

EARLE WATER AND SEWER WORKS
FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Earle Water and Sewer Works
Earle, AR 72331

Report on the Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Earle Water and Sewer Works as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the Earle Water and Sewer Works' 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, the respective financial position of the business-type activities of the Earle Water and Sewer Works, as of December 31, 2022, and 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 Earle Water and Sewer Works, 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.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Earle Water and Sewer Works and do not purport to, and do not, present fairly the financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Management's Responsibility 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 Earle Water and Sewer Works ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Earle Water and Sewer Works 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 Earle Water and Sewer Works 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–7 and 19 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Earle Water and Sewer Works' basic financial statements. The schedule of water and sewer rates on page 18 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of water and sewer rates 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 our opinion, the schedule of water and sewer rates is 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 May 22, 2023, on our consideration of the Earle Water and Sewer Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Earle Water and Sewer Works' internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, AR 72396
May 22, 2023

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

Within this section of the Earle Water and Sewer Works' financial report, (the Entity) the Entity's management provides narrative discussion and analysis of the financial activities of the Entity for the years ended December 31, 2022 and 2021. The Entity's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Entity as a whole and present a longer term view of the Entity's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Earle Water and Sewer Works as a whole

Our analysis of the Entity as a whole follows in the next section. The Entity operates as a business-type activity providing water utilities to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Entity's finances is: "Is the Entity as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Entity as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Entity's net position and the changes which have occurred in the year. You can think of the Entity's net position (the difference between its assets and liabilities) as one way to measure the Entity's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and system, to assess the overall health of the Entity.

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

Financial Highlights:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Beginning Net Position	\$ 3,072,984	\$ 3,083,069	\$ 3,095,070
Increase (Decrease) in Net Position	<u>(19,212)</u>	<u>(10,085)</u>	<u>(12,001)</u>
Ending Net Position	<u>\$ 3,053,772</u>	<u>\$ 3,072,984</u>	<u>\$ 3,083,069</u>

Assets, liabilities, and net position for 2022, 2021, and 2020 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current Assets	\$ 100,977	\$ 135,198	\$ 125,141
Restricted Assets	864,713	831,588	792,935
Capital Assets	<u>2,980,434</u>	<u>3,040,152</u>	<u>3,152,329</u>
Total Assets	<u>3,946,124</u>	<u>4,006,938</u>	<u>4,070,405</u>
Current Liabilities	\$ 146,367	\$ 139,176	\$ 145,928
Long-term Liabilities	<u>745,985</u>	<u>794,778</u>	<u>841,408</u>
Total Liabilities	<u>892,352</u>	<u>933,954</u>	<u>987,336</u>
Net Position			
Unrestricted	309,784	339,539	308,482
Restricted for Debt Service	557,433	533,958	506,904
Net Investments in Capital Assets	<u>2,186,555</u>	<u>2,199,487</u>	<u>2,267,683</u>
Total Net Position	<u>3,053,772</u>	<u>3,072,984</u>	<u>3,083,069</u>
Total Liabilities and Net Position	<u>\$ 3,946,124</u>	<u>\$ 4,006,938</u>	<u>\$ 4,070,405</u>

The following schedule presents a summary of revenues and expenditures for the year ended December 31, 2022, 2021, and 2020:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 422,754	\$ 442,400	\$ 435,183
Operating Expenses	<u>407,302</u>	<u>416,271</u>	<u>409,409</u>
Operating Income (Loss)	15,452	26,129	25,774
Other Income (Expense)	<u>(34,664)</u>	<u>(36,214)</u>	<u>(37,775)</u>
Change in Net Position	<u>(19,212)</u>	<u>(10,085)</u>	<u>(12,001)</u>

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end December 31, 2022, the Entity had \$ 2,980,434 invested in capital assets. This represents a net decrease of \$ 59,718, which is the result of depreciation expense recognized of \$ 118,925 and additions of \$ 59,207.

Debt

At year end, the Entity had \$ 793,879 in outstanding debt. This represents a decrease of \$ 46,786 which is the result of principal payments made during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Entity has no plans for any major changes for the upcoming year.

CONTACTING THE ENTITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Danny Clark, 870-792-8777.

