

KENSETT WATER AND SEWER DEPARTMENT

**(A Proprietary Fund of the
City of Kensett, Arkansas)**

**Independent Auditor's Report
and Financial Statements**

December 31, 2022 and 2021

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)

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**INDEPENDENT
AUDITOR'S
REPORT**



Welch, Couch & Company, PA

Certified Public Accountants

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Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
Kensett Water and Sewer Department
Kensett, Arkansas

Opinion

We have audited the accompanying financial statements of the business-type activities of the Kensett Water and Sewer Department, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Kensett Water and Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Kensett Water and Sewer Department, as of December 31, 2022 and 2021, and the changes in financial 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 Kensett Water and Sewer Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Kensett Water and Sewer Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Kensett, Arkansas that is attributable to the transactions of the Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the City of Kensett, Arkansas, as of December 31, 2022 and 2021, the changes in financial position, or, where applicable, its cash flows 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

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presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kensett Water and Sewer Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kensett Water and Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kensett Water and Sewer Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 - 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate

operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Management is responsible for the supplementary information on pages 26 – 30. Our opinion on the basic financial statements do not cover the supplementary information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the supplementary information and consider whether a material inconsistency exists between the supplementary information and the basic financial statements, or the supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the supplementary information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the Kensett Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Kensett Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kensett Water and Sewer Department's internal control over financial reporting and compliance.


Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
June 5, 2023



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KENSETT WATER AND SEWER DEPARTMENT (A Proprietary Fund of the City of Kensett, Arkansas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kensett Water and Sewer Department's financial performance provides an overview of the Water and Sewer Department's financial activities for the fiscal years ended December 31, 2022 and 2021. Please read it in conjunction with the Water and Sewer Department's financial statements, which begin on page 9.

Financial Highlights

- The Water and Sewer Department's net position decreased by \$(44,732) from \$1,905,882 in 2021 to \$1,861,150 in 2022 as a result of this year's operations. The Water and Sewer Department's net position decreased by \$(22,311) from \$1,928,193 in 2020 to \$1,905,882 in 2021 as a result of annual operation.
- The Water and Sewer Department's operating (loss) income was \$(20,883) and \$4,401 for the years ended December 31, 2022 and 2021, respectively.
- Cash and cash equivalents decreased by \$(74,579) and \$(11,785) for the years ended December 31, 2022 and 2021, respectively.
- In 2022, the Water and Sewer Department did not purchase any capital assets. In 2021, the Water and Sewer Department purchased \$13,993 in capital assets.
- In 2022 or 2021, the Water and Sewer Department issued no long-term debt. The Water and Sewer Department reduced long-term debt by \$128,712 in 2022 and \$58,678 in 2021.

Using This Annual Report

This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements consist of three financial statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. The financial statements focus on the individual parts of the Water and Sewer Department, offering short- and long-term financial information about the activities that the government operates like businesses.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

Our analysis of the Water and Sewer Department finances begins on page 6. One of the most important questions asked about the Water and Sewer Department's finances is, "is the Water and Sewer Department as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Water and Sewer Department's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer Department's net position and changes in them. You can think of the Water and Sewer Department's net position – the difference between assets minus liabilities – as one way to measure the Water and Sewer Department's financial health, or financial position. Over time, increases or decreases in the Water and Sewer Department's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as:

- Where did cash come from?
- What was cash used for?
- What was the change in cash balance during the reporting period?

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Water and Sewer Department's Net Position

The Water and Sewer Department's net position represent the difference between its assets minus its liabilities reported in the statements of net position on page 9. The Department's net position decreased during fiscal year 2022 by \$(44,732) or (2.35)%.

