Corning Water and Sewer Department
Audited Financial Statements
And Supplementary Information
For the Years Ended December 31, 2024 and 2023

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Corning Water and Sewer Department
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And Supplementary Information
For the Year Ended December 31, 2024 and 2023

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Corning, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Corning Water and Sewer Department (a component unit of the city of Corning, Arkansas) as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Department's financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter discussed in the below paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position Corning Water and Sewer Department of Corning, Arkansas, as of December 31, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of our Qualified Opinion

As more fully described in Note 10 to the financial statements, for the years ended December 31, 2024 and 2023, the Department has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employee pension to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure on the financial statements is not practicable.

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 Corning Water and Sewer 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Corning Water and Sewer 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.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional 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 Corning Water and Sewer 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 the Corning Water and Sewer 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corning Water and Sewer Department's basic financial statements. The accompanying schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is 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 our opinion, the schedules or operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2025, on our consideration of Corning Water and Sewer 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 Corning Water and Sewer 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 Corning Water and Sewer Department's internal control over financial reporting and compliance.

Thomas, Speight and Noble, CPAs

Thomas, Speight & Noble, CPAs
Blytheville, Arkansas
December 12, 2025

Corning Water and Sewer Department
Statements of Net Position
December 31, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	$ 275,088	$ 96,801
Customer accounts receivable, net	55,412	55,917
Prepaid insurance	7,681	7,681
Total current assets	338,181	160,399
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	610,397	987,163
Capital assets		
Capital assets, net of accumulated depreciation and amortization	8,669,127	9,085,884
Total non-current assets	9,279,524	10,073,047
TOTAL ASSETS	$ 9,617,705	$10,233,446
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	17,732	10,239
Payable general fund	58,845	-
Sales tax payable	8,098	7,774
Compensated absences	6,948	3,336
Current portion of long-term debt	130,031	142,363
Total current liabilities	221,654	163,712
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	4,482,566	5,133,184
Due to industrial fund	44,794	59,194
Total long-term liabilities	4,527,360	5,192,378
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	41,490	41,490
TOTAL LIABILITIES	4,790,504	5,397,580
NET POSITION		
Net investment in capital assets	4,011,736	3,751,143
Restricted for water debt service and depreciation	325,195	759,485
Restricted for sewer debt service & depreciation	165,613	111,876
Unrestricted	324,657	213,362
Total net position	4,827,201	4,835,866
TOTAL LIABILITIES AND NET POSITION	$ 9,617,705	$10,233,446

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

Corning Water and Sewer Department
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Water revenue	$ 804,856	$ 826,508
Sewer revenue	192,431	196,302
Installation	15,966	23,166
Grant income	121,196	102,093
Miscellaneous income	29,012	50,993
Total operating revenues	1,163,461	1,199,062
OPERATING EXPENSES		
Water operating expenses	189,549	195,933
Sewer operating expenses	70,955	26,447
General and administrative expenses	387,335	426,017
Depreciation and amortization	416,757	414,801
Total operating expenses	1,064,596	1,063,198
OPERATING INCOME (LOSS)	98,865	135,864
NON-OPERATING REVENUES (EXPENSES)		
Interest income	35,326	10,519
Interest expense	(142,856)	(156,123)
Total Non-operating revenues (expenses)	(107,530)	(145,604)
CHANGE IN NET POSITION	(8,665)	(9,740)
NET POSITION AT BEGINNING OF YEAR	4,835,866	4,845,606
NET POSITION AT END OF YEAR	$ 4,827,201	$ 4,835,866

