

PANGBURN WATER AND WASTEWATER SYSTEM

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Years Ended December 31, 2022 and 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

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Independent Auditors' Report

City Council
Pangburn Water and Wastewater System
City of Pangburn, Arkansas

Opinions

We have audited the accompanying financial statements of Pangburn Water and Wastewater System as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Pangburn Water and Wastewater System'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 respective financial position of the governmental activities of the Pangburn Water and Wastewater System as of December 31, 2022, and the respective changes in financial position for the year 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 Pangburn Water and Wastewater System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 Pangburn Water and Wastewater System'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.

Auditors' 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 misstatements, 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of 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 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 Pangburn Water and Wastewater System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in aggregate, that raise substantial doubt about Pangburn Water and Wastewater System'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.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pangburn Water and Wastewater System's basic financial statements. The accompanying supplementary schedule listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

City Council
Pangburn Water and Wastewater System
City of Pangburn, Arkansas
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024 on our consideration of Pangburn Water and Wastewater System'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 Pangburn Water and Wastewater System's internal control over financial reporting and compliance.

Cobb and Suskie, Ltd.

Certified Public Accountants
June 28, 2024

PANGBURN WATER AND WASTEWATER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 323,618	\$ 180,561
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$31,928 in 2022 and \$26,180 in 2021	99,563	109,249
Prepays & Other Assets	174	174
Total Current Assets	<u>423,355</u>	<u>289,984</u>
<u>RESTRICTED ASSETS</u>		
Cash	230,692	245,615
Total Restricted Assets	<u>230,692</u>	<u>245,615</u>
<u>CAPITAL ASSETS</u>		
Property, Plant, and Equipment	7,006,624	6,990,065
Less Accumulated Depreciation	<u>2,933,143</u>	<u>2,793,379</u>
Net Capital Assets	<u>4,073,481</u>	<u>4,196,686</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pensions	<u>54,294</u>	<u>27,417</u>
TOTAL ASSETS	<u>\$ 4,781,822</u>	<u>\$ 4,759,702</u>

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

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>2021</u>
<u>CURRENT LIABILITIES</u> (Payable from Current Assets)		
Accounts Payable	\$ 18,804	\$ 21,744
Payroll Taxes Payable	4,717	3,738
Other Liabilities	9,931	8,674
Total Current Liabilities	<u>33,452</u>	<u>34,156</u>
<u>CURRENT LIABILITIES</u> (Payable from Restricted Assets)		
Current Maturities of Long-Term Debt	60,018	57,794
Accrued Interest Payable	4,874	5,283
Customer Meter Deposits	42,790	49,951
Total Current Liabilities	<u>107,682</u>	<u>113,028</u>
<u>LONG-TERM LIABILITIES</u> , Less Current Maturities		
Net Pension Liability	149,458	61,382
Bonds Payable	2,468,707	2,528,722
Total Long-Term Liabilities	<u>2,618,165</u>	<u>2,590,104</u>
Total Liabilities	<u>2,759,299</u>	<u>2,737,288</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pensions	<u>40,568</u>	<u>112,350</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Liabilities	1,544,756	1,610,170
Restricted for Debt Service	98,706	109,161
Restricted for Capital Improvement	89,196	86,503
Unrestricted	249,297	104,230
Total Net Position	<u>1,981,955</u>	<u>1,910,064</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,781,822</u>	<u>\$ 4,759,702</u>

