

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)

Audited Financial Statements

For the Years Ended December 31, 2022 and 2021

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CONTENTS

	<u>Page</u>
FINANCIAL STATEMENTS:	
Independent Auditors' Report.....	1-3
Statements of Net Position.....	4
Statements of Revenues, Expenses & Changes in Net Position.....	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7-14
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.....	15-16



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Trumann, Arkansas

Opinions

We have audited the accompanying financial statements of the City of Trumann Water Works, a component unit of the City of Trumann, Arkansas, as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Trumann Water Works, as of December 31, 2022, and 2021, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Trumann Water Works and are not intended to present fairly the financial position of the City of Trumann, Arkansas, and the results of its operations and cash flows in conformity 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 the City of Trumann, Arkansas Water 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.

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,

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considered in the aggregate, that raise substantial doubt about the City of Trumann Water Works, a component unit of the City of Trumann, Arkansas'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 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 the City of Trumann, Arkansas Water 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 City of Trumann, Arkansas Water 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.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 2023, on our consideration of the City of Trumann Water Works' 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 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 City of Trumann Water Works' internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

December 27, 2023

Trumann Water Works
Statements of Net Position
(A Component Unit of the City of Trumann, Arkansas)
December 31, 2022 and 2021

	2022	2021
	<u>ASSETS</u>	
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,196,454	\$ 822,208
Certificate of deposit - unrestricted	10,047	10,000
Accounts receivable, net of allowance for doubtful accounts		
\$83,921 and \$81,118 in 2022 and 2021, respectively	107,151	103,571
Total current assets	1,313,652	935,779
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	136,430	852,179
Certificates of deposit - restricted	98,469	98,127
Capital assets		
Capital assets, net of accumulated depreciation	5,279,150	3,702,868
Total non-current assets	5,514,049	4,653,174
TOTAL ASSETS	<u><u>\$ 6,827,701</u></u>	<u><u>\$ 5,588,953</u></u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 33,015	\$ 23,534
Accrued sales tax payable	9,666	10,025
Accrued compensation	14,294	8,336
Bond interest payable	1,791	1,878
Compensated absences	23,634	12,346
Due to Trumann sanitation fund	-	49,690
Due to Trumann mosquito fund	-	6,658
Current portion of long-term debt	40,000	40,000
Total current liabilities	122,400	152,467
LONG-TERM DEBT, net of current portion	900,000	940,000
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	185,509	162,729
TOTAL LIABILITIES	<u>1,207,909</u>	<u>1,255,196</u>
NET POSITION		
Net investment in capital assets	4,339,150	2,722,868
Restricted for capital improvements	-	743,239
Restricted for debt service	5,066	-
Restricted for renewal and replacement	31,469	31,099
Unrestricted	1,244,106	836,551
Total net position	5,619,791	4,333,757
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 6,827,701</u></u>	<u><u>\$ 5,588,953</u></u>

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

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Statements of Revenues, Expenses & Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water revenue	\$ 663,986	\$ 656,044
Sewer revenue	578,807	600,218
Late payment penalty revenue	41,498	39,712
Sanitation collection fee	449,033	45,612
Trash bags	1,107	5,425
Other	42,946	76,922
Total operating revenue	<u>1,777,377</u>	<u>1,423,933</u>
OPERATING EXPENSES		
Salaries and wages	584,830	501,911
Payroll taxes	44,835	38,093
Retirement expense	20,812	15,377
Chemicals and testing supplies	7,236	7,388
Licenses and permits	94,147	81,757
Employee benefits	57,011	53,999
Utilities and telephone	180,601	169,849
Fuel	53,541	20,890
Insurance	26,443	24,582
Repairs and maintenance	268,916	376,037
Uniforms	11,650	67,824
Supplies	36,641	15,467
Other	60,501	9,451
Depreciation	525,668	450,400
Miscellaneous	44,980	18,565
Equipment Lease	50,973	-
Total operating expenses	<u>2,068,785</u>	<u>1,851,590</u>
OPERATING INCOME (LOSS)	(291,408)	(427,657)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,522	909
Interest expense	(22,025)	(5,785)
Contributions from the City of Trumann	1,597,945	328,828
Total non-operating revenues (expenses)	<u>1,577,442</u>	<u>323,952</u>
CHANGE IN NET POSITION	1,286,034	(103,705)
NET POSITION AS PREVIOUSLY REPORTED	<u>4,333,757</u>	<u>4,437,462</u>
NET POSITION AT END OF YEAR	<u><u>\$ 5,619,791</u></u>	<u><u>\$ 4,333,757</u></u>

