

CITY OF MARKED TREE WATER AND SEWER FUND
Marked Tree, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021
And
Independent Auditor's Report

CITY OF MARKED TREE WATER AND SEWER FUND
Marked Tree, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021

<u>Contents</u>	<u>Page</u>
Independent Auditor's Report	1-2
Statements of Net Position.....	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	
Note 1 - Summary of Significant Accounting Policies.....	6-8
Note 2 - Public Funds: Deposits with Financial Institutions	8
Note 3 - Capital Assets	8-9
Note 4 - Employee Benefits.....	9
Note 5 - Restricted Assets.....	9
Note 6 - Commitments.....	10
Note 7 - Long-Term Debt	10-11
Supplementary Information	
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 <i>Government Auditing Standards</i>	12-13
Schedule of Findings and Responses	14



Berry & Associates
CERTIFIED PUBLIC ACCOUNTANTS

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

Page 1

**Members of the City Council
City of Marked Tree Water and Sewer Fund
Marked Tree, Arkansas**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Marked Tree Water and Sewer Fund (the Fund), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Fund's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the City of Marked Tree Water and Sewer Fund as of December 31, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water & Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Marked Tree, Arkansas as of December 31, 2022, the changes in its financial position, or, where applicable, its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

11225 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791 •

jtberry@berryassociatescpa.com

2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919

PO Box 2485 • Madison, MS 39130 • 601-383-0119

Members of the City Council
City of Marked Tree Water and Sewer Fund

Auditor's Responsibility for the Audit of the Financial Statements

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

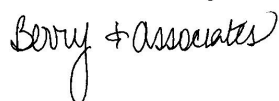
In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2023 on our consideration of the City of Marked Tree Water and Sewer Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marked Tree Water and Sewer Fund's internal control over financial reporting and compliance.



Berry & Associates, P.A.
Little Rock, Arkansas
December 28, 2023

**CITY OF MARKED TREE WATER AND SEWER FUND
STATEMENTS OF NET POSITION
December 31, 2022 and 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 194,480	\$ 179,245
Inventory	82,621	56,915
Accounts receivable	78,421	74,585
Total current assets	<u>355,522</u>	<u>310,745</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	156,230	155,121
Capital assets		
Capital assets, net of accumulated depreciation	<u>3,253,606</u>	<u>3,399,941</u>
TOTAL ASSETS	<u><u>\$ 3,765,358</u></u>	<u><u>\$ 3,865,807</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 45,298	\$ 32,053
Payroll taxes payable	272	4,610
Due to other funds	8,367	13,740
Accrued compensation	2,204	2,597
Accrued interest	3,810	3,884
Current maturities of long-term debt	41,800	43,916
Other current liabilities	4,314	5,446
Total current liabilities	<u>106,065</u>	<u>106,246</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	48,928	47,572
LONG-TERM DEBT, net of current maturities	<u>1,357,611</u>	<u>1,370,000</u>
TOTAL LIABILITIES	<u>1,512,604</u>	<u>1,523,818</u>
NET POSITION		
Net investment in capital assets	1,854,194	1,986,025
Temporarily restricted	43,931	43,931
Unrestricted	354,629	312,033
Total net position	<u>2,252,754</u>	<u>2,341,989</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,765,358</u></u>	<u><u>\$ 3,865,807</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF MARKED TREE WATER AND SEWER FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2022 and 2021