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

Corning Water and Sewer Department
Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	$ 1,163,966	$ 1,194,971
Cash payments to suppliers for goods and services	(432,067)	(457,443)
Cash payments to employees	(204,343)	(206,801)
Net cash provided by (used in) operating activities	527,556	530,727
Cash flows from capital and related financing activities:		
Proceeds of long-term debt	-	157,390
Principal payments on long-term debt	(677,350)	(154,068)
Interest payments on long-term debt	(142,856)	(156,123)
Payments from (to) reserve accounts	376,766	(92,197)
Payable to City general fund	58,845	-
Purchases of capital assets	-	(290,829)
Net cash provided by (used in) financing activities	(384,595)	(535,827)
Cash flows from investing activities:		
Interest received	35,326	10,519
Net cash provided by (used in) investing activities	35,326	10,519
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	178,287	5,419
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	96,801	91,382
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 275,088	$ 96,801
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 98,865	$ 135,864
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	416,757	414,801
(Increase)/Decrease In:		
Customer accounts receivable	505	(4,091)
Increase/(Decrease) In:		
Accounts payable	7,493	(18,761)
Sales tax payable	324	(35)
Compensated absences	3,612	2,949
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 527,556	$ 530,727

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

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

Corning Water and Sewer Department (the "Department") was established to provide water and sewer services to the residents and establishments of the City of Corning, Arkansas (the City) and the surrounding areas. The Department is controlled by and dependent upon the City's governing body. Control by and dependence upon the City was determined on the basis of the budget adoption to fund any deficit that may occur. The accompanying financial statements represent only the activities of the Department and are not intended to present that of the City or any of the City's activities.

Basis of Presentation and Accounting

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Customer Accounts Receivable

The Department carries its customer accounts receivable at cost, less allowance for doubtful accounts. On a periodic basis, management evaluates accounts customer receivable balances and establishes an allowance for doubtful accounts based on history of past write offs collections and current credit considerations.

Cash and Cash Equivalents - Restricted

Certain proceeds of the Department's revenue, as well as certain resources set aside for the debt service per debt covenants, are classified as cash and cash equivalents - restricted on the statements of net position, because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Funds set aside to refund customer deposits are classified as cash and cash equivalents - restricted since their use is limited for that purpose.

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

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than $1,500 and an estimated useful life more than two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred.

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

Buildings and System	20-40 Years
Equipment	5-20 Years
Office Equipment	5-10 Years

Customer Deposits

Customer deposits are non-interest bearing and are held until the customer's service is terminated, at which time the deposit is applied to the final bill.

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate. Employees may accrue and carry over unused vacation days, up to thirty days. Compensated absences are accrued at a rate of time and a half. Employees are unable to accumulate more than 240 hours of compensatory time.

Net Position

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

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

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

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

Operating Revenues and Expenses

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

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City adopts an annual budget for the Department. The budget is adopted on a basis consistent with GAAP. All annual appropriations lapse at year-end.

NOTE 2: CASH AND CASH EQUIVALENTS - RESTRICTED

Cash and cash equivalents - restricted consist of cash reserves restricted by long-term debt covenants and customer deposits.

	2024	2023
Customer deposits	$ 119,589	$ 115,889
Debt service	338,660	319,549
Sewer Construction	150,248	111,678
Depreciation funds	1,900	440,047
	$ 610,397	$ 987,163

NOTE 3: CUSTODIAL CREDIT RISK OF BANK DEPOSITS

State law generally requires public funds be deposited in State of Arkansas banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may be in the form of checking, savings, and/or time deposit accounts. Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Department's policy for custodial risk is compliant with state law. Due to the dollar amounts of cash deposits and investments, and the limits of the FDIC, the Department was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department and there were no uninsured deposits at years ended December 31, 2024, and 2023.

NOTE 4: CAPITAL ASSETS

A summary of changes in capital assets for the years ending December 31, 2024 and 2023 are as follows:

	Balance 12/31/2023	Additions	Deletions	Balance 12/31/2024
Capital assets not being depreciated				
Land	$ 33,239	$ -	$ -	$ 33,239
Capital assets being depreciated				
Buildings and system	17,654,067	-	-	17,654,067
Equipment	468,232	-	-	468,232
Office equipment	51,836	-	-	51,836
Total capital assets being depreciated, net	18,174,135	-	-	18,174,135
Less accumulated depreciation for:				
Buildings and system	(8,650,102)	(407,134)	-	(9,057,236)
Equipment	(419,552)	(9,623)	-	(429,175)
Office equipment	(51,836)	-	-	(51,836)
Total accumulated depreciation	(9,121,490)	(416,757)	-	(9,538,247)
Total capital assets, net being depreciated, net	9,052,645	(416,757)	-	8,635,888
Total capital assets	$ 9,085,884	$ (416,757)	$ -	$ 8,669,127