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

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 1,773,797	\$ 1,416,026
Cash payments to suppliers for goods and services	(937,518)	(883,851)
Cash payments to employees	(578,872)	(497,233)
Net cash provided by (used in) operating activities	257,407	34,942
Cash flows from non-capital and related financing activities:		
Contribution from the City of Trumann	1,597,945	328,828
Collection of sanitation fees	668,233	631,496
Disbursement of sanitation fees to the sanitation fund	(719,711)	(612,262)
Collection of mosquito fees	93,572	39,732
Disbursement of mosquito fees to the mosquito fund	(98,270)	(34,442)
Collection of sales tax	123,387	114,554
Disbursement of sales tax	(124,804)	(117,606)
Collection of public water service fee	10,236	10,470
Disbursement of public water service fee	(12,683)	(11,951)
Customer deposits account (net)	25,810	34,576
Net cash provided by (used in) non-capital financing activities	1,563,715	383,395
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(40,000)	(254,579)
Interest payments on long-term debt	(22,198)	(6,566)
Loan Proceeds	-	980,000
Distribution from trustee of interest earnings	-	3
Purchases of capital assets	(2,101,949)	(970,864)
Net cash provided by (used in) financing activities	(2,164,147)	(252,006)
Cash flows from investing activities:		
Interest received	1,522	909
Net cash provided by (used in) investing activities	1,522	909
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(341,503)	167,240
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,674,387	1,507,147
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,332,884</u>	<u>\$ 1,674,387</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (291,408)	\$ (427,657)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	525,668	450,400
(Increase)/Decrease In:		
Customer accounts receivable	(3,580)	(7,907)
Increase/(Decrease) In:		
Accounts payable	9,481	21,299
Sales tax payable		
Compensated absences	11,288	(5,871)
Accrued compensation	5,958	4,678
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 257,407</u>	<u>\$ 34,942</u>

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

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

Trumann Water Works (the “Department”) was formerly operated as an independent unit. It was originally established as the Trumann Water and Sewer Commission by Ordinance No. 77 of the City of Trumann, Arkansas in March 1950. On June 11, 2007, the Trumann City Council voted to dissolve the Truman Water and Sewer Commission Board. Trumann Water Works is a component unit enterprise fund of the City of Trumann, Arkansas. The Mayor and City Council are charged with overseeing the Department.

These financial statements include the Department and present only balances and transactions that are directly attributable to the Department. They are not intended to present, and do not present, the financial position and changes therein of the City or its proprietary funds. The Department has no potential component units required to be evaluated for inclusion in its reporting entity.

Basis of Presentation and Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following type of fund is recognized in the accompanying financial statements.

Enterprise fund – These types of funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Department uses the accrual method of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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 unrestricted cash and temporary cash investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable, net of allowance for doubtful accounts

The Department allowance for doubtful accounts is based on a two-year rolling average. Accounts receivables are ordinarily due 30 days after the issuance of an invoice. Once the customer’s account passes such a date the water and sewer are shut off. All new residential and commercial customers are required to place a \$150/\$200 utility deposit with the Department. This deposit is applied to any outstanding balance in the customer’s account.

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

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

Cash and cash equivalents and certificates of deposit - restricted

Certain proceeds of the Department's revenue, as well as certain resources set aside for bond repayment and agreement requirements are classified as certificates of deposit – restricted on the statements of net position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or city ordinances. Funds set aside to refund customer deposits are classified as cash and cash equivalents – restricted since their use is limited for that purpose.

Non-Taxable Status

The Department is exempt from federal income taxes under various provisions of the Internal Revenue Code.

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.

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.

Revenue Recognition

Revenue for water supply, treatment and distributions services are recorded based on customer billings and no provisions have been made for the accrual of revenue from services used, but not billed.

