

**CITY OF FOREMAN
WATER AND SEWER FUND
Foreman, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022
and
INDEPENDENT AUDITOR'S REPORT**

**CITY OF FOREMAN
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Foreman, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022**

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INDEPENDENT AUDITOR'S REPORT

**Honorable William Harp, Mayor,
And Members of The City Council
City of Foreman
Foreman, Arkansas**

Opinions

We have audited the accompanying financial statements of the City of Foreman Water and Sewer Fund, as of and for the years ended December 31, 2023 and 2022, and the related notes to the 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 financial position of the City of Foreman Water and Sewer Fund as of December 31, 2023 and 2022 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 the City of Foreman Water and Sewer Fund 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 1, the financial statements present only the Water & Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Foreman, Arkansas as of December 31, 2023, and 2022, the changes in its financial position, or, where applicable, its cash flow for the years 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.

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.

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**Honorable William Harp, Mayor,
And Members of The City Council
City of Foreman**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund'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 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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 Fund'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund'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 Fund's basic financial statements. The Supplementary Information Required by the USDA Rural Development is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information Required by the USDA Rural Development is fairly stated in all material respects, in relation to the financial statements as a whole.

**Honorable William Harp, Mayor,
And Members of The City Council
City of Foreman**

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2024, on our consideration of the Fund'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 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 the Fund'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 the Fund's internal control over financial reporting and compliance.



Berry & Associates, P.A.
Little Rock, Arkansas
February 26, 2024

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF NET POSITION
December 31, 2023 and 2022**

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,398	\$ 44,622
Accounts receivable	51,727	47,480
Other receivables	13,869	-
Total Current Assets	<u>75,994</u>	<u>92,102</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash and equivalents	173,386	174,260
Certificates of deposit	145,888	140,878
Total Restricted Assets	<u>319,274</u>	<u>315,138</u>
CAPITAL ASSETS	5,257,554	5,253,203
Less: accumulated depreciation	<u>(2,773,924)</u>	<u>(2,655,704)</u>
Net Capital Assets	<u>2,483,630</u>	<u>2,597,499</u>
TOTAL ASSETS	<u>\$ 2,878,898</u>	<u>\$ 3,004,739</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 66,727	\$ 66,362
Accounts payable	29,770	19,635
Accrued interest payable	1,736	2,377
Due to general fund	888	863
Sales tax payable	2,616	2,719
Total Current Liabilities	<u>101,737</u>	<u>91,956</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	34,966	34,671
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	<u>642,018</u>	<u>708,489</u>
TOTAL LIABILITIES	<u>778,721</u>	<u>835,116</u>
NET POSITION		
Net investment in capital assets	1,761,334	1,822,648
Temporarily restricted	145,888	137,543
Unrestricted	192,955	209,432
TOTAL NET POSITION	<u>2,100,177</u>	<u>2,169,623</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,878,898</u>	<u>\$ 3,004,739</u>

The accompanying notes to the financial statements are an integral part of these statements

CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water revenue	\$ 357,632	\$ 375,711
Sewer revenue	78,061	70,459
Sanitation revenue	102,368	104,190
Penalties	12,328	11,762
Reconnections	520	1,080
Other revenue	8,491	2,269
Total Operating Revenues	<u>559,400</u>	<u>565,471</u>
OPERATING EXPENSES		
Water purchases	183,452	143,143
Depreciation	131,987	142,616
Employee benefits	14,193	14,505
Fuel and travel	6,652	9,701
Insurance	30,590	28,272
Lab fees	4,980	6,690
Licenses and dues	6,391	5,980
Office expenses	50	480
Payroll taxes	6,970	7,151
Postage	3,444	2,410
Professional fees	7,185	8,582
Repairs and maintenance	17,443	18,729
Salaries	92,646	94,681
Supplies	29,953	100,228
Trash expense	101,792	104,181
Utilities	22,909	20,341
Penalties	-	4,058
Miscellaneous	1,874	1,657
Total Operating Expenses	<u>662,511</u>	<u>713,405</u>
OPERATING LOSS	<u>(103,111)</u>	<u>(147,934)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	6,929	4,929
Grant income	13,869	-
Gain on sale of capital asset	-	38,390
Bad debt expense, net of bad debt recovery	(1,511)	(2,446)
Interest expense	(24,685)	(25,180)
Net Non-Operating Income (Expense)	<u>(5,398)</u>	<u>15,693</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	(108,509)	(132,241)
TRANSFERS		
Transfers in	<u>39,063</u>	<u>95,924</u>
CHANGE IN NET POSITION	(69,446)	(36,317)
NET POSITION - BEGINNING OF YEAR	<u>2,169,623</u>	<u>2,205,940</u>
NET POSITION - ENDING OF YEAR	<u>\$ 2,100,177</u>	<u>\$ 2,169,623</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 555,153	\$ 568,915
Cash payments to suppliers	(442,904)	(472,397)
Cash payments to employees	(92,646)	(94,681)
Net cash provided by operating activities:	<u>19,603</u>	<u>1,837</u>
Cash flows from investing activities:		
Increase in meter deposits payable	-	260
Interest received on certificates of deposit	6,929	4,929
Net cash provided by investing activities:	<u>6,929</u>	<u>5,189</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(4,568)	(2,386)
Expenditures on construction in progress	(13,552)	-
Proceeds from grant	13,869	-
Proceeds from the sale of capital assets	-	38,390
Principal payments on long-term debt	(66,106)	(66,559)
Interest payments on long-term debt	(25,326)	(25,789)
Transfers in from other funds	39,063	95,924
Net cash provided (used) by capital and related financing activities:	<u>(56,620)</u>	<u>39,580</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(30,088)	46,606
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>359,760</u>	<u>313,154</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 329,672</u>	<u>\$ 359,760</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (103,111)	\$ (147,934)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	131,987	142,616
Provision for bad debts	(1,511)	(2,446)
(Increase) Decrease in:		
Accounts receivable	(4,247)	3,444
Other receivables	(13,869)	-
Increase (Decrease) in:		
Accounts payable	10,134	6,288
Due to general fund	25	(25)
Other current liabilities	195	(106)
	<u>122,714</u>	<u>149,771</u>
Net cash provided by operating activities:	<u>\$ 19,603</u>	<u>\$ 1,837</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Fund is a component unit of the City of Foreman, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Foreman and certain properties outside the city limits.

Basis of Presentation and Accounting

The accounts of the Fund 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 Fund's assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (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 accounting and financial reporting treatment applied to the Fund is determined by its measurement focus. The transactions of the Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Fund has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Fund considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Allowance for Bad Debts

Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles but use of this method is not considered a material misstatement of the financial statements.

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Fund defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The Fund did not capitalize interest during the fiscal years 2023 and 2022. 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 nonoperating section of the statements of revenues, expenses, and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

<u>Assets</u>	<u>Estimated useful lives</u>
Water and sewer system	10-50 years
Vehicles	5 years
Furniture and fixtures	3-10 years

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Fund. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Fund's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Equity Classifications

Net position comprises the various net earnings from operating income, nonoperating 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.

Temporarily 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.

Unrestricted net assets- This component of net position consists of net position that does not meet the definition of "restricted."

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Fund. The budget of the Fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and non-operation income and expense items are not considered. All annual appropriations lapse at fiscal year-end.

Restricted Assets

Certain proceeds of the Fund's revenue, as well as certain resources set aside for the loan repayment and loan agreement requirements, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. Customer deposits held by the Fund are also considered restricted.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Leases

The Fund calculates operating lease using the implicit interest rate, or their incremental borrowing rate if the lease rate is not determinable. All lease and non-lease components are combined for all leases. Lease payments for leases with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

Date of Management's Review

Subsequent events have been evaluated through February 26, 2024, which is the date the financial statements were available to be issued.

NOTE 2- LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
Loan payable to Horatio State Bank, due in monthly installments of \$420, including interest at 5%, over a period of 3 years. (1)	\$ -	\$ 1,962
Arkansas Natural Resources Loan 235-WSSW-D, due in monthly installments of \$1,143, including interest at 5% beginning in June 2013 through June 2033. (2)	109,842	117,752
Loan payable to USDA, due in monthly installments of \$2,208, including interest at 2.5%, over a period of 40 years. (3)	505,248	518,927
Arkansas Natural Resources Loan 1028-WSSW-L, due in monthly installments of \$993, including interest at 2.75% beginning in June 2017 through June 2026. (2)	28,332	39,232
Loan payable to Leasing 2, Inc., due in annual installments of \$15,220, including interest at 5.5%, over a period of 5 years. (1)	14,427	28,103
Loan payable to Deere Credit, Inc., due in monthly installments of \$1,663, including interest at 3.25%, over a period of 5 years. (1)	50,896	68,875
	<u>708,745</u>	<u>774,851</u>
Less: Current portion	<u>(66,727)</u>	<u>(66,362)</u>
Long-Term Portion	<u>\$ 642,018</u>	<u>\$ 708,489</u>

CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2- LONG-TERM DEBT, continued:

- (1) The loan has no restrictive covenants.
- (2) The loan has restrictive covenants, including the requirement to begin accumulating a depreciation reserve in the amount of 3% of the gross revenue for the life of the loan.
- (3) The loan has restrictive covenants, including the requirement to begin accumulating a debt service reserve in monthly installments of \$230 over a ten-year period, beginning January 2011. To be fully funded, the debt service reserve must equal \$27,600.

Annual maturities of long-term debt at December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 66,727	\$ 20,582	\$ 87,309
2025	54,100	17,988	72,088
2026	42,528	16,949	59,477
2027	24,900	15,316	40,216
2028	25,800	14,416	40,216
2029-2033	143,600	57,480	201,080
2034-2038	97,842	38,068	135,910
2039-2043	107,200	25,280	132,480
2044-2048	121,500	10,980	132,480
2049	24,548	171	24,719
	<u>\$ 708,745</u>	<u>\$ 217,230</u>	<u>\$ 925,975</u>

Long-term activity for the years ended December 31, 2023 and 2022 is as follows:

	<u>Balance</u>		<u>Balance</u>	<u>Due Within</u>
	<u>12/31/22</u>	<u>Additions</u>	<u>12/31/23</u>	<u>One Year</u>
Long Term Debt				
Loans	\$ 774,851	\$ -	\$ 708,745	\$ 66,727
		\$ (66,106)		
	<u>Balance</u>		<u>Balance</u>	<u>Due Within</u>
	<u>12/31/21</u>	<u>Additions</u>	<u>12/31/22</u>	<u>One Year</u>
Long Term Debt				
Loans	\$ 841,410	\$ -	\$ 774,851	\$ 66,362
		\$ (66,559)		

The Fund has pledged future water customer revenues, net of specified operating expenses, to repay \$708,745 in loans. Proceeds from the loans were used for building of the Fund's water and sewer system and water storage tank facilities and equipment. Principal and interest on the loans are payable through 2049, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$66,106 and \$25,326, respectively. Principal and interest paid in the year ended December 31, 2022 were \$66,559 and \$25,789, respectively.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 3 – COMMITMENTS:

The Fund has been awarded a Community Development Block Grant in the amount of \$200,000 to fund the wastewater treatment renovation project. Of the \$200,000 awarded in grants, the Department has received \$0 as of December 31, 2023.

The Arkansas Natural Resources Commission selected three of the Fund’s American Rescue Plan Drinking Water Applications to receive funding. The selected applications are “Wastewater Treatment Plant Improvements” with funding up to \$1,388,772; “Ground Storage Tank Improvements” with funding up to \$195,200; and “Water Line Replacement and Improvements” with funding up to \$1,139,000. These applications do not require a cost share. The Department has not received these funds as of December 31, 2023. The Department incurred costs of \$13,869 on the Ground Storage Tank Improvement costs project in 2023 and requested funds be released in the amount of \$13,869, which is listed as Other Receivable on the balance sheet at December 31, 2023.

NOTE 4 –PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

The carrying amount of the Fund’s deposits was \$329,672 and \$359,760 at December 31, 2023 and 2022, respectively, and the bank balance was \$330,152 and \$364,790 at December 31, 2023 and 2022, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$330,152 was insured by federal depository insurance.

NOTE 5 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2023 and 2022 are as follows:

	Balance at 12/31/22	Additions	Deletions Transfers	Balance at 12/31/23
Building Improvements	\$ 174,500	\$ -	\$ -	\$ 174,500
Equipment	237,459	4,568	(13,769)	228,258
Fixtures	15,129	-	-	15,129
Land	8,297	-	-	8,297
Sewer Facility and Improvements	1,331,144	-	-	1,331,144
Automobiles	63,161	-	-	63,161
Distribution Lines	3,423,513	-	-	3,423,513
Construction in progress	-	13,552	-	13,552
	<u>5,253,203</u>	<u>\$ 18,120</u>	<u>\$ (13,769)</u>	<u>5,257,554</u>
Less: Accumulated Depreciation	(2,655,704)			(2,773,924)
Net Capital Assets	<u>\$ 2,597,499</u>			<u>\$ 2,483,630</u>

