

CARAWAY WATER & SEWER SYSTEM

Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
Caraway, AR 72419

OPINION

We have audited the accompanying financial statements of the Caraway Water and Sewer System (of the City of Caraway, Arkansas), which comprise the Statement of Net Position as of December 31, 2021, and 2020, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Caraway Water and Sewer System as of December 31, 2021, and 2020, and the changes in its net position and its 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 Caraway Water and Sewer System, 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 opinion.

ENTERPRISE FUND ONLY

As discussed in Note J, the financial statements present only the Caraway Water and Sewer System and are not intended to present fairly the financial position of the City of Caraway, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles. 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.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional, omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the 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 judgement 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 the 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 Caraway Water and Sewer System'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.

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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2022, on our consideration of the Caraway Water and Sewer System's 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 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 Caraway Water and Sewer System's internal control over financial reporting and compliance.

*Despain, Luther, Short
& Company, CPAs, PA*

Jonesboro, Arkansas
August 26, 2022

CARAWAY WATER AND SEWER SYSTEM

Statement of Net Position

December 31,

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash on Hand	\$ 100	\$ 100
Cash in Banks	107,245	123,834
Less Restricted Cash	<u>(87,422)</u>	<u>(85,711)</u>
Unrestricted Cash	\$ 19,923	\$ 38,223
Accounts Receivable	28,203	28,743
Unbilled Services	<u>5,300</u>	<u>5,200</u>
Total Current Assets	<u>\$ 53,426</u>	<u>\$ 72,166</u>
Capital Assets:		
Land	\$ 35,545	\$ 35,545
Water & Sewer System	2,030,231	2,030,231
Tools & Equipment	218,343	207,179
Office Equipment	39,335	39,335
Construction in Progress	<u>829,939</u>	<u>1,011</u>
Total Capital Assets	\$ 3,153,393	\$ 2,313,301
Accumulated Depreciation	<u>(1,646,289)</u>	<u>(1,601,207)</u>
Net Capital Assets	<u>\$ 1,507,104</u>	<u>\$ 712,094</u>
Other Assets:		
Restricted Cash	<u>\$ 87,422</u>	<u>\$ 85,711</u>
Total Other Assets	<u>\$ 87,422</u>	<u>\$ 85,711</u>
Total Assets	<u><u>\$ 1,647,952</u></u>	<u><u>\$ 869,971</u></u>

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

CARAWAY WATER AND SEWER SYSTEM

Statement of Net Position

December 31,

<u>LIABILITIES AND NET ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Liabilities:		
Accounts Payable	\$ 9,237	\$ 15,161
Accounts Payable - Refuse	7,971	8,089
Payroll Taxes Payable	214	439
Accrued Interest Payable	2,629	254
Current Portion of Long-Term Debt	<u>18,535</u>	<u>5,884</u>
Total Current Liabilities	<u>\$ 38,586</u>	<u>\$ 29,827</u>
Long-Term Liabilities:		
Revenue Bond Payable - 2003 (USDA-RD)	\$ 229,308	\$ 235,192
Bond Payable - 2021-A (ANRC)	202,695	-
Bond Payable - 2021-B (ANRC)	<u>263,300</u>	<u>-</u>
Total Long-Term Debt	\$ 695,303	\$ 235,192
Less Current Portion of Long-Term Debt	<u>(18,535)</u>	<u>(5,884)</u>
Net Long-Term Liabilities	<u>\$ 676,768</u>	<u>\$ 229,308</u>
Other Liabilities:		
Customer Meter Deposits	<u>\$ 46,311</u>	<u>\$ 44,611</u>
Total Other Liabilities	<u>\$ 46,311</u>	<u>\$ 44,611</u>
Total Liabilities	<u>\$ 761,665</u>	<u>\$ 303,746</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$ 811,801	\$ 476,902
Restricted	41,111	41,100
Unrestricted	<u>33,375</u>	<u>48,223</u>
Total Net Position	<u>\$ 886,287</u>	<u>\$ 566,225</u>
Total Liabilities and Net Position	<u><u>\$ 1,647,952</u></u>	<u><u>\$ 869,971</u></u>

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

CARAWAY WATER AND SEWER SYSTEM
Statement of Revenues, Expenses, and Changes in Net Position
For The Year Ended December 31,