NOTE 4: CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2022	Additions	Deletions	Balance 12/31/2023
Capital assets not being depreciated				
Land	$ 33,239	$ -	$ -	$ 33,239
Capital assets being depreciated				
Buildings and system	17,393,178	260,889	-	17,654,067
Equipment	438,292	29,940	-	468,232
Office equipment	51,836	-	-	51,836
Total capital assets being depreciated, net	17,883,306	290,829	-	18,174,135
Less accumulated depreciation for:				
Buildings and system	(8,245,685)	(404,417)	-	(8,650,102)
Equipment	(409,168)	(10,384)	-	(419,552)
Office equipment	(51,836)	-	-	(51,836)
Total accumulated depreciation	(8,706,689)	(414,801)	-	(9,121,490)
Total capital assets, net being depreciated, net	9,176,617	(123,972)	-	9,052,645
Total capital assets	$ 9,209,856	$ (123,972)	$ -	$ 9,085,884

NOTE 5: CUSTOMER ACCOUNTS RECEIVABLE

Customer accounts receivable consists of the following on December 31, 2024, and 2023
:

	2024	2023
Customer accounts receivable	$ 239,469	$ 229,342
Allowance for doubtful accounts	(184,057)	(173,425)
Customer accounts receivable, net	$ 55,412	$ 55,917

NOTE 6: DUE TO OTHER FUNDS

On October 10, 2018, the Industrial Development Fund of the City of Corning, Arkansas loaned the Department $128,500 free of interest. At December 31, 2024, the outstanding balance on this loan was $59,194.

NOTE 7: LONG-TERM DEBT

Long-term debt on December 31, 2024, and 2023 consists of the following:

	2024	2023
2003 Sewer Bond - United States Department of Agriculture, 4.50%, $769,800; principal and interest payable monthly beginning December 25, 2003; maturing November 25, 2043. Secured by revenues and sewer system of Department.	$ -	$ 549,650
2010 Water Bond - United States Department of Agriculture, 3.00%, $4,680,000; principal and interest payable monthly beginning January 19, 2012; maturing December 20, 2050. Secured by revenues and water system of Department.	3,671,829	3,764,040
2020 Sewer Bond - United States Department of Agriculture, 1.75%, $202,866; principal and interest payable monthly beginning July 29, 2020; maturing June 29, 2060. Secured by revenues and sewer system of Department.	926,368	947,457
Due to industrial fund - $1,200 principal payments payable monthly beginning January 1, 2020	59,194	73,594
	$ 4,657,391	$ 5,334,741

Analysis of long-term debt changes to the Department's long-term debt are as follows:

	2024	2023
Total long-term debt at beginning of year	$ 5,334,741	$ 5,331,419
Additional borrowings	-	157,390
Bond payable retirement	(677,350)	(154,068)
Total long-term debt at the end of the year, net	4,657,391	5,334,741
Less current portion	(130,031)	(142,363)
Long-term debt, net of current portion	$ 4,527,360	$ 5,192,378

Maturities of long-term debt on December 31, 2024 are as follows:

	Principal	Interest	Total
2025	$ 130,031	$ 122,221	$ 252,252
2026	133,160	118,592	251,752
2027	139,355	112,897	252,252
2028	142,756	109,496	252,252
2029	146,255	105,997	252,252
Thereafter	3,965,834	1,418,430	5,384,264
	$ 4,657,391	$ 1,987,633	$ 6,645,024

Interest expense was $142,856 for year ending December 31, 2024, and $156,123 for year ended December 31, 2023.

NOTE 7: LONG-TERM DEBT (CONT'D)
The Department's outstanding notes to United States Department of Agriculture (USDA) contain 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 expense 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 execute or assumed by the Department and default under way any such instrument may be construed by the USDA to constitute default hereunder.

NOTE 8: 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. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. Management estimates that the amount of any actual or potential claims as of December 31, 2024, and 2023 will not materially affect the financial condition of the Department.