Table 1 below details the various elements of the statement of net position as of December 31, 2022 and 2021:

Table 1		
Assets, Liabilities and Net Position		
	December 31,	
	<u>2022</u>	<u>2021</u>
Total current assets	\$ 327,238	\$ 349,166
Noncurrent assets	166,901	217,990
Capital assets - net	<u>2,382,410</u>	<u>2,450,808</u>
Total assets	<u>\$ 2,876,549</u>	<u>\$ 3,017,964</u>
Current liabilities	\$ 76,345	\$ 92,160
Noncurrent liabilities	871,977	959,928
Other liabilities	<u>67,077</u>	<u>59,994</u>
Total liabilities	<u>1,015,399</u>	<u>1,112,082</u>
Net position		
Net investment in capital assets	1,489,499	1,429,185
Restricted expendable	166,901	217,990
Unrestricted	<u>204,750</u>	<u>258,707</u>
Total net position	<u>1,861,150</u>	<u>1,905,882</u>
Total liabilities and net position	<u>\$ 2,876,549</u>	<u>\$ 3,017,964</u>

Operating Results and Changes in the Water and Sewer Department's Net Position

In 2022, the Water and Sewer Department's net position decreased by \$(44,732) or (2.35)%. This decrease is made up of very different components, as shown in table 2 which follows:

Table 2		
Operating Results and Changes in Net Position		
	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
Operating revenues:		
Water revenue	\$ 259,190	\$ 249,095
Sewer revenue	236,387	263,733
Other revenue	51,664	2,833
Total operating revenues	<u>547,241</u>	<u>515,661</u>
Operating expenses:		
Water expense	104,692	119,402
Salaries and benefits	131,449	128,366
Tools and supplies	61,756	47,005
Truck expense	5,560	7,631
Repairs and maintenance	85,864	25,233
Utilities	39,056	37,493
Fees	23,204	19,271
Depreciation expense	68,398	68,447
Bad debt expense	-	10,496
Sales tax	16,315	17,712
Other operating costs	31,830	30,204
Total operating expenses	<u>568,124</u>	<u>511,260</u>
Operating income	(20,883)	4,401
Nonoperating revenues (expenses)		
Interest income	2,164	2,840
Interest expense	(26,013)	(29,552)
Total operating income	<u>(23,849)</u>	<u>(26,712)</u>
Increase (decrease) in net position	(44,732)	(22,311)
Net position - beginning of year	<u>1,905,882</u>	<u>1,928,193</u>
Net position - end of Year	<u><u>\$ 1,861,150</u></u>	<u><u>\$ 1,905,882</u></u>

Operating Revenues and Expenses

The Water and Sewer Department's total operating revenues increased \$31,580 from \$515,661 in 2021 to \$547,241 in 2022. Total operating expenses increased by \$56,864 from \$511,260 in 2021 to \$568,124 in 2022.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses primarily consist of interest expense on long-term debt and grant income. Interest expense was \$26,013 and \$29,552 in 2022 and 2021, respectively.

The Water and Sewer Department's Cash Flows

Changes in the Water and Sewer Department's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2022 and 2021, the Water and Sewer Department had \$2,382,410 and \$2,450,808, respectively, invested in a broad range of capital assets (net of accumulated depreciation) including land, water tanks and lines, vehicles and maintenance equipment. The Water and Sewer Department's capital asset additions totaled \$0 in 2022, as compared to \$13,993 in 2021.

Debt

At December 31, 2021, the Water and Sewer Department had \$1,021,623 in debt outstanding compared to \$892,911 at December 31, 2022.

Table 3		
Outstanding Debt at Year End		
	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
Bonds and notes payable		
Long-term	\$ 871,977	\$ 959,928
Current	20,934	61,695
Total	<u>\$ 892,911</u>	<u>\$ 1,021,623</u>

Contacting the Water and Sewer Department's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Water and Sewer Department's finances and to show the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kensett Water and Sewer Department, 202 SE 1st, Kensett, AR 72082.

FINANCIAL STATEMENTS

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)