OPERATING REVENUES	2022	2021
Water sales	\$ 372,450	\$ 371,324
Sewer sales	145,254	145,323
Fire protection sales	12,810	13,350
Connections	4,758	4,451
Penalties	16,536	22,396
Other income	7,362	6,065
Total operating revenues	<u>559,170</u>	<u>562,909</u>
OPERATING EXPENSES		
Maintenance salaries	54,886	100,999
Manager salary	55,188	58,438
Office salaries	37,614	38,362
Repairs and maintenance	46,884	56,696
Operating supplies	25,699	84,250
Utilities	57,263	53,366
Insurance	34,625	45,691
Depreciation	183,066	180,096
Telephone	4,100	3,990
Professional fees	2,600	6,535
Truck and tractor expense	26,576	17,585
Office expenses	13,378	9,961
Payroll taxes	11,436	15,097
Lease expense	-	9,288
Licenses and permits	7,521	7,932
Retirement expenses	22,177	26,877
Uniforms	3,200	2,774
Miscellaneous expense	13,171	11,059
Total operating expenses	<u>599,384</u>	<u>728,996</u>
OPERATING LOSS	<u>(40,214)</u>	<u>(166,087)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	2,315	5,879
Interest expense	(45,566)	(46,634)
Other income	-	18,688
Total non-operating expenses	<u>(43,251)</u>	<u>(22,067)</u>
LOSS BEFORE TRANSFERS	<u>(83,465)</u>	<u>(188,154)</u>
Transfers to other funds	<u>(5,770)</u>	<u>(7,694)</u>
CHANGE IN NET POSITION	<u>(89,235)</u>	<u>(195,848)</u>
NET POSITION - BEGINNING OF YEAR	<u>2,341,989</u>	<u>2,537,837</u>
NET POSITION - ENDING OF YEAR	<u>\$ 2,252,754</u>	<u>\$ 2,341,989</u>

The accompanying notes are an integral part of the financial statements

CITY OF MARKED TREE WATER AND SEWER FUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

INCREASE (DECREASE) IN CASH AND RESTRICTED CASH:	2022	2021
Cash flows from operating activities:		
Cash received from customers	\$ 555,334	\$ 558,497
Cash payments for goods and services	(290,971)	(331,301)
Cash payments to employees	(147,688)	(197,799)
Net cash provided by operating activities	<u>116,675</u>	<u>29,397</u>
Cash flows from investing activities:		
Increase (decrease) in restricted cash and cash equivalents	(1,109)	50,048
Other income received	-	18,688
Interest received	2,315	5,879
Net cash provided by investing activities	<u>1,206</u>	<u>74,615</u>
Cash flows from capital and related financing activities:		
Transfers to other funds	(5,770)	(7,694)
Proceeds from long-term notes payable	29,411	-
Principal payments of long-term notes payable	(43,916)	(43,559)
Interest paid	(45,640)	(46,706)
Purchase of capital assets	(36,731)	-
Net cash used by capital and related financing activities	<u>(102,646)</u>	<u>(97,959)</u>
NET INCREASE IN CASH AND RESTRICTED CASH	15,235	6,053
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	179,245	173,192
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 194,480</u></u>	<u><u>\$ 179,245</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (40,214)	\$ (166,087)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	183,066	180,096
(Increase) Decrease in:		
Accounts receivable	(3,836)	(4,412)
Inventory	(25,706)	6,781
Prepaid expenses	-	382
Increase (Decrease) in:		
Accounts payable	13,245	(3,050)
Payroll taxes payable	(4,338)	1,100
Customer meter deposits payable	1,356	371
Accrued compensation	(393)	761
Due to other funds	(5,373)	13,740
Other current liabilities	(1,132)	(285)
Total adjustments	<u>156,889</u>	<u>195,484</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 116,675</u></u>	<u><u>\$ 29,397</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting entity

The City of Marked Tree Water and Sewer Fund is an enterprise fund of the City of Marked Tree, Arkansas. The enterprise fund accounts for its activities similar to a private business. Operational activities of the Water and Sewer Fund include the administration, operation and maintenance of the water and sewer system and billing collection activities. All costs are financed through charges to customers.

Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Depreciation expense is provided for capital assets based upon estimated useful lives. Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The accounts of the Fund are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Fund's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Fund is determined by its measurement focus. The transactions of the Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

The preparation of 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 and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Allowance for Bad Debts

No allowance for uncollectible accounts has been established. Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

Adoption of GASB 87

Effective January 1, 2022, the Fund adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Fund's results of operations or cash flows.