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Water & Sewer Revenue	\$ 290,876	\$ 274,364
Sales Tax Revenue	21,564	19,819
Late Charges	4,670	4,058
PWS Fees Revenue	2,659	2,652
Refuse Revenue	103,730	99,205
Miscellaneous Income	<u>20,884</u>	<u>11,840</u>
Total Operating Revenues	\$ 444,383	\$ 411,938
Operating Expenses:		
Salaries	\$ 105,872	\$ 83,696
Payroll Taxes	7,440	6,207
Refuse Disposal	98,324	94,044
State Sales Tax	21,624	19,755
PWS Fees	2,626	2,673
Insurance & Surety Bonds	34,728	25,936
Retirement Benefit	275	363
Repairs, Material & Supplies	28,206	31,439
Fuel & Oil	4,671	2,663
Utilities	26,215	22,995
Postage & Office Supplies	6,800	8,008
License & Lab Fees	5,264	4,910
Audit & Legal Fees	-	8,600
Telephone	978	1,581
Water Purchased	96,272	97,141
Other Expense	15,685	9,139
Depreciation	<u>45,082</u>	<u>49,665</u>
Total Operating Expenses	\$ 500,062	\$ 468,815
Operating Income (Loss)	\$ (55,679)	\$ (56,877)
Non-Operating Income (Expense):		
Interest Income	\$ 355	\$ 604
Grant Income (AEDC)	214,500	-
Bond Issuance Cost	(13,960)	-
Interest Expense	<u>(12,548)</u>	<u>(10,631)</u>
Total Non-Operating Income (Expense)	\$ 188,347	\$ (10,027)
Net Income (Loss) Before Contributions / Transfers	\$ 132,668	\$ (66,904)
Capital Contributions / Transfers:		
Transfer from City Funds	<u>187,394</u>	<u>25,282</u>
Change in Net Position	\$ 320,062	\$ (41,622)
Net Position - January 1,	<u>566,225</u>	<u>607,847</u>
Net Position - December 31,	<u>\$ 886,287</u>	<u>\$ 566,225</u>

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

CARAWAY WATER AND SEWER SYSTEM

Statement of Cash Flows For The Year Ended December 31,

	<u>2021</u>	<u>2020</u>
Cash Flow From Operations:		
Cash Receipts From Customers	\$ 423,939	\$ 398,246
Cash Receipts From Others	20,884	11,840
Cash Paid To Suppliers	(355,375)	(323,898)
Cash Paid To Employees	<u>(105,872)</u>	<u>(83,696)</u>
Cash Flow From Operations	\$ <u>(16,424)</u>	\$ <u>2,492</u>
Cash Flow From Investing Activities:		
Interest Received	\$ 355	\$ 604
Cash Flow From Investing Activities	\$ <u>355</u>	\$ <u>604</u>
Cash Flow From Non-Capital Financing Activities:		
Customer Meter Deposits (Net)	\$ 1,700	\$ 3,705
Cash Flow From Non-Capital Financing Activities	\$ <u>1,700</u>	\$ <u>3,705</u>
Cash Flow From Capital & Related Financing Activities:		
Asset Purchases/Additions (Plant & Equipment)	\$ (840,092)	\$ (1,011)
Transfer from City Funds	187,394	25,282
Advances - Bonds Issued (ANRC)	465,995	-
Bond Issuance Cost Paid	(13,960)	-
Grant Proceeds Received (AEDC)	214,500	-
Debt Retirement	(5,884)	(10,700)
Interest Paid	<u>(10,173)</u>	<u>(10,637)</u>
Cash Flow From Capital & Related Financing Activities	\$ <u>(2,220)</u>	\$ <u>2,934</u>
Cash Increase (Decrease)	\$ (16,589)	\$ 9,735
Cash - January 1	<u>123,934</u>	<u>114,199</u>
Cash - December 31	<u>\$ 107,345</u>	<u>\$ 123,934</u>

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

CARAWAY WATER AND SEWER SYSTEM

Statement of Cash Flows

For The Year Ended December 31,

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income With Cash Flows		
From Operations:		
Operating Income (Loss)	\$ (55,679)	\$ (56,877)
Adjustments:		
Depreciation	\$ 45,082	\$ 49,665
(Increase) Decrease in Current Assets:		
Accounts Receivable	540	(652)
Unbilled Revenues	(100)	(1,200)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(5,924)	10,649
Accounts Payable - Refuse	(118)	647
Accrued Payroll Taxes	(225)	260
Total Adjustments	\$ 39,255	\$ 59,369
Cash Flows From Operations	\$ (16,424)	\$ 2,492

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

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements
December 31, 2021 and 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity and Activities

The Caraway Water and Sewer System ("CWSS") was established to provide water and sewer services to the citizens of the City of Caraway, Arkansas.