EARLE WATER AND SEWER WORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Current Assets		
Cash on Hand and in Banks	\$ 6,696	\$ 38,332
Certificates of Deposit	15,862	15,833
Accounts Receivable	78,419	81,033
Total Current Assets	100,977	135,198
Restricted Assets		
Cash in Banks, including Certificates of Deposit	864,713	831,588
Total Restricted Assets	864,713	831,588
Property, Plant and Equipment		
Construction in Progress	15,186	
Water Plant	4,034,015	4,034,015
Water Line Improvements	28,521	28,521
Sewage Plant	1,415,094	1,371,073
Equipment	274,139	274,139
	5,766,955	5,707,748
Less Accumulated Depreciation	(2,786,521)	(2,667,596)
Net property, Plant and Equipment	2,980,434	3,040,152
Total Assets	\$ 3,946,124	\$ 4,006,938

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

EARLE WATER AND SEWER WORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>2021</u>
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 47,894	\$ 45,887
Accounts Payable	31,417	29,786
Accrued Interest Payable	9,202	8,915
Accrued and withheld payroll taxes	2,737	2,672
Total Current Liabilities	<u>91,250</u>	<u>87,260</u>
Liabilities Payable from Restricted Assets:		
Customer Meter Deposits	<u>55,117</u>	<u>51,916</u>
Total Liabilities Payable from Restricted Assets	<u>55,117</u>	<u>51,916</u>
Long-term debt, net of current portion	<u>745,985</u>	<u>794,778</u>
Total Liabilities	<u>892,352</u>	<u>933,954</u>
Net Position:		
Invested in capital assets, net	2,186,555	2,199,487
Restricted for debt service	557,433	533,958
Unrestricted	<u>309,784</u>	<u>339,539</u>
Total Net Position	<u>3,053,772</u>	<u>3,072,984</u>
Total Liabilities and Net Position	<u>\$ 3,946,124</u>	<u>\$ 4,006,938</u>

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

EARLE WATER AND SEWER WORKS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
Operating Revenues:		
Water Fees	\$ 333,306	\$ 343,305
Sewage Fees	69,550	70,942
Penalty Charges and Other	19,898	28,153
Total Operating Revenues	422,754	442,400
Operating Expenses:		
Commisioner salaries	3,900	3,800
Contract labor	1,346	6,990
Depreciation	118,925	120,385
Insurance	37,683	38,657
Legal and Professional	8,068	7,133
Management and general	510	2,362
Maintenance and operating supplies	37,943	33,367
Office expense	6,046	8,551
Payroll tax	9,695	9,108
Permits and fees	5,136	9,503
Postage	3,655	2,913
Repairs	7,894	11,856
Salaries	128,399	121,254
Telephone	3,897	4,004
Uniform	500	1,000
Utilities	33,705	35,388
Total Operating Expenses	407,302	416,271
OPERATING INCOME (LOSS)	15,452	26,129
Non-operating Revenues (Expenses)		
Interest Income	908	432
Interest Expense	(35,572)	(36,646)
Total Non-operating Revenues (Expenses)	(34,664)	(36,214)
Change in Net Position	(19,212)	(10,085)
Beginning Net Postion	3,072,984	3,083,069
Ending Net Position	\$ 3,053,772	\$ 3,072,984

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

EARLE WATER AND SEWER WORKS
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 428,569	\$ 436,156
Payments to Suppliers	(154,382)	(181,934)
Payments to Employees	(132,299)	(125,054)
Net Cash Provided by (Used in) Operating Activities	141,888	129,168
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Capital Debt	(46,786)	(43,981)
Purchases of Property and Equipment	(59,207)	(8,208)
Interest Paid on Capital Debt	(35,285)	(37,191)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(141,278)	(89,380)
Cash Flows from Investing Activities:		
Interest Income	908	432
Transfers (to) from certificates of deposit	(29)	(16)
Transfers (to) from Restricted Accounts	(33,125)	(38,653)
Net Cash Provided by (Used in) Investing Activities	(32,246)	(38,237)
Increase (Decrease) in Cash and Cash Equivalents	(31,636)	1,551
Cash and Cash Equivalents, Beginning of Year	38,332	36,781
Cash and Cash Equivalents, End of Year	\$ 6,696	\$ 38,332
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 15,452	\$ 26,129
Depreciation and Amortization	118,925	120,385
(Increase) Decrease in Accounts Receivable	2,614	(8,490)
(Increase) Decrease in inventory	-	-
Increase (Decrease) in Accounts Payable	1,631	(10,759)
Increase (Decrease) in accrued payroll taxes	65	(343)
Increase (Decrease) in customer deposits	3,201	2,246
Net Cash Provided by Operating Activities	\$ 141,888	\$ 129,168

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

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY – Earle Water and Sewer Works is a department of the City of Earle, Arkansas. Its purpose is to provide water and sewer services to the citizens of Earle, Arkansas. This report does not include all funds, account groups, and programs controlled by the City of Earle’s governing body. Other activities are included in a government wide audit performed by the Arkansas Division of Legislative Audit.

Basis of Presentation – The Entity accounts for its activities as a proprietary fund, and has elected to apply all Governmental Auditing Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements.

BASIS OF ACCOUNTING – The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounts Receivable - Accounts receivable are presented at estimated net realizable value. The specific charge-off method is used to record bad debt expense. No material difference results from use of the specific charge off method instead of allowance method as required by generally accepted accounting principles. Accounts receivable results from water and sewer services provided to consumers in Earle, Arkansas. Accounts receivable are collateralized by customer deposits.