Statements of Net Position
December 31, 2022 and 2021

	<u>Assets</u>	
	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents - Notes 1 and 2	\$ 155,945	\$ 179,972
Certificates of deposit	120,087	119,550
Accounts receivable, net of allowance - Notes 1 and 4	51,206	49,644
Total current assets	<u>327,238</u>	<u>349,166</u>
Noncurrent assets - Notes 2 and 3		
Cash in bank	114,140	165,390
Certificates of deposit	52,761	52,600
Total noncurrent assets	<u>166,901</u>	<u>217,990</u>
Capital assets - net of accumulated depreciation - Notes 1 and 5	<u>2,382,410</u>	<u>2,450,808</u>
Total assets	<u>\$ 2,876,549</u>	<u>\$ 3,017,964</u>
	<u>Liabilities and Net Position</u>	
Current liabilities		
Accounts payable	\$ 39,466	\$ 10,781
Interfund payable	8,658	8,675
Accrued interest payable	540	4,118
Accrued expenses	6,747	6,891
Current maturities of long-term debt - Note 7	20,934	61,695
Total current liabilities	<u>76,345</u>	<u>92,160</u>
Noncurrent liabilities		
Notes payable, net of current portion - Note 7	871,977	959,928
Total noncurrent liabilities	<u>871,977</u>	<u>959,928</u>
Other liabilities		
Meter deposits	67,077	59,994
Total liabilities	<u>1,015,399</u>	<u>1,112,082</u>
Net position		
Net investment in capital assets	1,489,499	1,429,185
Restricted expendable:		
Customer deposits	92,741	86,586
Debt service	56,206	99,399
Depreciation reserve	17,954	32,005
Unrestricted	204,750	258,707
Total net position	<u>1,861,150</u>	<u>1,905,882</u>
Total liabilities and net position	<u>\$ 2,876,549</u>	<u>\$ 3,017,964</u>

The notes to financial statements are an integral part of this statement.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Statements of Revenues, Expenses and
Changes in Net Position
For the Year Ended December 31, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues			
Service revenue	\$ 259,190	\$ 236,387	\$ 495,577
Other revenue	18,389	33,275	51,664
Total operating revenues	<u>277,579</u>	<u>269,662</u>	<u>547,241</u>
Operating expenses			
Water expense	104,692	-	104,692
Salaries	53,307	53,307	106,614
Payroll taxes	4,384	4,384	8,768
Employee benefits	5,454	5,509	10,963
Office supplies	2,114	5,341	7,455
Utilities	2,262	36,794	39,056
Supplies	25,217	36,539	61,756
Other	5,351	5,982	11,333
Fees	5,608	17,596	23,204
Repairs and maintenance	10,120	75,744	85,864
Vehicle and fuel expense	3,031	2,529	5,560
Insurance	1,521	1,521	3,042
Depreciation expense	34,199	34,199	68,398
Sales tax	16,315	-	16,315
Professional fees	5,000	5,000	10,000
Retirement expense	2,552	2,552	5,104
Total expenses	<u>281,127</u>	<u>286,997</u>	<u>568,124</u>
Operating income (loss)	<u>(3,548)</u>	<u>(17,335)</u>	<u>(20,883)</u>
Nonoperating revenues (expenses)			
Interest expense	-	(26,013)	(26,013)
Interest income	1,082	1,082	2,164
Net nonoperating revenues (expenses)	<u>1,082</u>	<u>(24,931)</u>	<u>(23,849)</u>
Decrease in net position	<u>\$ (2,466)</u>	<u>\$ (42,266)</u>	<u>(44,732)</u>
Net position - beginning of year			<u>1,905,882</u>
Net position - end of year			<u>\$ 1,861,150</u>

The notes to financial statements are an integral part of this statement.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Statements of Revenues, Expenses and
Changes in Net Position
For the Year Ended December 31, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues			
Service revenue	\$ 249,095	\$ 263,733	\$ 512,828
Other revenue	2,396	437	2,833
Total operating revenues	<u>251,491</u>	<u>264,170</u>	<u>515,661</u>
Operating expenses			
Water expense	119,402	-	119,402
Salaries	50,636	50,635	101,271
Payroll taxes	4,349	4,349	8,698
Employee benefits	6,738	6,793	13,531
Office supplies	3,627	7,920	11,547
Utilities	2,650	34,843	37,493
Supplies	23,303	23,702	47,005
Other	4,688	3,599	8,287
Fees	4,115	15,156	19,271
Repairs and maintenance	6,647	18,586	25,233
Vehicle and fuel expense	3,066	4,565	7,631
Insurance	1,735	1,735	3,470
Depreciation expense	34,223	34,224	68,447
Bad debt expense	4,981	5,515	10,496
Sales tax	17,712	-	17,712
Professional fees	3,450	3,450	6,900
Retirement expense	2,433	2,433	4,866
Total expenses	<u>293,755</u>	<u>217,505</u>	<u>511,260</u>
Operating income (loss)	<u>(42,264)</u>	<u>46,665</u>	<u>4,401</u>
Nonoperating revenues (expenses)			
Interest expense	-	(29,552)	(29,552)
Interest income	1,347	1,493	2,840
Net nonoperating revenues (expenses)	<u>1,347</u>	<u>(28,059)</u>	<u>(26,712)</u>
Increase (decrease) in net position	<u><u>\$ (40,917)</u></u>	<u><u>\$ 18,606</u></u>	<u><u>(22,311)</u></u>
Net position - beginning of year			<u>1,928,193</u>
Net position - end of year			<u><u>\$ 1,905,882</u></u>