Measurement Focus and Financial Statement Presentation

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

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

- Invested in capital assets, net of related debt—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as unspent proceeds.
- Restricted—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted—This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

Basis of Accounting

Basis of accounting refers to when revenues or receipts and expenditures or expenses are recognized in the accounts and reported in the financial statements. The CWSS maintains its accounting records on the cash basis and adjusts its records to the accrual basis of accounting at year-end for financial statement purposes. The accrual basis of accounting recognizes revenues when they are earned; and expenses are recognized when they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits (checking accounts), time deposits, and certificates of deposits.

Allowance for Doubtful Accounts

Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. The CWSS uses the direct write-off method, which is to say that bad debts are recognized as they occur. This practice does not have a material effect on the financial statements because customers are required to make a deposit that is usually greater than an average month's bill.

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements
December 31, 2021 and 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

Capital Assets

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

Water & Sewer System (Treatment facilities, tanks, lines, etc.)	10 to 45 Years
Tools & Equipment	5 to 20 Years
Office Equipment	5 to 10 Years

Unbilled Services

Unbilled Services represents the estimated dollar value of water and sewer services provided from the last cut-off date (meter reading date) for billing purposes through the end of the fiscal year.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management from time to time to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Use of FASB Pronouncements

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

Taxes

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

NOTE B – CASH IN BANK

Cash in bank consisted of the following restricted and unrestricted balances as of December 31:

	<u>2021</u>	<u>2020</u>
Total Cash in Depositories (Banks)	\$ 107,245	\$ 123,834
Less Restricted Cash:		
Customer Meter Deposit Fund	\$ 46,975	\$ 45,346
Depreciation Fund	20,018	20,023
Debt Service Fund	20,307	20,172
Construction Funds	122	170
Total Restricted Cash	\$ 87,422	\$ 85,711
Total Unrestricted Cash in Bank	\$ 19,823	\$ 38,123

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2021 and 2020

NOTE C – CASH IN BOND RESERVE FUND

The bond payable agreement with USDA-RD requires that a full year of payments, for each bond payable, be accumulated over a ten-year period in a Bond Reserve Fund and/or Debt Service Fund. This restricted asset was required by the bond payable agreement to have the following balance at December 31: 2021 - \$16,440 and 2020 - \$16,440. The actual balance in the Bond Reserve and Debt Service Funds at December 31 were as follows: 2021 - \$20,307 and 2020 - \$20,172. The amounts in these restricted funds have been included in Restricted Cash (see Note B).

NOTE D – CASH IN DEPRECIATION FUND

The bond payable agreements, Series 2021-A and 2021-B, with the Arkansas Natural Resources Commission (“ANRC”) require that 5% of the preceding months gross revenues be contributed to the Depreciation Fund. The amounts in this restricted fund have been included in Restricted Cash (see Note B). The Revenue Bond Payable – 2003 (USDA-RD) is excluded from this requirement.

NOTE E – REFUSE REVENUE AND REVENUE DISPOSAL

The City of Caraway entered into an agreement with a third party to pick-up refuse at each residence and business. The Caraway Water and Sewer System bills for this service and remits collections to the third-party provider.

NOTE F – FAIR VALUE OF FINANCIAL INSTRUMENTS

The CWSS has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, bonds payable, etc.) none of which are held for trading purposes. CWSS, unless otherwise indicated, estimates that the fair values of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values as stated in the accompanying Statement of Net Position. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the CWSS could realize in a current market exchange.