PANGBURN WATER AND WASTEWATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Water Revenue	\$ 691,493	\$ 669,637
Sewer Revenue	66,164	65,090
Fees, Late Charges, and Other	16,226	14,380
Other Income	<u>40,211</u>	<u>11,845</u>
 TOTAL OPERATING REVENUES	 <u>814,094</u>	 <u>760,952</u>
<u>OPERATING EXPENSES</u>		
Salaries and Wages	142,091	143,308
Payroll Taxes and Employee Benefits	31,596	25,122
Contract Labor	600	-
Pension	10,625	(1,749)
Bad Debts	5,748	4,741
Chemicals	33,529	39,759
Repairs and Maintenance	79,667	82,490
Operating Supplies	45,475	27,562
Insurance	42,016	35,450
Utilities	49,132	49,458
Membership Dues and Fees	11,501	14,056
Office Expense	11,993	6,859
Postage	7,280	6,255
Professional Fees	43,916	47,926
Rental Expense	537	391
Miscellaneous Expense	2,399	6,759
Depreciation	<u>139,764</u>	<u>152,043</u>
 TOTAL OPERATING EXPENSES	 <u>657,869</u>	 <u>640,430</u>
 NET OPERATING INCOME (LOSS)	 <u>156,225</u>	 <u>120,522</u>
<u>OTHER REVENUES (EXPENSES)</u>		
Interest Income	204	167
Interest Expense	<u>(84,538)</u>	<u>(88,593)</u>
 TOTAL OTHER REVENUES (EXPENSES)	 <u>(84,334)</u>	 <u>(88,426)</u>
 NET INCOME (LOSS)	 71,891	 32,096
NET POSITION - BEGINNING OF YEAR	<u>1,910,064</u>	<u>1,877,968</u>
NET POSITION - END OF YEAR	<u>\$ 1,981,955</u>	<u>\$ 1,910,064</u>

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

PANGBURN WATER AND WASTEWATER SYSTEM
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 823,780	\$ 767,676
Cash Payments to Suppliers for Goods and Services	(335,476)	(337,483)
Cash Payments to Employees for Services	(193,916)	(169,446)
Net Cash Provided - Operating Activities	<u>294,388</u>	<u>260,747</u>
<u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of Capital Assets	(16,559)	(25,116)
Bond Principal Paid	(57,791)	(60,151)
Bond Interest Paid	(84,947)	(91,174)
Net Cash Provided - Capital and Related Financing	<u>(159,297)</u>	<u>(176,441)</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	<u>204</u>	<u>167</u>
Net Cash Provided - Investing Activities	<u>204</u>	<u>167</u>
<u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits - Net	<u>(7,161)</u>	<u>7,241</u>
Net Cash Provided - Other Activities	<u>(7,161)</u>	<u>7,241</u>
Net Increase (Decrease) in Cash	128,134	91,714
Cash, Beginning of Year	<u>426,176</u>	<u>334,462</u>
Cash, End of Year	<u>\$ 554,310</u>	<u>\$ 426,176</u>

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

PANGBURN WATER AND WASTEWATER SYSTEM
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM
 OPERATING ACTIVITIES

	<u>2022</u>	<u>2021</u>
Operating Income (Loss)	\$ 156,225	\$ 120,522
Depreciation	139,764	152,043
Accounts Receivable (Increase) Decrease	9,686	11,465
Deferred outflows of Resources (Increase) Decrease	(26,877)	32,503
Accounts Payable and Accrued Expense Increase (Decrease)	(704)	397
Pension Liabilities Increase (Decrease)	88,076	(151,451)
Deferred Inflows of Resources Increase (Decrease)	<u>(71,782)</u>	<u>95,268</u>
Net Cash Provided From Operating Activities	<u>\$ 294,388</u>	<u>\$ 260,747</u>
Reconciliation:		
Unrestricted Cash and Cash Equivalents	\$ 323,618	\$ 180,651
Restricted Cash and Cash Equivalents	<u>230,692</u>	<u>245,515</u>
Cash and Cash Equivalents at End of Year	<u>\$ 554,310</u>	<u>\$ 426,166</u>

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

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information

The Pangburn Water and Wastewater System (the System) is a proprietary component unit of the City of Pangburn, Arkansas (the City). The System provides water and/or sewer services to the residential and commercial operations in the City of Pangburn. These financial statements are prepared from the books and records of the Pangburn Water and Wastewater System. These financial statements are not intended to present fairly the financial position of the City of Pangburn, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

(b) Basis of Accounting

These financial statements are prepared utilizing the accrual basis of accounting. The accrual basis of accounting recognizes revenue when realized and expenses when occurred, without regard to the time of receipt or payment. The focus of accrual accounting is on the realization of revenue, of costs incurred, and the matching of revenue and costs.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the System considers all highly liquid investments, with a maturity of three months or less, when purchased to be cash equivalents.