The notes to financial statements are an integral part of this statement.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Receipts from customers	\$ 494,015	\$ 501,435
Payments to suppliers	(260,396)	(225,285)
Payments to employees	(131,449)	(128,366)
Other receipts (payments)	(20,610)	(59,475)
Net cash provided by operating activities	<u>81,560</u>	<u>88,309</u>
Cash flows from capital and related financing activities:		
Purchase of fixed assets	-	(13,993)
Principal payments on long-term debt	(128,712)	(58,678)
Interest paid on long-term debt	(29,591)	(30,263)
Net cash (used in) capital and related financing activities	<u>(158,303)</u>	<u>(102,934)</u>
Cash flows from investing activities:		
Interest received	2,164	2,840
Net cash provided by investing activities	<u>2,164</u>	<u>2,840</u>
Net (decrease) in cash and cash equivalents	(74,579)	(11,785)
Cash and cash equivalents - beginning of year	<u>517,512</u>	<u>529,297</u>
Cash and cash equivalents - end of year	<u>\$ 442,933</u>	<u>\$ 517,512</u>
<u>Reconciliation of total cash and cash equivalents</u>		
Current assets - cash and cash equivalents	\$ 155,945	\$ 179,972
Current assets - certificates of deposit	120,087	119,550
Noncurrent cash and certificates of deposit	166,901	217,990
Total cash and cash equivalents	<u>\$ 442,933</u>	<u>\$ 517,512</u>
<u>Supplemental information</u>		
Interest paid	<u>\$ 29,591</u>	<u>\$ 30,263</u>

The notes to financial statements are an integral part of this statement.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Statements of Cash Flows (Cont.)
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (20,883)	\$ 4,401
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	68,398	68,447
Provision for bad debts	-	10,496
Net change in:		
Accounts receivable	(1,562)	(11,394)
Prepaid expenses	-	3,968
Accounts payable	28,685	7,836
Interfund payable	(17)	(1,952)
Accrued expenses	(144)	184
Meter deposits	7,083	6,323
Net cash provided by operating activities	<u>\$ 81,560</u>	<u>\$ 88,309</u>

The notes to financial statements are an integral part of this statement.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Kensett Water and Sewer Department is considered to be a proprietary fund of the City of Kensett, Arkansas. Proprietary funds are used to account for operations in a manner similar to business enterprises. With a proprietary fund, it is the inherent intent of the governing body to recover all costs of operations through user charges.

Financial Reporting Entity

These financial statements present only the Kensett Water and Sewer Department funds, accounts and balances, and are not intended to present the financial position, results of operations, and cash flows of the City of Kensett, Arkansas.

Measurement Focus and Basis of Accounting

The Water and Sewer Department utilizes enterprise fund accounting through which revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include bank checking, savings accounts and certificates of deposit with original maturities of three months or less.

Noncurrent Assets

Restricted assets include amounts restricted for customer deposits, debt service reserve and depreciation reserve.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Accounts Receivable

The Water and Sewer Department grants credit to its members for water and sewer sales. The collectibility of the Department's receivables is dependent upon the residents' ability to honor their obligations for their bills. Accounts receivable are carried on the balance sheet at net realizable value. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance is estimated based on historical collection percentages. The allowance for doubtful accounts totaled \$42,182 and \$48,219 at December 31, 2022 and 2021, respectively. The Water and Sewer Department had bad debt expense totaling \$0 and \$10,496 for the years ended December 31, 2022 and 2021, respectively.