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Fund defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

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

Description	Estimated Useful Live
Equipment	5-10 years
Office equipment	5 years
Sewer facilities	40 years
Water facilities	15-40 years
Vehicles	5 years

Long-Term Debt

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

Operating Revenues and Expenses

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

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets- 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.

Temporarily restricted net position- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

Allowance for Bad Debts

No allowance for uncollectible accounts has been established. Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):

Compensated Absences

The Fund's policies regarding comp time, vacation time, and sick leave permit employees to accumulate earned but unused leave. The liability for these compensated absences is recorded as a current liability in the statement of net position. The Fund reports the liability as it is incurred.

Date of Management's Review

Subsequent events have been evaluated through December 28, 2023, which is the date the financial statements were available to be issued.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

Budgets and Budgetary Accounting

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

Restricted Assets

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

NOTE 2 – PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Fund's name.

NOTE 3 – CAPITAL ASSETS:

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

	Balance 12/31/2021	Additions	Transfers/ Deletions	Balance 12/31/2022
Equipment	\$ 581,972	\$ 36,731	\$ -	\$ 618,703
Land	53,688	-	-	53,688
Office equipment	3,786	-	-	3,786
Sewer facilities	2,304,529	-	-	2,304,529
Water facilities	5,251,298	-	-	5,251,298
Vehicles	88,146	-	-	88,146
	8,283,419	36,731	-	8,320,150
Less: Accumulated Depreciation	(4,883,478)	(183,066)	-	(5,066,544)
Total Net Capital Assets in Service	\$ 3,399,941	\$ (146,335)	\$ -	\$ 3,253,606

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – CAPITAL ASSETS, (continued):

	Balance 12/31/2020	Additions	Transfers/ Deletions	Balance 12/31/2021
Equipment	\$ 581,972	\$ -	\$ -	\$ 581,972
Land	53,688	-	-	53,688
Office equipment	3,786	-	-	3,786
Sewer facilities	2,304,529	-	-	2,304,529
Water facilities	5,251,298	-	-	5,251,298
Vehicles	88,146	-	-	88,146
	8,283,419	-	-	8,283,419
Less: Accumulated Depreciation	(4,703,382)	(180,096)	-	(4,883,478)
Total Net Capital Assets in Service	\$ 3,580,037	\$ (180,096)	\$ -	\$ 3,399,941

NOTE 4 – EMPLOYEE BENEFITS:

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

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5.25% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. For the year ended December 31, 2022 and 2021, actual contributions by the Fund were \$22,177 and \$26,877, respectively.

NOTE 5- RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a debt service reserve (see Note 7).

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

	2022	2021
Meter deposits	\$ 49,969	\$ 49,715
Bond Funds	11,972	11,502
Debt service reserves	94,289	93,904
	\$ 156,230	\$ 155,121

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 6 – COMMITMENTS

The Fund has two individual contracts with Utility Service Co., Inc., to provide the professional service needed to maintain the water storage tanks. Payments are made to Utility Service Co., Inc. monthly, with a maximum 15% adjustment, either up/down, being made every 5 years in order to reflect the current costs of the service. Contract payments amounted to \$22,612 for the year ended December 31, 2022.