(d) Investments

Investments are stated at fair value.

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Accounts Receivable

Accounts receivable, which consist of water and related services billed to customers of the System, are stated at the amount management expects to collect from outstanding balances. The System requires all customers to pay a deposit for services. In the normal course of business, the System grants unsecured trade credit to its customers in excess of their deposit. Customer deposits are applied and/or refunded against a customer's final bill upon discontinuance of service. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

(f) Inventory

Inventory is calculated at cost, utilizing the cost of the last item purchased for that group as unit cost.

(g) Restricted Assets

Restricted assets consist of checking accounts, certificates of deposit, and accounts receivable restricted to use as indicated by their fund titles. The System has established and maintained these funds to account for and hold debt service reserves and customer deposits. Restricted assets are more fully described in Note 3.

(h) Capital Assets

Purchased capital assets are stated at cost. Contributed assets are recorded at estimated fair value at the time of receipt. Depreciation is computed by the straight-line method over the following estimated useful lives:

Waterworks and Sewer Plant	10-40 1/3 years
Operating Equipment	3-10 years
Office Building	20 years
Office Equipment	5-10 years
Furniture and Fixtures	5-10 years

Details of changes in the accounts for the years ended December 31, 2022 and 2021, respectively, are more fully summarized in Note 4.

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (i) Unamortized Bond Issuance Costs
Costs associated with the issuance of bonds are reported as current period expenses.

- (j) Capitalization of Interest
Interest has been capitalized on major construction projects based on the applicable rate of borrowed funds for that project. If funds were required in excess of specifically borrowed funds, an average rate for all borrowed funds was used to capitalize interest.

- (k) Revenue Recognition
The accounts receivable and revenue recognized are based on meter readings by Waterworks personnel. The meter readings are made at various times of the month, and approximately thirteen days of water consumption during any month remain unbilled at the end of the month.

- (l) Basis for Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statements of cash flows to the statements of net assets as of December 31, 2022 and 2021, respectively, follows:

	<u>2022</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 180,561	\$ 245,615	\$ 426,176
Net Increase (Decrease)	<u>143,057</u>	<u>(14,923)</u>	<u>128,134</u>
Cash at End of Year	<u>\$ 323,618</u>	<u>\$ 230,692</u>	<u>\$ 554,310</u>
	<u>2021</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 123,616	\$ 210,846	\$ 334,462
Net Increase (Decrease)	<u>56,945</u>	<u>34,769</u>	<u>91,714</u>
Cash at End of Year	<u>\$ 180,561</u>	<u>\$ 245,615</u>	<u>\$ 426,176</u>

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

The Systems' funds are combined with the departmental bank accounts of the City of Pangburn in determining the appropriateness of collateralization from financial institutions.

The Systems' deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. agencies.

Included in the Systems' total cash balances of \$554,310 and \$426,176 at December 31, 2022 and 2021, respectively, are deposits with financial institutions which are categorized as credit risk as follows:

	<u>2022</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 554,310	\$ 567,632
Uninsured and Uncollateralized	-	-
Total	<u>\$ 554,310</u>	<u>\$ 567,632</u>
	<u>2021</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 426,126	\$ 430,642
Uninsured and Uncollateralized	-	-
Total	<u>\$ 426,126</u>	<u>\$ 430,642</u>

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3: RESTRICTED ASSETS

(a) Restricted assets consist of debt service, capital improvement reserves, and meter deposits.