Property, Plant and Equipment – Property and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 7 - 10 years for office furniture and equipment, to 50 years for the water system.

Cash and Cash Equivalents – The Earle Water and Sewer Works considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

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

Credit Risk – Financial instruments which subject the Entity to concentration of credit risk consist principally of temporary cash investments. The entity places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit risk exposure. The Entity’s policy is to limit such investments to amounts covered by FDIC coverage and securities pledged to collateralize deposits.

Arkansas Sales Tax – Sales are subject to Arkansas State Sales Tax. Revenues are reported net of sales taxes paid.

Advertising – Advertising costs are expensed when incurred.

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Net Position – Net position is divided into three components:

- Invested in capital assets, net consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted for debt service – amounts that are restricted by Entity creditor's (for example, debt covenants) by law and regulations of other governments.
- Unrestricted – all other entity assets are reported in this category.

Operating Revenues and Expenses – Operating revenues and expenses of the Entity consist of charges for services, and the costs of providing those services, excluding interest costs.

NOTE B – ACCUMULATED DEPRECIATION:

The following is a summary of accumulated depreciation by class of assets:

	2022	2021
Water Plant	\$ 1,596,885	\$ 1,509,850
Equipment	271,786	270,520
Sewage Plant	917,850	887,226
	\$ 2,786,521	\$ 2,667,596

NOTE C – RESTRICTED ASSETS:

Restricted funds at December 31, 2022 and 2021 consists of the following:

	2022	2021
Customer's Deposit Revenue	\$ 48,345	\$ 47,167
Arkansas National Resource Loan Reserves:		
Debt Service	188,644	176,655
Depreciation Reserve	147,615	139,605
Construction - Water Tower	111,320	110,858
Debt Service - Water Tower	29,759	30,659
Debt Service - Water Tower	323,095	310,709
Debt Service - Water Tower	15,935	15,935
	\$ 864,713	\$ 831,588

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE C – RESTRICTED ASSETS: (CONT'D)

Restricted cash includes certificates of deposit of \$145,733 at December 31, 2022 and \$145,151 at December 31, 2021.

The customers deposit reserve is established to cover the Earle Water and Sewer Works' liability for customer deposits, of \$ 55,117 at December 31, 2022, and \$ 51,916 for December 31, 2021.

The reserve for repayment of Arkansas Natural Recourse Commission Loans was established by the management of Earle Water and Sewer Works for future loan repayments.

The Earle Water and Sewer Works loan agreements with the Arkansas Natural Resource Commission (See Note D) require that separate reserve for depreciation, debt service, and construction be established. The reserve accounts have been established and deposits were made as required.

NOTE D- LONG-TERM DEBT

Notes Payable at December 31, 2022 and 2021 consists of the following:

	2022	2021
Arkansas Natural Resource Commission Loans:		
5% Note Payable, due in annual installments of \$12,472, beginning June 1, 2010 through 2029	\$ 72,166	\$ 80,607
4.15% Note Payable, due in semi-annual installments of \$25,679 through 2036	540,313	569,235
4.16% Note Payable, due in annual installments of \$17,370 through 2036	181,400	190,823
	\$ 793,879	\$ 840,665
Less Current Portion	(47,894)	(45,887)
	\$ 745,985	\$ 794,778

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE D- LONG-TERM DEBT- CONT'D)

A summary of Long-Term Debt Activity is as follows:

	Balance <u>12/31/2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2022</u>
AR Natural Resource Commission	\$ 80,607		\$ 8,441	\$ 72,166
AR Natural Resource Commission	569,235		28,922	540,313
AR Natural Resource Commission	<u>190,823</u>		<u>9,423</u>	<u>181,400</u>
	<u>\$ 840,665</u>	<u>\$ -</u>	<u>\$ 46,786</u>	<u>\$ 793,879</u>

A summary of future payments required for notes payable is as follows:

	Principal	Interest	Total
For years ending December 31,			
2023	\$ 47,894	\$ 22,142	\$ 70,036
2024	49,989	20,897	70,886
2025	52,155	19,620	71,775
2026	54,416	18,290	72,706
2027	56,776	16,903	73,679
For 5 year periods ending December 31,			
2032	283,717	61,596	345,313
2036	<u>248,932</u>	<u>17,691</u>	<u>266,623</u>
	<u>\$ 793,879</u>	<u>\$ 177,139</u>	<u>\$ 971,018</u>

NOTE E – Concentration of Credit Risk

The Entity's policy is for deposits to be secured by collateral valued at market, or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance coverage. The entity's deposits are categorized to give an indication of the level of risk assumed by the entity at December 31, 2022. The categories are described as follows:

Category 1 – Insured or collateralized by securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institutions trust department or by its agent in the entity's name.