Capital Assets

The cost of additions and major replacements of retired units of property are stated at cost. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 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:

Water & Sewer Systems	25-50 Years
Wells	20-25 Years
Buildings	20-30 Years
Office furniture and equipment	5-10 Years
Tools and equipment	5-7 Years
Transportation and equipment	3-5 Years

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

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

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

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Employees vacation time earned, but not paid, is recorded as a liability on the financial statements.

Credit Risk

Financial instruments, which potentially subject the Department to concentrations of credit risk, consist principally of temporary cash investments. The Department places its temporary cash investments with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the Departments large number of customers.

Budgets and Budgetary Accounting

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

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 2: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department's deposit policy for custodial risk is compliant with bond requirements. At year end December 31, 2022, the Department had bank deposits in the amount of \$1,600,884. At year end December 31, 2021, the Department had bank deposits in the amount of \$1,878,822. Due to the dollar amounts of cash deposits and investments, and the limits of FDIC insurance, the Department has secured deposits by pledging securities held by the pledging financial institution's trust department or agent but not in the Department's name. However, cash at one of these institutions exceeded federally insured limits and pledged securities by \$455,780 as of December 31, 2022.

NOTE 3: RESTRICTED CASH DEPOSITS

City ordinances and debt agreements mandate certain cash funds be set aside for bond debt retirement and emergency (depreciation) reserves. On December 31, 2022, and 2021, restricted cash was as follows:

	<u>2022</u>	<u>2021</u>
Customer deposits	\$ 131,364	\$ 108,940
Capital improvements	-	743,239
Debt service	5,066	-
	<u>\$ 136,430</u>	<u>\$ 852,179</u>

NOTE 4: CERTIFICATES OF DEPOSIT

As of December 31, 2022, the Department's certificates of deposit totaled \$108,517 of which \$10,047 was unrestricted, \$67,000 was restricted for customer deposits and \$31,470 was restricted for renewal and replacement.

As of December 31, 2021, the Department's certificates of deposit totaled \$108,127 of which \$10,000 was unrestricted, \$67,028 was restricted for customer deposits and \$31,099 was restricted for renewal and replacement.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2022, and 2021:

	<u>2022</u>	<u>2021</u>
Customer receivables	\$ 191,072	\$ 184,689
Less: allowance for doubtful accounts	(83,921)	(81,118)
	<u>\$ 107,151</u>	<u>\$ 103,571</u>

NOTE 6: LEASE WITH CITY OF TRUMANN

On April 1, 2018, the Department entered into a lease agreement with the City of Trumann for rent of the Trumann Street Department building. The Department will pay the Street Fund \$800 per month during the term of the lease. The lease will terminate on April 1, 2117. Total rent payments for the years ended December 31, 2022, and 2021 were \$6,800 and \$9,600, respectively.

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 7: EMPLOYEE'S RETIREMENT SYSTEM

The Department participates in a defined contribution plan and has contracted with a private insurance carrier who maintains an account for the Department. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Participation is voluntary and the Department matches up to 5% of earnings for eligible employees. Employees become eligible after one year of continuous employment and the age of 18. Employees are entitled only to funds deposited by them and on their behalf; therefore, there is no unfunded liability. The Department's contribution to the plan for the years ended December 31, 2022, and 2021 was \$20,812 and \$15,377, respectively.

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.

NOTE 9: MONTHLY WATER RATES

Current rates were established by the City of Trumann effective August 1, 2022, and are as follows:

	Water	Rate
First	2,000 gallons (minumum)	13.11
Next	2,000 gallons	2.21
Next	3,000 gallons	1.83
Next	90,000 gallons	1.46
All over	100,000 gallons	1.26
	Sewer	Rate
All	first 1,000 gallons (minimum)	4.94
Residential	per 1,000 gallons after first 1,000 gallons	3.52
Commercial	per 1,000 gallons after first 1,000 gallons	3.52
Industrial	per 1,000 gallons after first 1,000 gallons	2.80