Restricted assets at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Restricted for debt service	\$ 98,706	\$ 109,161
Restricted for capital improvements	89,196	86,503
Meter Deposits	<u>42,790</u>	<u>49,951</u>
TOTAL RESTRICTED ASSETS	<u>\$ 230,692</u>	<u>\$ 245,615</u>

(b) Reserve Accounts

	Reserve Acct Balance <u>1/1/2022</u>	Additional Reserve Amount	Retired Reserve Amount	Required Reserve Acct Balance <u>12/31/2022</u>	Actual Reserve Acct Balance <u>12/31/2022</u>
USDA (Loan 92-05)	\$ 8,040	\$ -	\$ -	\$ 8,040	\$ 8,040
USDA (Loan 91-07)	55,979	8,724	-	64,703	67,703
USDA (Loan 91-09)	22,484	3,504	-	25,988	25,988
Unused Water Plant Project Funds	2,061	-	-	2,061	2,061
USDA (Loan 91-07 and 91-09) SLA	<u>107,100</u>	<u>15,300</u>	-	<u>122,400</u>	<u>44,718</u>
	<u>\$ 195,664</u>	<u>\$ 27,528</u>	<u>\$ -</u>	<u>\$ 223,192</u>	<u>\$ 148,510</u>

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4: 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	<u>2022</u>		Balance 12/31/2022
		Additions	Deletions	
Capital Assets Not Being Depreciated:				
Land	\$ 96,742	\$ -	\$ -	\$ 96,742
Total Capital Assets Not Being Depreciated:	<u>96,742</u>	<u>-</u>	<u>-</u>	<u>96,742</u>
Capital Assets Being Depreciated:				
Building and Improvements	113,881	-	-	113,881
Utility Plant	6,483,437	10,559	-	6,493,996
Equipment	296,005	6,000	-	302,005
Total Capital Assets Being Depreciated	<u>6,893,323</u>	<u>16,559</u>	<u>-</u>	<u>6,909,882</u>
Total Capital Assets	<u>6,990,065</u>	<u>16,559</u>	<u>-</u>	<u>7,006,624</u>
Less Accumulated Depreciation for:				
Building and Improvements	25,044	2,917	-	27,961
Utility Plant	2,530,568	129,408	-	2,659,976
Equipment	237,767	7,439	-	245,206
Total Accumulated Depreciation	<u>2,793,379</u>	<u>139,764</u>	<u>-</u>	<u>2,933,143</u>
Capital Assets, Net	<u>\$ 4,196,686</u>	<u>\$ (123,205)</u>	<u>\$ -</u>	<u>\$ 4,073,481</u>

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4: CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2020	<u>2021</u>		Balance 12/31/2021
		Additions	Deletions	
Capital Assets Not Being Depreciated:				
Land	\$ 96,742	\$ -	\$ -	\$ 96,742
Total Capital Assets Not Being Depreciated:	<u>96,742</u>	<u>-</u>	<u>-</u>	<u>96,742</u>
Capital Assets Being Depreciated:				
Building and Improvements	113,881	-	-	113,881
Utility Plant	6,470,937	12,500	-	6,483,437
Equipment	283,389	12,616	-	296,005
Total Capital Assets Being Depreciated	<u>6,868,207</u>	<u>25,116</u>	<u>-</u>	<u>6,893,323</u>
Total Capital Assets	<u>6,964,949</u>	<u>25,116</u>	<u>-</u>	<u>6,990,065</u>
Less Accumulated Depreciation for:				
Building and Improvements	22,127	2,917	-	25,044
Utility Plant	2,391,343	139,225	-	2,530,568
Equipment	227,866	9,901	-	237,767
Total Accumulated Depreciation	<u>2,641,336</u>	<u>152,043</u>	<u>-</u>	<u>2,793,379</u>
Capital Assets, Net	<u>\$ 4,323,613</u>	<u>\$ (126,927)</u>	<u>\$ -</u>	<u>\$ 4,196,686</u>

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$139,764 and \$152,043 respectively.