Capital Assets

Capital assets costing more than \$1,000 and that have useful lives of more than one year are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to forty years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged against earnings when incurred.

Restricted Resources

When the Water and Sewer Department has both restricted and unrestricted resources available to finance a particular program, it is the Department's policy to use restricted resources before unrestricted assets.

Accounts Payable

Accounts payable consists of various trade accounts which are generally payable within thirty (30) days.

Interfund Payable

At December 31, 2022 and 2021, interfund payables consisted of amounts due to the City of Kensett general fund for sanitation services.

Accrued Interest Payable

Accrued interest payable consists of interest due to United States Department of Agriculture and Arkansas Natural Resources Commission on notes payable due December 31, 2022 and 2021.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Accrued Expenses

Accrued expenses as of December 31, 2022 and 2021, comprise sales tax payable, employee reimbursement payable, and various employee benefit payables.

Long-Term Debt

At December 31, 2022 and 2021, long-term debt consisted of principal amounts due to United States Department of Agriculture and Arkansas Natural Resources Commission. See note 7 for further detail.

Meter Deposits

At December 31, 2022 and 2021, meter deposits are liabilities payable to water and sewer customers as a requirement to obtain services.

Net Position

Net position classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, 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 Net Position:

Restricted expendable net position – this component of net position consists of constraints placed on net position 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.

Restricted nonexpendable net position – this component of net position is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Water and Sewer Department such as permanent endowments.

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,” as defined above.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Operating Revenues and Expenses

The Water and Sewer Department's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water and sewer utility services. Operating expenses are all expenses incurred to provide water and sewer utility services, other than financing costs.

Grants and Contributions

From time to time, the Water and Sewer Department receives grants and contributions from federal and state governments, individuals, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Note 2 – Deposits

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Water and Sewer Department's deposit policy for custodial credit risk requires compliance with the provisions of state law. At December 31, 2022, the Water and Sewer Department's carrying amount of deposits was \$442,933. The bank balance was \$447,490. Of this bank balance \$393,769 was insured by FDIC insurance and \$53,721 was uncollateralized.

Interest rate risk – The Water and Sewer Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Water and Sewer Department does not have a formal policy that limits exposure to credit risk.

Concentration of credit risk – The Water and Sewer Department places no limit on the amount it may invest in any one issuer.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 2 – Deposits (Cont.)

The carrying amounts of deposits are included in the Water and Sewer Department's balance sheet as follows:

	<u>2022</u>	<u>2021</u>
Deposits	\$ 442,933	\$ 517,512
Total	<u>\$ 442,933</u>	<u>\$ 517,512</u>

	<u>2022</u>	<u>2021</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 155,945	\$ 179,972
Certificates of deposit	120,087	119,550
Noncurrent cash and certificates of deposit	166,901	217,990
Total	<u>\$ 442,933</u>	<u>\$ 517,512</u>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest income	<u>\$ 2,164</u>	<u>\$ 2,840</u>

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 3 – Noncurrent Assets

Arising from customer deposits held by Kensett Water and Sewer Department and due to debt requirements imposed by USDA Rural Development and Arkansas Natural Resources Commission, restricted cash accounts at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Customer Deposit Accounts:		
Centennial Bank #6554	\$ 3,620	\$ 3,427
Centennial Bank #0247	36,360	30,559
First Community Bank CD #2533	17,055	16,996
First Community Bank CD #9043	12,168	12,113
Centennial Bank CD #0378	23,538	23,491
	<u>92,741</u>	<u>86,586</u>
Debt Service Reserve Account:		
Centennial Bank #8763	6,942	6,416
Centennial Bank #6201	39,548	35,688
Centennial Bank #6188	9,716	9,682
Regions Bank #1068	-	47,613
	<u>56,206</u>	<u>99,399</u>
Depreciation Reserve Account:		
Centennial Bank #0288	<u>17,954</u>	<u>32,005</u>
Total restricted cash and CD accounts	<u><u>\$ 166,901</u></u>	<u><u>\$ 217,990</u></u>

Note 4 – Accounts Receivable

Accounts receivable consists of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 93,388	\$ 97,863
Allowance for doubtful accounts	<u>(42,182)</u>	<u>(48,219)</u>
Accounts receivable, net of allowance for doubtful accounts	<u><u>\$ 51,206</u></u>	<u><u>\$ 49,644</u></u>