NOTE 9: MONTHLY WATER RATES
Current rates were established by Ord No. 2013-05 and are as follows:

	Water		
First	1,000 gallons (minimum)	$	7.00
Next	6,000 gallons @ amount per 1,000 gallons	$	6.50
Next	3,000 gallons @ amount per 1,000 gallons	$	5.50
Next	3,000 gallons @ amount per 1,000 gallons	$	4.00
Over	15,000 gallons @ amount per 1,000 gallons	$	1.25

At December 31, 2024, and 2023, the Department served 1,466 and 1,457 customers, respectively.

NOTE 10: RETIREMENT PLAN
All eligible employees participate in the Arkansas Public Employees Retirement System (APERS), a statewide cost-sharing, multiple employer pension plan established by the authority of the Arkansas General Assembly. APERS provides retirement, disability, and survivor benefits to eligible employees and elected officials of state and local governmental entities in Arkansas. Contribution requirements are set forth by Arkansas Statute, and the Department is required to contribute at an actuarially determined rate. For the years ended December 31, 2024, and 2023 the Department's contribution was $30,752 and $30,976, respectively.

Because the plan is a multi-employer defined benefit pension plan, accounting principles generally accepting in the United States of America require the cost of employee's pensions to be recognized over the employer's respective service periods and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of assets. APERS has provided the necessary information for the entire City of Corning, Arkansas, however, we were unable to determine the specific amounts allocable to the Department.

NOTE 11: BOND REQUIREMENTS
The Department must maintain certain requirements after receiving bonds from the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The Department is required to establish a "2012 Water Revenue Bond Fund". There shall be paid into the Bond Fund on the 20th business day of each month, for ten years, a sum of $1,699, until a debt service reserve shall have been accumulated in the amount equal to $203,880. The Department is required to establish a "2017 Water & Sewer Revenue Bond". There shall be paid into the Bond Fund on the 28th business day of each month for ten years, a sum of $284, until a debt service reserve shall have accumulated in the amount equal to $33,984.

NOTE 11: BOND REQUIREMENTS (CONT'D)

As of December 31, 2024, and 2023 the debt service requirements for the Department have been met. The amounts maintained in the Debt Reserve Fund have been included in restricted cash (see Note 2).

In addition to the debt service reserve, the Department is required to maintain a Short-Lived Asset Reserve (depreciation fund). The reserve can be used as needed for the replacement of items related to the treatment plant as specified in the preliminary engineering report. The reserve is to be maintained with monthly or annual deposits, along with records documenting the use of any funds expended from the reserve. The amounts maintained in the Depreciation Fund have been included in restricted cash (see Note 2). For the year 2024 the Department was not in compliance with the "2012 Water Revenue Bond Fund". The required amount at the time was $304,858 and the balance was $1,900.

In the event of default in the payments of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained in the instruments incident to making or insuring the loan, 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, incur and pay reasonable expenses for repair, maintenance, and operations 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.

NOTE 12: SUBSEQUENT EVENT

Management has evaluated subsequent events through December 12, 2025, the date on which the financial statements were available to be issued.

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

To the City Council
City of Corning, 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 Corning Water and Sewer Department (a component of the city of Corning, Arkansas), as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Corning Water and Sewer Department's basic financial statements and have issued our report thereon dated December 12, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the corning Water and Sewer 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 the Corning Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corning Water and Sewer 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2024-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corning Water and Sewer 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. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Corning Water and Sewer Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Corning Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Thomas, Speight, & Noble, CPAs
Blytheville, Arkansas
December 12, 2025

Corning Water and Sewer Department
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2024

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Any material weakness(es) identified?	x Yes __ No
Any significant deficiency(ies) identified?	__ Yes x No
Any noncompliance material to financial statements noted?	__ Yes x No

Section II - Financial Statement Findings

Finding: 2024-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: Corning Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

Effect: Inadequate segregation of duties reduces the Department's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: The Department's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

Views of responsible officials and planned corrective actions: Additional employees for the purpose of improving internal controls would not be cost-beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly.