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5: LONG-TERM DEBT

Long-term debt at December 31, 2022 and 2021 consisted of lease purchase agreements and bonds and notes issued by the System. Changes for the years then ended are as follows:

	<u>2022</u>			Amount Due	
	<u>Beginning</u>			<u>Ending</u>	<u>Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
USDA-Rural Development-1998 bond issuance, payable in monthly installments of \$667 including principal and interest. The bonds bear an annual interest rate of 4.5% and are scheduled to mature in 2038.	\$ 92,170	\$ -	\$ 3,937	\$ 88,233	\$ 4,118
USDA-Rural Development-2014 bond issuance, payable in monthly installments of \$7,266 including principal and interest. The bonds bear an annual interest rate of 3.25% and are scheduled to mature in 2054.	1,743,244	-	30,993	1,712,251	32,018
USDA-Rural Development-2014 bond issuance, payable in monthly installments of \$2,911 including principal and interest. The bonds bear an annual interest rate of 3.25% and are scheduled to mature in 2054.	683,405	-	12,912	670,493	13,338
Arkansas Natural Resources Commission-2002 bond issuance, payable in semi-annual installments of \$6,899 including principle and interest. The bonds bear an annual interest rate of 5.9% and is scheduled to mature in 2027.	<u>67,697</u>	<u>-</u>	<u>9,949</u>	<u>57,748</u>	<u>10,544</u>
Total Debt	<u>\$ 2,586,516</u>	<u>\$ -</u>	<u>\$ 57,791</u>	<u>\$ 2,528,725</u>	<u>\$ 60,018</u>

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5: LONG-TERM DEBT (CONTINUED)

	<u>2021</u>				Amount Due
	<u>Beginning</u>			<u>Ending</u>	<u>Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
USDA-Rural Development-1998 bond issuance, payable in monthly installments of \$667 including principal and interest. The bonds bear an annual interest rate of 4.5% and are scheduled to mature in 2038.	\$ 95,934	\$ -	\$ 3,764	\$ 92,170	\$ 3,937
USDA-Rural Development-2014 bond issuance, payable in monthly installments of \$7,266 including principal and interest. The bonds bear an annual interest rate of 3.25% and are scheduled to mature in 2054.	1,773,251	-	30,007	1,743,244	30,996
USDA-Rural Development-2014 bond issuance, payable in monthly installments of \$2,911 including principal and interest. The bonds bear an annual interest rate of 3.25% and are scheduled to mature in 2054.	695,906	-	12,501	683,405	12,913
Arkansas Natural Resources Commission-2002 bond issuance, payable in semi-annual installments of \$6,899 including principle and interest. The bonds bear an annual interest rate of 5.9% and is scheduled to mature in 2027.	<u>81,576</u>	<u>-</u>	<u>13,879</u>	<u>67,697</u>	<u>9,948</u>
Total Debt	<u>\$ 2,646,667</u>	<u>\$ -</u>	<u>\$ 60,151</u>	<u>\$ 2,586,516</u>	<u>\$ 57,794</u>

PANGBURN WATER AND WASTEWATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5: LONG-TERM DEBT (CONTINUED)

Total debt service payments on all indebtedness subsequent to December 31, 2022, are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 60,018	\$ 83,908	\$ 143,926
2024	62,335	81,591	143,926
2025	64,748	79,178	143,926
2026	67,260	76,666	143,926
2027	68,203	74,048	142,251
2028-2032	313,181	337,459	650,640
2033-2037	370,496	280,144	650,640
2038-2042	396,222	216,460	612,682
2043-2047	463,626	146,994	610,620
2048-2052	545,312	65,308	610,620
2053-2054	117,324	2,623	119,947
	<u>\$ 2,528,725</u>	<u>\$ 1,444,379</u>	<u>\$ 3,973,104</u>

PANGBURN WATER AND WASTEWATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN

Arkansas Public Employees Retirement System (APERS) Plan Description

The System participates in a cost-sharing multiple-employer pension plan, administered by the Arkansas Public Employees Retirement System (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the system is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest 3 – year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non – Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- (a) At age 65 with 5 years of service,
- (b) At any age with 28 years actual service,
- (c) At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- (d) At age 55 with 35 years of credited service for elected or public safety Officials

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service. Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost – of – living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). The System contributed 15.32% of compensation from January 1, 2022 until December 31, 2022. The System's contributions for the year ended December 31, 2022 amounted to \$21,208 and were equal to the required contribution for the year.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2022 the System reported a liability of \$149,458 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Utility's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The Utility's proportion was .0055429%.