Category 3 – Uncollateralized

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE E – Concentration of Credit Risk – (CONT'D)

At December 31, 2022, Cash and certificates of deposit categorized by level of risk are:

Carrying Amount	Category		
	1	2	3
\$ 887,271	\$ 253,376	\$ 633,895	\$ -

NOTE F – Number of Customers

Active customers at year-end December 31, 2022 and 2021 are as follows:

	2022	2021
Water	664	673
Sewer	613	620

NOTE G – Related Parties

Earle Water and Sewer Works collects payments for garbage collection and mosquito spraying for the City of Earle. Accounts payable includes Accounts payable to the City of Earle of \$22,424 at December 31, 2022 and \$21,923 at December 31, 2021.

NOTE H – Property, Plant and Equipment

A summary of property, plant and equipment activity is as follows:

	Balance 12/31/2021	Additions	Reductions	Balance 12/31/2022
Not Subject to Depreciation:				
Construction in Progress	\$ -	15,186		\$ 15,186
Water Plant	4,034,015		-	4,034,015
Sewer Plant	1,371,073	44,021		1,415,094
Water Line Improvement	28,521			28,521
Equipment	274,139			274,139
	5,707,748	44,021	-	5,751,769
	\$ 5,707,748	\$ 59,207	\$ -	\$ 5,766,955

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE I – Subsequent Events

Management has evaluated subsequent events through the date of this report. No events were noted which would require disclosure.

NOTE J – Construction in Progress

At year end, construction in progress includes costs incurred for a water line replacement+40 project. The total estimated cost is \$ 20,248.

EARLE WATER AND SEWER WORKS
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2022

2022 Minimum Water Rates

	Minimum Water	Minimum Sewer
Residential	25.90	13.50
Commercial	26.90	13.50
2" Meter	52.05	13.50
Commercial 1"	36.90	13.50
Commercial 3"	66.90	13.50
Residential 2 Sewer	25.90	22.75
Residential 4 Sewer	25.90	41.25

EARLE WATER AND SEWER WORKS
BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2022

	ACTUAL	BUDGET	OVER (UNDER)
OPERATING REVENUE:			
Water fees	\$ 333,306	\$ 654,500	\$ (321,194)
Sewage Fees	69,550	-	69,550
Penalty charges and other income	19,898	10,150	9,748
Total Operating Revenue	<u>422,754</u>	<u>664,650</u>	<u>(241,896)</u>
OPERATING EXPENSES			
Commissioners Salaries	3,900	3,900	-
Contract Labor	1,346	875	471
Depreciation	118,925		118,925
Dues and Subscriptions	-	900	(900)
Insurance	37,683	36,325	1,358
Garbage and Mosquito fees		204,395	(204,395)
Legal and Professional	8,068		8,068
Management and general	510	11,425	(10,915)
Maintenance and operating supplies	37,943	36,250	1,693
Note Payments		136,500	(136,500)
Office expense	6,046	5,050	996
Payroll tax	9,695	10,485	(790)
Permits and fees	5,136	3,250	1,886
Postage	3,655	3,075	580
Repairs	7,894	-	7,894
Salaries	128,399	133,390	(4,991)
Street Repairs	-	35,825	(35,825)
Telephone	3,897	5,760	(1,863)
Truck Fuel		4,200	(4,200)
Uniform	500	2,425	(1,925)
Utilities	33,705	27,175	6,530
Total Operating Expenses	<u>407,302</u>	<u>661,205</u>	<u>(253,903)</u>
 Income from Operations	 <u>15,452</u>	 <u>3,445</u>	 <u>12,007</u>
OTHER INCOME AND (EXPENSES)			
Interest Expense	(35,572)		(35,572)
Interest income	908	120	788
Net Other Income and (Expenses)	<u>(34,664)</u>	<u>120</u>	<u>(34,784)</u>
 CHANGE IN NET POSITION	 <u>\$ (19,212)</u>	 <u>\$ 3,565</u>	 <u>\$ (22,777)</u>

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
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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**

Members of the Board of Commissioners
Earle Water and Sewer Works
Earle, Arkansas 72331

We have audited, 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, the financial statements of the business-type activities of the Earle Water and Sewer Works as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements and have issued our report thereon dated May 22, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Earle Water and Sewer works' 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 Earle Water and Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Works' 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 Water and Sewer Works' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies (#22-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Earle Water and Sewer Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Earle Water and Sewer Works' Response to Findings

Earle Water and Sewer Works' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Earle Water and Sewer Works' 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 Water and Sewer Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Sewer Works' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

May 22, 2023

EARLE WATER AND SEWER WORKS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022

Schedule of findings

22-01 Segregation of Duties

CONDITION: The Earle Water and Sewer Works' 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 Earle Water and Sewer Works internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Earle Water and Sewer Works 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.

RESPONSE: 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 by the Commissioners.