NOTE G – BONDS PAYABLE

- (1) Revenue Bonds Payable – 2003: Revenue bonds were issued in June of 2004, to finance the costs of acquiring, constructing, and equipping improvements and extending the Caraway Sewer System. The bonds are secured by a pledge of system revenues. The original amount of the issue was \$300,000. The interest rate is four and three-eighths percent (4.375%) per annum. The bonds are to be repaid in equal monthly installments in the amount of \$1,338 including interest. The total of the monthly payments equals \$16,056 annually.
- (2) Bond Payable – 2021-A: Bond issued in March of 2021, to finance a portion of the costs of the construction of a new well and rehabilitation of the water treatment facilities. The bond is secured by a pledge of system revenues that is subordinate to the pledge of system revenues in favor of the 2003 bond (referenced in item (1) above) and on parity with the pledge in favor of the 2021-B bond. The original amount of the issue was \$327,000. The interest rate is three quarters of a percent (0.75%) per annum along with a servicing fee at a rate of one percent (1.00%) per annum. Semi-annual installments of principal and interest are due on each April 15th and October 15th to be remitted monthly in an amount equal to one-sixth (1/6th) of the next semi-annual installment. The payments will total approximately \$19,448 annually.
- (3) Bond Payable – 2021-B: Bond issued in March of 2021, to finance a portion of the costs of the construction of a new well and rehabilitation of the water treatment facilities. The bond is secured by a pledge of system revenues that is subordinate to the pledge of system revenues in favor of the 2003 bond (referenced in item (1) above) and on parity with the pledge in favor of the 2021-A bond.

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2021 and 2020

NOTE G – BONDS PAYABLE (Continued)

(3) (Continued) - The original amount of the issue was \$263,300. The interest rate is three quarters of a percent (0.75%) per annum along with a servicing fee at a rate of one percent (1.00%) per annum. Semi-annual installments of principal and interest are due on each April 15th and October 15th to be remitted monthly in an amount equal to one-sixth (1/6th) of the next semi-annual installment. The payments will total approximately \$15,660 annually.

The following table presents the estimated future principal maturities by period:

Summary of Changes in Principal Balances:

	(1)	(2)	(3)
Balance 12/31/19	\$ 240,824	\$ -	\$ -
Principal paid	(5,632)	-	-
Balance 12/31/20	\$ 235,192	\$ -	\$ -
Principal advances	\$ -	\$ 202,695	\$ 263,300
Principal paid	(5,884)	-	-
Balance 12/31/21	<u>\$ 229,308</u>	<u>\$ 202,695</u>	<u>\$ 263,300</u>

Estimated Principal Maturities:

	(1)	(2)	(3)	Total
2022	\$ 6,146	\$ 6,863	\$ 5,526	\$ 18,535
2023	6,420	13,905	11,197	31,522
2024	6,707	14,151	11,394	32,252
2025	7,006	14,400	11,595	33,001
2026	7,319	14,653	11,799	33,771
2027 to 2031	41,798	77,216	62,179	181,193
2032 to 2036	51,998	84,243	67,838	204,079
2037 to 2041	64,687	91,913	74,012	230,612
2042 to 2044	37,227	9,656	7,760	54,643
Total	<u>\$ 229,308</u>	<u>\$ 327,000</u>	<u>\$ 263,300</u>	<u>\$ 819,608</u>

Debt Service Requirements:

	Principal	Interest	Total
2022	\$ 18,535	\$ 15,075	\$ 33,610
2023	31,522	19,642	51,164
2024	32,252	18,912	51,164
2025	33,001	18,163	51,164
2026	33,771	17,393	51,164
Thereafter	670,527	153,827	824,354
Total	<u>\$ 819,608</u>	<u>\$ 243,012</u>	<u>\$ 1,062,620</u>

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2021 and 2020

NOTE H – OFF-BALANCE-SHEET RISK AND CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the CWSS to concentrations of credit risk, consist principally of cash deposits (i.e., demand deposit accounts and interest-bearing accounts) and trade accounts receivable. Credit risk information required by Governmental Accounting Standards Board (“GASB”) Statement No. 3 pertains to the carrying amount of total cash deposits and investments with financial institutions classified into the following three categories:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity’s name;
- (2) Collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name; and
- (3) Uncollateralized.

The disclosures required by GASB Statement No. 3 should generally be made for an entity as a whole (e.g. the City of Caraway and its component units, i.e. water and sewer system). The CWSS had the following amount on deposit with a local bank subject to the GASB Statement No. 3 requirements as of December 31: 2021 - \$110,634. The regulations of the FDIC are subject to various interpretations regarding insurance coverage for governmental unit accounts. Therefore, it is impractical to determine the Caraway Water and Sewer System’s extent of insured and collateralized deposits separate from the City of Caraway.