PANGBURN WATER AND WASTEWATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources to Pensions (Continued)

For the year ended December 31, 2022, the System recognized a pension expense of \$10,635. At December 31, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,587	\$ (1,804)
Changes of Assumptions	-	-
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	31,528	-
Change in Proportion and Differences between Employer Contributions and Share of Contributions	7,958	(38,764)
Contributions Made subsequent to the measurement date	11,221	-
Total	<u>\$ 54,294</u>	<u>\$ (40,568)</u>

\$11,221 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

2023	\$ (2,885)
2024	\$ (5,802)
2025	\$ (10,795)
2026	\$ (21,987)
2027	\$ -
Thereafter	\$ -

PANGBURN WATER AND WASTEWATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 - 9.85% including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.7989

PANGBURN WATER AND WASTEWATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates are arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022, are summarized in the table below:

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>LONG-TERM EXPECTED REAL RATE OF RETURN</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	

Total Real Rate of Return	4.93%
Plus: Price Inflation-Actually Assumption	2.50%
Net Expected Return	7.43%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PANGBURN WATER AND WASTEWATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6: RETIREMENT PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Pangburn Water and Wastewater System proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Lower (6.15%)	Discount Rate (7.15%)	1% Higher (8.15%)
\$ 237,611	\$ 149,458	\$ 76,680

NOTE 7: RISK MANAGEMENT

The System has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Payments and premiums for these policies are recorded as expenses of the System. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant changes in coverage compared to the prior year.

NOTE 8: SUBSEQUENT EVENTS

The Pangburn Water and Wastewater System did not have any recognized or nonrecognized subsequent events occur after December 31, 2022, the date of the statement of financial position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through June 28, 2024, the date the financial statements were available to be issued.

PANGBURN WATER AND WASTEWATER SYSTEM
SCHEDULE OF SERVICE USERS
DECEMBER 31, 2022

<u>Customers</u>	<u>Active</u>
Number of Users	
Residential	1,444
Non-residential	<u>5</u>
Total Number of Users	<u><u>1,449</u></u>

See independent auditors' report on supplementary information.

COBB AND SUSKIE, LTD.

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Michael L. Cobb

Anne Suskie Pinyan

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*

City Council
Pangburn Water and Wastewater System
Pangburn, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Pangburn Water and Wastewater System as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Pangburn Water and Wastewater Systems' basic financial statements, and have issued our report thereon dated June 28, 2024.

Internal Control Over Financial Reporting

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

City Council
Pangburn Water and Wastewater System
Pangburn, Arkansas
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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. 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 a certain deficiency in internal control, discussed in the accompanying schedule findings and responses as item 2023-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pangburn Water and Wastewater Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is intended 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.



Certified Public Accountants
June 28, 2024

PANGBURN WATER AND WASTEWATER SYSTEM
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2022

2023 – 1

Findings: The System has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the System's objectives with regard to reliability of financial reporting.

Response: The System is aware of the deficiency and will continue to mitigate the deficiency with increased oversight by the governing body.

PANGBURN WATER AND WASTEWATER SYSTEM
STATUS OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2022

The independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* for the year ended December 31, 2021, was issued by other auditors whose report dated February 8, 2023 included the following material weaknesses:

2021 – 1

Findings: The System has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the System's objectives with regard to reliability of financial reporting.

Status: The System is aware of the deficiency and will continue to mitigate the deficiency with increased oversight by the governing body.