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation

Capital assets additions, retirements and balances for the years ended December 31, 2022 and 2021 were as follows:

	Balance December 31, 2021	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Balance December 31, 2022
Capital assets being depreciated:					
Water and sewer system	\$ 3,564,851	\$ -	\$ -	\$ -	\$ 3,564,851
Sewer system project	119,270	-	-	-	119,270
Equipment	233,491	-	-	-	233,491
Vehicles	52,773	-	-	-	52,773
Total capital assets being depreciated	<u>3,970,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,970,385</u>
Less accumulated depreciation	<u>(1,519,577)</u>	<u>(68,398)</u>	<u>-</u>	<u>-</u>	<u>(1,587,975)</u>
Capital assets, net	<u>\$ 2,450,808</u>	<u>\$ (68,398)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,382,410</u>
	Balance December 31, 2020	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Balance December 31, 2021
Capital assets being depreciated:					
Water and sewer system	\$ 3,564,851	\$ -	\$ -	\$ -	\$ 3,564,851
Sewer system project	119,270	-	-	-	119,270
Equipment	232,098	1,393	-	-	233,491
Vehicles	40,173	12,600	-	-	52,773
Total capital assets being depreciated	<u>3,956,392</u>	<u>13,993</u>	<u>-</u>	<u>-</u>	<u>3,970,385</u>
Less accumulated depreciation	<u>(1,451,130)</u>	<u>(68,447)</u>	<u>-</u>	<u>-</u>	<u>(1,519,577)</u>
Capital assets, net	<u>\$ 2,505,262</u>	<u>\$ (54,454)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,450,808</u>

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$68,398 and \$68,447, respectively.

Note 6 – Accrued Compensated Absences

No provision was made for accrued vacation leave because the amount is minimal and would not have a material effect on the financial statements. Sick leave is not payable to an employee upon termination; therefore, it is not subject to accrual.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Water and Sewer Department's noncurrent liabilities at December 31, 2022 and 2021 follows:

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Amount Due Within One Year
Long-term debt:					
USDA - 92-01	\$ 70,435	\$ -	\$ (1,444)	\$ 68,991	\$ 1,510
USDA - 92-04	842,937	-	(19,017)	823,920	19,424
ANRC - PAB92A01	108,251	-	(108,251)	-	-
Total long-term debt	\$ 1,021,623	\$ -	\$ (128,712)	\$ 892,911	\$ 20,934
	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Amount Due Within One Year
Long-term debt:					
USDA - 92-01	\$ 71,816	\$ -	\$ (1,381)	\$ 70,435	\$ 1,444
USDA - 92-04	861,554	-	(18,617)	842,937	19,016
ANRC - PAB92A01	146,931	-	(38,680)	108,251	41,235
Total long-term debt	\$ 1,080,301	\$ -	\$ (58,678)	\$ 1,021,623	\$ 61,695

The Water and Sewer Department has notes payable to USDA Rural Development and to Arkansas Natural Resources Commission. The funding is for the original construction of the water and sewer system and subsequent improvements. The notes are secured by Department assets and pledges of revenue. Current maturities of notes total \$20,934.

The terms and due dates of the Water and Sewer Department's long-term debt at December 31, 2022 follows:

USDA Rural Development:

	<u>92-01</u>	<u>92-04</u>
Original date	05/07/2008	07/24/2013
Interest rate	4.50%	2.125%
Monthly payment	\$ 382	\$ 3,062
Original amount	\$ 84,000	\$ 972,000
Maturity date	02/07/2048	05/24/2053

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Arkansas Natural Resources Commission:

PAB92A01

Original date	09/30/1993
Interest rate	6.5%
Annual payment	\$ 47,613
Original balance	\$ 625,000
Maturity date	09/30/2022

The loan agreement with the USDA – Rural Development requires the Department to fund a reserve account through payments to the accounts at a total rate equal to the annual payment for loan. Monthly deposits of \$39 are required until the amount in the reserve account reaches a maximum sum of \$4,584. Disbursements from the reserve account may only be made with proper consent of USDA – Rural Development.