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 5 – CAPITAL ASSETS, continued:

	Balance at 12/31/21	Additions	Deletions Transfers	Balance at 12/31/22
Building Improvements	\$ 174,500	\$ -	\$ -	\$ 174,500
Equipment	295,591	-	(58,132)	237,459
Fixtures	15,129	-	-	15,129
Land	8,297	-	-	8,297
Sewer Facility and Improvements	1,331,144	-	-	1,331,144
Automobiles	60,774	2,387	-	63,161
Distribution Lines	3,423,513	-	-	3,423,513
	<u>5,308,948</u>	<u>\$ 2,387</u>	<u>\$ (58,132)</u>	<u>5,253,203</u>
Less: Accumulated Depreciation	(2,571,220)			(2,655,704)
Net Capital Assets	<u>\$ 2,737,728</u>			<u>\$ 2,597,499</u>

NOTE 6 – ARKANSAS PUBLIC EMPLOYEE RETIREMENT PENSION PLAN:

Plan Description. The City of Foreman contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5.50% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department's contributions to APERS for the years ending December 31, 2023 and 2022 were \$14,193 and \$14,405, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal but would be included in the government wide financial statements and not the individual fund financial statements.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 7 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 2).

The following is a list of the restricted cash at December 31:

	<u>2023</u>	<u>2022</u>
Meter deposits	\$ 34,966	\$ 34,670
Debt service reserves	145,888	140,878
Other restricted funds	138,420	139,590
	<u>\$ 319,274</u>	<u>\$ 315,138</u>



American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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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 William Harp, Mayor
And Members of The City Council
City of Foreman**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Foreman Water and Sewer Fund (the "Fund"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Foreman Water and Sewer Fund's basic financial statements, and have issued our report thereon dated February 26, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 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 that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters


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

Fund’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Fund’s response to the findings identified in our audit and described in the accompanying Schedule of Finding and Responses. The Fund’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 Fund’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.



Berry & Associates, P.A.
Little Rock, Arkansas
February 26, 2024

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023**

2023-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual who is responsible for customer billing and adjustment, receives customer payments, and posts payments to subsidiary accounts receivable ledger. Also, the same individual who is responsible for general ledger activity, including posting and writing checks also reconciles the bank statement. This finding was also noted in 2022.

Cause: The Fund's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management of the Fund should consider a formal evaluation of their risks associated with this lack of duty segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight. For example, the Fund might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View of Responsible Officials: The City of Foreman Water and Sewer Fund has attempted to segregate duties, but due to the limited number of personnel, effective segregation of duties is not possible. Management of the City of Foreman Water and Sewer Fund will provide oversight to the personnel.

SUPPLEMENTARY INFORMATION

**CITY OF FOREMAN, ARKANSAS
 WATER AND SEWER FUND
 SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT
 December 31, 2023**

GOVERNMENT:

A mayor and six aldermen govern the City of Foreman, Arkansas. The Deputy Recorder/Treasurer and the City Water Clerk maintain the records. William Harp is the City Mayor; Theresa Woods is Deputy Recorder/Treasurer and Coleen Fowler is the City Water Clerk.

CITY COUNCIL ALDERMEN:

Alana Cody
 Joyce Green
 Tommy McDonald
 Mike McKee
 Perry Young
 Jacqueline Wiseman

WATER AND SEWER RATE SCHEDULES:

The current water and sewer rates are shown in the following schedules:

WATER RATES:

GALLONS		<u>Per 1,000 gallons</u>
Minimum	1,000	\$ 31.69
Thereafter		7.52

SEWER RATES:

GALLONS		<u>Per 1,000 gallons</u>
Minimum	1,000	\$ 13.00
Thereafter		4.01

As of December 31, 2023, water service and sewer service were provided to 502 and 427 users, respectively.

Total gallons consumed during the year ended December 31, 2023 amounted to approximately 26,394,000.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT (Continued)
December 31, 2023**

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts fell below the required levels in 2023.

INSURANCE SCHEDULE:

<u>POLICY NO.</u>	<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
PNC549PR	Arkansas Municipal League	Property	\$1,167,069
FBTF11	Arkansas Fidelity Bond Trust	Fidelity Bond	\$ 250,000
PNC549VPR	Arkansas Municipal League	Automobile	\$ 217,714