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 11: CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 186,674	\$ -	\$ -	\$ 186,674
Total capital assets not being depreciated	<u>186,674</u>	<u>-</u>	<u>-</u>	<u>186,674</u>
Other capital assets				
System plant, wells & lines	13,284,899	2,027,887	-	15,312,786
Tools and equipment	706,383	63,729	-	770,112
Transportation equipment	290,724	-	-	290,724
Office furniture and equipment	<u>167,330</u>	<u>10,334</u>	<u>-</u>	<u>177,664</u>
Total other assets at historical cost	<u>14,449,336</u>	<u>2,101,950</u>	<u>-</u>	<u>16,551,286</u>
Less accumulated Depreciable assets	<u>(10,933,142)</u>	<u>(525,668)</u>	<u>-</u>	<u>(11,458,810)</u>
Total capital assets, being depreciated, net	<u>3,516,194</u>	<u>1,576,282</u>	<u>-</u>	<u>5,092,476</u>
Total capital assets, net	<u><u>\$ 3,702,868</u></u>	<u><u>\$ 1,576,282</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,279,150</u></u>

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 11: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 186,674	\$ -	\$ -	\$ 186,674
Total capital assets not being depreciated	<u>186,674</u>	<u>-</u>	<u>-</u>	<u>186,674</u>
Other capital assets				
System plant, wells & lines	12,493,244	791,655	-	13,284,899
Tools and equipment	586,566	119,817	-	706,383
Transportation equipment	255,896	34,828	-	290,724
Office furniture and equipment	<u>142,766</u>	<u>24,564</u>	<u>-</u>	<u>167,330</u>
Total other assets at historical cost	<u>13,478,472</u>	<u>970,864</u>	<u>-</u>	<u>14,449,336</u>
Less accumulated Depreciable assets	<u>(10,482,742)</u>	<u>(450,400)</u>	<u>-</u>	<u>(10,933,142)</u>
Total capital assets, being depreciated, net	<u>2,995,730</u>	<u>520,464</u>	<u>-</u>	<u>3,516,194</u>
Total capital assets, net	<u><u>\$ 3,182,404</u></u>	<u><u>\$ 520,464</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,702,868</u></u>

NOTE 12: LONG-TERM DEBT

	<u>2022</u>	<u>2021</u>
2021 - Water and Sewer Revenue Bond issue - 2.25%; principal payable annually; interest payable semiannually beginning June 1, 2022; matures December 1, 2041	<u><u>\$ 940,000</u></u>	<u><u>\$ 980,000</u></u>
	<u><u>\$ 940,000</u></u>	<u><u>\$ 980,000</u></u>

All bonds are secured by revenues, the water system, or pledged sales and use tax of the Department.

Trumann Water Works
(A Component Unit of the City of Trumann, Arkansas)
Notes to Financial Statements
December 31, 2022, and 2021

NOTE 12: LONG-TERM DEBT (Continued)

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

	2022	2021
Total long-term debt at beginning of year	\$ 980,000	\$ 254,579
Bond payable retirements	(40,000)	(254,579)
New bond proceeds	-	980,000
Total long-term debt at the end of the year	940,000	980,000
Less current portion of long-term debt	(40,000)	(40,000)
Long-term debt, net of current portion	<u>\$ 900,000</u>	<u>\$ 940,000</u>

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

	Principal	Interest	Total
2023	\$ 40,000	\$ 21,150	\$ 61,150
2024	40,000	20,250	60,250
2025	40,000	19,350	59,350
2026	45,000	18,450	63,450
2027	45,000	17,438	62,438
Thereafter	730,000	129,150	859,150
	<u>\$ 940,000</u>	<u>\$ 225,788</u>	<u>\$ 1,165,788</u>

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 27, 2023, the date on which the financial statements were available to be issued.



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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 of
City of Trumann, 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 City of Trumann Water Works, a component unit of the City of Trumann, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City of Trumann Water Works' basic financial statements and have issued our report thereon dated December 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Trumann Water 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 City of Trumann Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Trumann Water 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The City of Trumann Water Works' 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 the financial accounting duties be segregated among employees to the extent possible.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Trumann Water Works' 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Trumann Water Works' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Trumann Water Works' response to the findings identified above. Management has responded and indicated that financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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

December 27, 2023