Scheduled principal and interest repayments on long-term debt at December 31, 2022 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	20,934	20,394	41,328
2024	21,421	19,907	41,328
2025	21,919	19,409	41,328
2026	22,430	18,898	41,328
2027	22,954	18,374	41,328
2028 - 2032	123,095	83,545	206,640
2033 - 2037	138,300	68,330	206,630
2038 - 2042	155,635	51,005	206,640
2043 - 2047	175,336	31,304	206,640
2048 - 2052	173,187	11,355	184,542
2053 - 2057	17,700	103	17,803
Total maturities	\$ 892,911	\$ 342,624	\$ 1,235,535

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 8 – Retirement Plan

The Department contributes 6% of gross wages for employees with service greater than one year to a retirement plan with MetLife. Total contributions by the employer in 2022 was \$5,104 and 2021 was \$4,866.

Note 9 – Risk Management

The Water and Sewer Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from a risk management program and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The Department participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' compensation - this program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised annually based on the cost experience of the particular municipality or group as determined by the workers' compensation commission.

The Department participates in the Arkansas Public Entities Risk Management Association (risk management program) for coverage in the following areas:

- A. *Liability* — this program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The Department shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the Department.
- B. *Physical damage* — this program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. The Department agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

Note 10 – Significant Concentration of Trade Accounts Receivable

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. The Water and Sewer Department grants unsecured credit to its customers, subject to a meter deposit.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 11 – Subsequent Events

Management has evaluated subsequent events through June 5, 2023, the date on which the financial statements were available to be issued. No events were noted which would require recognition or disclosure in the financial statements.

**SUPPLEMENTARY
INFORMATION**

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Users and Consumption
For the Year Ended December 31, 2022

<u>Month</u>	<u>Consumption (In Gallons)</u>	<u>Active Users</u>
January	2,164,100	632
February	1,992,900	627
March	1,929,800	622
April	2,143,800	625
May	1,885,100	629
June	2,290,200	636
July	2,117,300	642
August	2,226,400	641
September	2,412,000	645
October	1,783,300	640
November	1,725,000	645
December	2,008,100	639
Total consumption	24,678,000	
Monthly averages	2,056,500	635

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Users and Consumption
For the Year Ended December 31, 2021

<u>Month</u>	<u>Consumption (In Gallons)</u>	<u>Active Users</u>
January	2,873,800	646
February	2,898,600	650
March	2,948,300	647
April	2,141,100	641
May	2,388,800	644
June	2,614,800	638
July	3,080,325	643
August	3,116,327	647
September	3,149,774	644
October	2,141,700	642
November	1,828,600	645
December	1,741,800	640
Total consumption	30,923,926	
Monthly averages	2,576,994	644

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Current Usage Rates
For the Years Ended December 31, 2022 and 2021

December 31, 2022

Water Rates

From 0 to 2,000 gallons	\$ 17.93
From 2,000 and above	\$ 5.38 per 1,000

Sewer Rates

From 0 to 2,000 gallons	\$ 19.12
From 2,000 – 4,000	\$ 5.38 per 1,000
From 4,001 and above	\$ 4.22 per 1,000

Garbage Rates

Inside city limits	\$ 15.00
Outside city limits	\$ 17.00
Commercial rate	\$ 60.00

December 31, 2021

Water Rates

From 0 to 2,000 gallons	\$ 17.58
From 2,000 and above	\$ 5.27 per 1,000

Sewer Rates

From 0 to 2,000 gallons	\$ 18.75
From 2,000 – 4,000	\$ 5.27 per 1,000
From 4,001 and above	\$ 4.14 per 1,000

Garbage Rates

Inside city limits	\$ 15.00
Outside city limits	\$ 17.00
Commercial rate	\$ 60.00

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Insurance in Force
December 31, 2022 and 2021

December 31, 2022

- A) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2022 – 1/31/2023
Coverage: Buildings and contents
Amount: \$ 683,110
- B) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2022 – 01/31/2023
Coverage: Vehicles and equipment
Amount: \$ 108,875
- C) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2022 – 01/31/2023
Coverage: Workers Compensation