Corning Water and Sewer Department
Consolidating Statement of Net Position
December 31, 2024

	Water Department	Sewer Department	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents - unrestricted	$ (192,200)	$ 467,288	$ 275,088
Customer accounts receivable, net	41,317	14,095	55,412
Prepaid insurance	7,681	-	7,681
Total current assets	(143,202)	481,383	338,181
NON-CURRENT ASSETS			
Cash and cash equivalents - restricted	442,788	167,609	610,397
Capital assets			
Capital assets, net of accumulated depreciation and amortization	6,873,428	1,795,699	8,669,127
Total non-current assets	7,316,216	1,963,308	9,279,524
TOTAL ASSETS	$7,173,014	$2,444,691	$ 9,617,705
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	$ 17,732	$ -	$ 17,732
Payable general fund	-	58,845	58,845
Sales tax payable	8,098	-	8,098
Compensated absences	6,948	-	6,948
Current portion of long-term debt	92,190	37,841	130,031
Total current liabilities	124,968	96,686	221,654
LONG-TERM LIABILITIES			
Long-term debt, net of current portion	3,579,639	947,721	4,527,360
Total long-term liabilities	3,579,639	947,721	4,527,360
LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Customer deposits	41,490	-	41,490
TOTAL LIABILITIES	3,746,097	1,044,407	4,790,504
NET POSITION			
Net investment in capital assets	3,201,599	810,137	4,011,736
Restricted for debt service	323,295	15,365	338,660
Restricted for depreciation reserve	1,900	150,248	152,148
Unrestricted	(99,877)	424,534	324,657
Total net position	3,426,917	1,400,284	4,827,201
TOTAL LIABILITIES AND NET POSITION	$7,173,014	$2,444,691	$ 9,617,705

Corning Water and Sewer Department
Consolidating Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2024

	Water Department	Sewer Department	Total
OPERATING REVENUES			
Revenues	$ 804,856	$ 192,431	$ 997,287
Installation	15,966	-	15,966
Grant income	-	121,196	121,196
Miscellaneous income	29,012	-	29,012
Total operating revenues	849,834	313,627	1,163,461
OPERATING EXPENSES			
Salaries	204,343	-	204,343
Payroll taxes	15,331	-	15,331
Retirement	30,752	-	30,752
Employee benefits	53,906	-	53,906
Advertising	1,007	-	1,007
Dues and subscriptions	15,200	-	15,200
Vehicle expense	16,461	-	16,461
Sewer analysis	-	2,294	2,294
Contract labor	3,815	2,000	5,815
Telephone	9,041	-	9,041
Utilities	33,308	22,367	55,675
Insurance	29,104	3,247	32,351
Office expense	4,546	-	4,546
Data processing	14,297	-	14,297
Repairs and maintenance	37,433	16,114	53,547
Supplies	7,670	675	8,345
Travel	740	-	740
Uniforms	2,275	-	2,275
Refuse	-	29,365	29,365
Purchased water	92,548	-	92,548
Depreciation	335,918	80,839	416,757
Total operating expenses	907,695	156,901	1,064,596
OPERATING INCOME (LOSS)	(57,861)	156,726	98,865
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	35,326	35,326
Interest expense	(111,657)	(31,199)	(142,856)
Total Non-operating revenues (expenses)	(111,657)	4,127	(107,530)
CHANGE IN NET POSITION	$ (169,518)	$ 160,853	$ (8,665)

December 12, 2025

To the City Council
City of Corning, Arkansas

We have audited the financial statements of Corning Water and Sewer Department for the year ended December 31, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 6, 2025. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Matters</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Corning Water and Sewer Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2024. We noted no transactions entered into by Corning Water and Sewer Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Corning Water and Sewer Department's financial statements were:

Management's estimate of the depreciation expense is based on estimated useful lives and salvage values of depreciable assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical revenues and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These misstatements are included in the attached.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Corning Water and Sewer Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Corning Water and Sewer Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We did identify a certain deficiency in internal control, described below that we considered to be a material weakness.

2024-0001 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. Corning Water and Sewer 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 relating to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

Restriction on Use

This information is intended solely for the information and use of The City Council of Corning, Arkansas and management of Corning Water and Sewer Department and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully,

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Blytheville, Arkansas