if necessary).

Capital Assets

Fixed assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water and Sewer Systems	30-50 Years
Water and Sewer System Improvements	15-20 Years
Vehicles & Equipment	5-10 Years
Computer & Software	3-5 Years

Inventory

The Department’s policy is to expense supplies and materials used in the operation of the water and sewer system as they are purchased.

Cash and Cash Equivalents

The Department considers all cash amounts on deposit with an original maturity of twelve months or less to be cash equivalents. Restricted cash is considered a cash equivalent.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 net position.

Use of FASB Pronouncements

The Department uses Financial Accounting Standards Board (FASB) pronouncements that do not conflict with pronouncements of the Government Accounting Standards Board (GASB).

Taxes

The Department is subject to various taxes, including payroll and sales/use taxes. Federal and Arkansas payroll tax returns are generally subject to examination for four years from the due date or when actually filed (if later). Sales and use tax returns are subject to examination and generally there is a seventy-two (72) month statute of limitations imposed by Arkansas for reporting periods filed. As a result of these laws and regulations the Department has reporting periods open that could be selected for examination.

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 2: CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 44,118	\$ -	\$ -	\$ 44,118
Construction in progress	127,548	85,656	-	213,204
Total capital assets not being depreciated	171,666	85,656	-	257,322
Other capital assets				
Water plant	10,266,931	165,468	-	10,432,399
Vehicles & equipment	692,790	-	-	692,790
Total other assets at historical cost	10,959,721	165,468	-	11,125,189
Less accumulated depreciation for:				
Water plant	(3,203,964)	(305,394)	-	(3,509,358)
Vehicles & equipment	(416,416)	(46,730)	-	(463,146)
Total accumulated depreciation	(3,620,380)	(352,124)	-	(3,972,504)
Total capital assets, being depreciated, net	7,339,341	(186,656)	-	7,152,685
Total capital assets, net	<u>\$ 7,511,007</u>	<u>\$ (101,000)</u>	<u>\$ -</u>	<u>\$ 7,410,007</u>

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 2: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 170,905	\$ -	\$ 126,787	\$ 44,118
Construction in progress	74,943	169,361	116,756	127,548
Total capital assets not being depreciated	245,848	169,361	243,543	171,666
Other capital assets				
Water & sewer systems	9,136,204	1,130,727	-	10,266,931
Vehicles & equipment	522,467	170,323	-	692,790
Total other assets at historical cost	9,658,671	1,301,050	-	10,959,721
Less accumulated depreciation for:				
Water plant	(2,896,882)	(307,082)	-	(3,203,964)
Vehicles & equipment	(365,682)	(50,734)	-	(416,416)
Total accumulated depreciation	(3,262,564)	(357,816)	-	(3,620,380)
Total capital assets, being depreciated, net	6,396,107	943,234	-	7,339,341
Total capital assets, net	<u>\$ 6,641,955</u>	<u>\$ 1,112,595</u>	<u>\$ 243,543</u>	<u>\$ 7,511,007</u>

NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department'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), the Department was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end December 31, 2022. At year end December 31, 2022, the Department had bank deposits in the amount of \$1,951,042. There are no unsecured cash deposits as of December 31, 2022.

NOTE 4: RISK MANAGEMENT AND LITIGATION

The Department 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. To manage the risk of loss, the Department purchases commercial insurance policies, which include a worker's compensation insurance policy and a commercial vehicle policy.

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
2004 Water Revenue Bond issue – USDA, 4.500%, \$601,200; principal and interest payable monthly beginning November 11, 2004; matures October 11, 2044	453,799	465,842
Water Revenue Bond issue, Series 2003 – ANRC#92A38 3.800%, \$88,455; principal and interest payable semi-annually beginning June 1, 2004; maturing December 1, 2033.	44,342	47,532
Water Revenue Bond issue, Series 2003 – ANRC#97B03 4.500%, \$415,833; principal and interest payable semi-annually beginning June 1, 2004; maturing December 1, 2033.	218,415	233,472
Water Revenue Bond issue, Series 2010 – ANRC#00097-WSSW-D 5.000%, \$51,500; principal and interest payable annually beginning June 1, 2011; maturing June 1, 2031.	29,380	31,916
2018 CAT 420F Backhoe Purchase – Arvest Bank 4.000%, \$107,377; principal and interest payable monthly beginning July 25, 2018; maturing June 25, 2023.	11,725	34,487
	<u>\$ 757,661</u>	<u>\$ 813,249</u>

All bonds are secured by revenues and water system of Brookland Utilities Department.

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

	<u>2022</u>	<u>2021</u>
Total long-term debt at beginning of year	\$ 813,249	\$ 866,525
Note payable retirements	(55,588)	(53,276)
Total long-term debt at the end of the year	757,661	813,249
Less: current portion	(46,616)	(55,589)
Long-term debt, net of current portion	<u>\$ 711,045</u>	<u>\$ 757,660</u>

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	46,616	32,500	79,116
2024	36,472	30,782	67,254
2025	38,126	29,128	67,254
2026	39,856	27,398	67,254
2027	41,661	25,593	67,254
2028-2032	234,322	97,832	332,154
2033-2037	142,527	51,633	194,160
Thereafter	178,081	21,803	199,884
	<u>\$ 757,661</u>	<u>\$ 316,669</u>	<u>\$ 1,074,330</u>

Interest expenses were \$35,167 for the year ended December 31, 2022, and \$107,737 for the year ended December 31, 2021.

The Department'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.

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 executed or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

The Department's outstanding note to the Arkansas Natural Resources Commission (ANRC) contains a provision that in the event of a default of the note, including a failure to comply with any covenant, term, or condition therein, ANRC may exercise any remedy available at law or in equity in order to cause the Department to comply with the provisions of the note.

NOTE 6: BOND REQUIREMENTS

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

The USDA issued the 4.500% 2004 Water Revenue Bond Fund in the amount of \$601,200 on September 11, 2004. The Department was required to deposit the sum of \$273 monthly into the Revenue Bond Fund beginning November 2004 until October 2014, when a reserve goal of \$32,760 was reached.

ANRC issued 3.800% and 4.500% 2003 Water Revenue Bonds in the total amount of \$504,288 on December 2003. The Department was required to deposit the sum of \$164 monthly into the Revenue Bond Fund beginning January 2004 until December 2032, when a reserve goal of \$57,014 is reached.

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.

Brookland Utilities Department
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 7: RESTRICTED CASH

	<u>2022</u>	<u>2021</u>
Meter Deposit Fund	\$ 187,134	\$ 174,846
Reserve Bond Fund (1979)	41,240	40,965
Depreciation Fund (1999)	55,596	53,265
Depreciation Fund	43,909	43,490
Sewer Construction Fund (2021)	1,046,485	1,121,160
Total	<u>\$ 1,374,364</u>	<u>\$ 1,433,726</u>

NOTE 8: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Department has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, notes payable, etc.) none of which are held for trading purposes. The Department, unless otherwise indicated, estimates that the fair values of all financial instruments on December 31, 2022, does not differ materially from the aggregate carrying values as stated in the accompanying statement of net position. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Department could realize in a current market exchange.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2023, the date on which the financial statements were available to be issued.



Thomas, Speight & Noble

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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*

Honorable Mayor and Members of the City Council of
Brookland Utilities Department

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 Brookland Utilities Department, as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Brookland Utilities Department's basic financial statements and have issued our report thereon dated December 8, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brookland Utilities Department'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 Brookland Utilities Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Brookland Utilities Department'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. Brookland Utilities Department'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.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brookland Utilities Department'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.

Brookland Utilities Department'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

December 8, 2023