December 31, 2021

- A) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2021 – 1/31/2022
Coverage: Buildings and contents
Amount: \$ 863,214
- B) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2021 – 01/31/2022
Coverage: Vehicles and equipment
Amount: \$ 108,875
- C) Insurance carrier: Arkansas Municipal League
Period covered: 02/01/2021 – 01/31/2022
Coverage: Workers Compensation

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedules of City Officials
December 31, 2022 and 2021

December 31, 2022

Mayor:	Allen Edge
Treasurer/Recorder:	Julie Meade
Councilmen:	Keith Baker
	Ella Watson
	Clarence Chatman
	Charles Vaughn
	Don Fuller
	Kenneth Cooperwood

December 31, 2021

Mayor:	Allen Edge
Treasurer/Recorder:	Julie Meade
Councilmen:	Keith Baker
	Ella Watson
	Clarence Chatman
	Charles Vaughn
	Don Fuller
	Kenneth Cooperwood

**OTHER
REQUIRED
REPORTS**



Welch, Couch & Company, PA

Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA

Members of American Institute of Certified Public Accountants

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

To the Mayor and City Council
Kensett Water and Sewer Department
Kensett, Arkansas

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 Kensett Water and Sewer Department, a proprietary fund of the City of Kensett, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to financial statements which collectively comprise Kensett Water and Sewer Department's basic financial statements, and have issued our report thereon dated June 5, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kensett Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Kensett Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Kensett Water and Sewer Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Water and Sewer Department'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items #2022-01 and #2022-02 that we consider to be significant deficiencies.

Batesville: PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

Salem: PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kensett Water and Sewer Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and management responses as item #2022-03.

Kensett Water and Sewer Department's Response to Findings

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

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 result of that testing, and not to provide an opinion on the effectiveness of the Water and Sewer Department'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 Water and Sewer Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
June 5, 2023

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Findings and Management Responses
For the Year Ended December 31, 2022

Financial Statement Findings

Significant Deficiencies:

2022-01 – Segregation of Duties

Condition: Due to the limited number of personnel, there is a general lack of segregation of accounting duties. Water and Sewer Department personnel have access to or physical custody of assets and perform accounting functions which may not be compatible from a control perspective.

Criteria: Internal controls should be in place to eliminate the incompatible functions of authorization, physical custody of assets and recording of transactions.

Cause: There are a small number of people responsible for the financial transactions of the Water and Sewer Department.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Recommendation: Such activities should be split between employees to the greatest extent possible in order to separate incompatible duties.

Management response: The Water and Sewer Department will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties.

2022-02 – Material Adjustments

Condition: During our audit, we made a material adjustment to the financial statement to properly record long-term debt and fixed assets.

Criteria: Policies and procedures should be in place to make all routine entries to the financial statements.

Cause: Interest portion of note payments were reported as a decrease in liability and, in turn, no interest expense was recorded and note liability was understated. Depreciation was not recorded during the year.

Effect: Failure to post interest and depreciation expense may cause the financial statements to be materially misstated.

KENSETT WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Kensett, Arkansas)
Schedule of Findings and Management Responses (Cont.)
For the Year Ended December 31, 2022

Financial Statement Findings (Cont.)

Significant Deficiencies (cont.):

2022-02 – Material Adjustments (cont.)

Recommendation: We recommend that the Water clerk make monthly entries to post interest and depreciation expense.

Management response: The Water and Sewer Department will develop procedures that will ensure all routine entries are made.

Compliance:

2022-03 – Uninsured and Uncollateralized Deposits

Condition: During our audit it was discovered that cash deposits were not fully secured by collateralization.

Criteria: Arkansas state law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas; having an aggregate value of at least equal value of cash deposits.

Cause: Cash deposits were in excess of federal depository insurance amounts and additional pledged securities were not received from Centennial Bank.

Effect: Failure to comply with state deposit regulation and in the event of a bank failure, the Department's deposits may not be returned to it.

Recommendation: We recommend that the Department require full collateralization with all banking institutions where it deposits public funds, or transfer funds among banking institutions to lower deposits held below federal depository insurance limits.

Management response: Management will discuss with applicable banks to ensure securities are pledged when deposits are in excess of federal depository insurance and procedures will be developed to monitor deposit amounts