The CWSS is engaged primarily in providing services to the residents of Caraway, Arkansas. Concentrations of credit risk with respect to trade receivables are limited due to the customer meter deposits held by CWSS. As of December 31, 2021, customer meter deposits exceeded trade receivables by \$18,108.

NOTE I – CAPITAL ASSET ACTIVITY

	Land	Water & Sewer Systems	Tools & Equipment	Office Equipment	Total	Accumulated Depreciation
Balance 12/31/19	\$ 35,545	\$ 2,030,231	\$ 207,179	\$ 39,335	\$ 2,312,290	\$(1,551,542)
Additions	-	-	-	-	-	(49,665)
Disposals	-	-	-	-	-	-
Balance 12/31/20	\$ 35,545	\$ 2,030,231	\$ 207,179	\$ 39,335	\$ 2,312,290	\$(1,601,207)
Additions	-	-	11,164	-	11,164	(45,082)
Disposals	-	-	-	-	-	-
Balance 12/31/21	\$ 35,545	\$ 2,030,231	\$ 218,343	\$ 39,335	\$ 2,323,454	\$(1,646,289)

Note – Construction in Progress excluded from the above table.

NOTE J – ENTERPRISE FUND

The Caraway Water and Sewer System is an Enterprise Fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

These financial statements present only the Caraway Water and Sewer System (Enterprise Fund) and are not intended to present the financial position, the results of operations, and the cash flows of the City of Caraway, Arkansas.

CARAWAY WATER AND SEWER SYSTEM

Notes to Financial Statements
December 31, 2021 and 2020

NOTE K – RISK MANAGEMENT

The CWSS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The CWSS carries insurance to cover the risks of loss that it is exposed to with various insurance carriers/providers.

NOTE L – CONSTRUCTION IN PROGRESS

Construction in Progress totaled \$829,939, which consist of accumulated cost through December 31, 2021 for a new water well, rehabilitation of water treatment facilities, and refurbishment of the water tower. These assets were placed in service during May 2022. These water system infrastructure additions and improvements were financed with proceeds from two loans from Arkansas Natural Resources Commission (ANRC), and a grant from Arkansas Economic Development Commission (AEDC). Also, a grant made to the General Fund from the Delta Regional Authority (DRA) and reported as transfers from City Funds to the Caraway Water and Sewer System in these financial statements.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events up through August 26, 2022, the date on which the financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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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**

Honorable Mayor and
Members of the City Council
Caraway, Arkansas 72419

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 Caraway Water and Sewer System (hereafter referred to as "System"), which comprise the Statement of Net Position as of December 31, 2021 and 2020, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements, and have issued our report thereon dated August 26, 2022, which was unmodified.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 described in the accompanying schedule of findings **(ITEM 2021-1)**, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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 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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness **(ITEM 2021-1)**.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the System'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 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 SYSTEM'S RESPONSE TO FINDINGS

The System's response to the findings identified in our audit is described in the accompanying schedule of findings. The System'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 the testing, and not to provide an opinion on the effectiveness of the System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Despain, Luther, Short
& Company, CPAs, PA*

Jonesboro, Arkansas
August 26, 2022

CARAWAY WATER AND SEWER SYSTEM
Schedule of Findings
For the Year Ended December 31, 2021 and 2020

SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Caraway Water and Sewer System ("System").
2. The 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* (a) disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*; and (b) disclosed a deficiency in internal control described below (**ITEM 2021-1**). The deficiency in internal control described in **ITEM 2021-1** is also considered to be a material weakness.
3. There were no prior audit findings to be resolved. However, the deficiency in internal control described in **ITEM 2021-1** was present in prior years.

INTERNAL CONTROL OVER FINANCIAL REPORTING - AUDIT OF FINANCIAL STATEMENTS

ITEM 2021-1: The System has a limited number of accounting personnel (two employees) that effectively precludes an adequate segregation of duties relating to the billing, collection, recording, reconciling, reporting, coding, and classification of transactions that affect the general ledger. This same circumstance extends to other areas as well. There is a limited amount of control activities with respect to procurement, acquisition, and use of materials.

ENTITY RESPONSE: Management of the System is aware of the situation and realizes that better internal control could be maintained by utilizing more individuals in accounting and record keeping processes. However, Management has determined that the additional cost of adding personnel would exceed the benefit realized. This condition will be present until Management determines that the cost of the risk exceeds the cost of the benefit of adding additional staff.