NOTE 7 – LONG-TERM DEBT:

	<u>2022</u>	<u>2021</u>
Loan payable to Armor Bank, \$761 due monthly, including interest at 4.25%	\$ -	\$ 8,916
Loan payable to John Deere Financial, \$8,257 due annually, including interest at 4.80% (2)	29,411	-
Water and Sewer Revenue Bonds, payable to Bank OZK, variable payments due semi-annually, including interest (1)	<u>1,370,000</u>	<u>1,405,000</u>
	1,399,411	1,413,916
Less Current Portion	<u>(41,800)</u>	<u>(43,916)</u>
Total Long-Term Debt	<u>\$ 1,357,611</u>	<u>\$ 1,370,000</u>

The Bank OZK Water and Sewer Revenue Bond dated May 23, 2019, is a single loan in the principal amount of \$1,500,000 bearing variable interest rates, secured by water and sewer system assets and revenue from the systems. This is an amortized loan over a twenty-nine-year period with semi-annual installments for principal and interest in variable amounts. The bond requires a debt service reserve be maintained in the amount of \$43,931 for the life of the outstanding bond payable. (1)

The John Deere Financial Loan dated May 25, 2022, is a single loan in the principal amount of \$29,411, bearing an interest rate of 4.80%, secured by equipment. This loan is amortized over a four-year period with annual installments for principal and interest at \$8,257. This loan has no restrictive covenants. (2)

The annual maturities of long-term debt payable at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 41,800	\$ 46,195	\$ 87,995
2024	47,200	44,919	92,119
2025	52,500	43,620	96,120
2026	52,911	42,084	94,995
2027	45,000	40,613	85,613
2028-2032	230,000	183,937	413,937
2033-2037	275,000	145,063	420,063
2038-2042	320,000	95,956	415,956
2043-2047	335,000	33,894	368,894
	<u>\$ 1,399,411</u>	<u>\$ 676,281</u>	<u>\$ 2,075,692</u>

CITY OF MARKED TREE WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 7 – LONG-TERM DEBT, (continued):

Long-term debt activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance 1/1/22	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Water Revenue Bonds	\$ 1,405,000	\$ -	\$ (35,000)	\$ 1,370,000	\$ 35,000
Loans	8,916	29,411	(8,916)	29,411	6,800
	<u>\$ 1,413,916</u>	<u>\$ 29,411</u>	<u>\$ (43,916)</u>	<u>\$ 1,399,411</u>	<u>\$ 41,800</u>

	Balance 1/1/21	Additions	Retirements	Balance 12/31/21	Due Within One Year
Long Term Debt					
Water Revenue Bonds	\$ 1,440,000	\$ -	\$ (35,000)	\$ 1,405,000	\$ 35,000
Loans	17,475	-	(8,559)	8,916	8,916
	<u>\$ 1,457,475</u>	<u>\$ -</u>	<u>\$ (43,559)</u>	<u>\$ 1,413,916</u>	<u>\$ 43,916</u>

The Fund has pledged future water customer revenues, net of specified operating expenses, to repay \$1,399,411 in loans and revenue bonds. Proceeds from the loans and bonds were used for building of the Fund's water system and purchasing a vehicle and equipment. Principal and interest on the loans and bonds are payable through 2047, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2022 were \$43,916 and \$45,640, respectively. Principal and interest paid in the year ended December 31, 2021 were \$43,559 and \$46,706, respectively.

SUPPLEMENTARY INFORMATION



**To the Members of the City Council
City of Marked Tree Water and Sewer Fund
Marked Tree, Arkansas**

**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***

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 of the United States, the financial statements of the City of Marked Tree Water and Sewer Fund ("Fund") as of and for the year ended December 31, 2022, and the related notes to the financial statements which collectively comprise the Fund's financial statements and have issued our report thereon dated December 28, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the internal control was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2022-01 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision 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 is required to be reported under *Government Auditing Standards*.

Members of the City Council
City of Marked Tree
Page 2

Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Fund'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 response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.
Little Rock, AR
December 28, 2023

**CITY OF MARKED TREE WATER AND SEWER FUND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022**

2022-01 Internal Control – Segregation of Duties

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

Condition: Presently the same individual that receives utility service-related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, and posts payments to subsidiary accounts receivable ledger. Also, the same individual who is responsible for general ledger activity, including posting and writing checks, also reconciles the bank statement. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2021.

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

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

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

View of Responsible Officials: The Fund concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Fund has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.