

**CITY OF FOREMAN
WATER AND SEWER FUND
Foreman, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020
and
INDEPENDENT AUDITOR'S REPORT**

**CITY OF FOREMAN
WATER AND SEWER FUND
Foreman, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020**

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Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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**Honorable William Harp, Mayor,
And Members of The City Council
City of Foreman
Foreman, Arkansas**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the City of Foreman Water and Sewer Fund, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Foreman Water and Sewer Fund as of December 31, 2021 and 2020 and the 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.

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**Honorable William Harp, Mayor,
And Members of The City Council
City of Foreman**

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Foreman Water and Sewer Fund's financial statements. The Supplementary Information Required by the USDA Rural Development is presented for purposes of additional information and is not a required part of the basic financial statements.

The Supplementary Information Required by the USDA Rural Development 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. Such 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 and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information Required by the USDA Rural Development is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2022, on our consideration of the City of Foreman 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 the effectiveness of the City of Foreman Water and Sewer Fund'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 City of Foreman Water and Sewer Fund's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Foreman, Arkansas, as of December 31, 2021 and 2020, and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Berry & Associates, P.A.
Little Rock, Arkansas
February 23, 2022

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF NET POSITION
December 31, 2021 and 2020**

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 96,102	\$ 123,306
Accounts receivable	50,924	49,126
Total Current Assets	<u>147,026</u>	<u>172,432</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash and equivalents	80,389	33,771
Certificates of deposit	136,663	132,629
Total Restricted Assets	<u>217,052</u>	<u>166,400</u>
CAPITAL ASSETS	5,308,948	5,257,725
Less: accumulated depreciation	<u>(2,571,220)</u>	<u>(2,472,535)</u>
Net Capital Assets	<u>2,737,728</u>	<u>2,785,190</u>
TOTAL ASSETS	<u>\$ 3,101,806</u>	<u>\$ 3,124,022</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 66,800	\$ 47,600
Accounts payable	13,347	9,918
Accrued interest payable	2,985	3,509
Due to general fund	888	907
Sales tax payable	2,825	2,863
Total Current Liabilities	<u>86,845</u>	<u>64,797</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	34,411	34,186
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	<u>774,610</u>	<u>754,778</u>
TOTAL LIABILITIES	<u>895,866</u>	<u>853,761</u>
NET POSITION		
Net investment in capital assets	1,896,318	1,982,811
Temporarily restricted	124,213	110,933
Unrestricted	<u>185,409</u>	<u>176,517</u>
TOTAL NET POSITION	<u>2,205,940</u>	<u>2,270,261</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,101,806</u>	<u>\$ 3,124,022</u>

The accompanying notes to the financial statements are an integral part of these statements

CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water revenue	\$ 372,741	\$ 350,642
Sewer revenue	70,448	71,478
Sanitation revenue	105,596	105,112
Penalties	10,860	11,722
Reconnections	1,000	640
Other revenue	3,472	5,790
Total Operating Revenues	<u>564,117</u>	<u>545,384</u>
OPERATING EXPENSES		
Water purchases	151,881	125,691
Depreciation	144,078	137,083
Employee benefits	14,047	13,522
Fuel and travel	6,236	3,745
Insurance	23,029	19,801
Lab fees	5,795	4,590
Licenses and dues	6,098	5,953
Office expenses	229	1,382
Payroll taxes	6,935	6,632
Postage	2,153	1,985
Professional fees	9,715	7,642
Repairs and maintenance	71,831	18,074
Salaries	91,738	88,247
Supplies	44,735	44,577
Trash expense	104,605	104,957
Utilities	20,191	18,586
Penalties	4,400	4,267
Miscellaneous	1,553	1,059
Total Operating Expenses	<u>709,249</u>	<u>607,793</u>
OPERATING LOSS	<u>(145,132)</u>	<u>(62,409)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	4,144	3,965
Gain on sale of capital asset	8,634	-
Bad debt expense, net of bad debt recovery	(2,292)	(364)
Interest expense	(25,600)	(25,326)
Net Non-Operating Expense	<u>(15,114)</u>	<u>(21,725)</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	(160,246)	(84,134)
TRANSFERS		
Transfers in	<u>95,925</u>	<u>22,146</u>
CHANGE IN NET POSITION	(64,321)	(61,988)
NET POSITION - BEGINNING OF YEAR	<u>2,270,261</u>	<u>2,332,249</u>
NET POSITION - ENDING OF YEAR	<u>\$ 2,205,940</u>	<u>\$ 2,270,261</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from customers	\$ 562,319	\$ 540,300
Cash payments to suppliers	(472,354)	(384,846)
Cash payments to employees	(91,738)	(88,247)
Net cash provided (used) by operating activities:	<u>(1,773)</u>	<u>67,207</u>
Cash flows from investing activities:		
Increase in meter deposits payable	225	1,060
Interest received on certificates of deposit	4,144	3,965
Net cash provided by investing activities:	<u>4,369</u>	<u>5,025</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(96,616)	(44,264)
Proceeds from the sale of capital assets	8,634	-
Proceeds from long-term debt	91,956	13,915
Principal payments on long-term debt	(52,924)	(42,295)
Interest payments on long-term debt	(26,123)	(25,867)
Transfers in from other funds	95,925	22,146
Net cash provided (used) by capital and related financing activities:	<u>20,852</u>	<u>(76,365)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,448	(4,133)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>289,706</u>	<u>293,839</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 313,154</u>	<u>\$ 289,706</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (145,132)	\$ (62,409)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	144,078	137,083
Provision for bad debts	(2,292)	(364)
(Increase) Decrease in:		
Accounts receivable	(1,798)	(5,084)
Increase (Decrease) in:		
Accounts payable	3,428	(1,741)
Due to general fund	(19)	(743)
Other current liabilities	(38)	465
	<u>143,359</u>	<u>129,616</u>
Net cash provided (used) by operating activities:	<u>\$ (1,773)</u>	<u>\$ 67,207</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Fund is a component unit of the City of Foreman, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Foreman and certain properties outside the city limits.

Basis of Presentation and Accounting

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 assets, 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 assets. 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

Management of the Fund has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may 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.

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 \$2,000 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 Fund did not capitalize interest during the fiscal years 2021 and 2020. 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.

Reclassification

Certain 2020 items may have been reclassified in order to conform with the 2021 financial statement presentation.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: con't

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

Assets	Estimated useful lives
Water and sewer system	10-50 years
Vehicles	5 years
Furniture and fixtures	3-10 years

Long-Term Debt and Costs

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 refundings 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 assets available, it is the Fund's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Equity Classifications

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- This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt 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 non-operation 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 loan repayment and loan 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 loan covenants. Customer deposits held by the Fund are also considered restricted.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: con't

Allowance for Bad Debts

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.

Date of Management's Review

Subsequent events have been evaluated through February 23, 2022, which is the date the financial statements were available to be issued.

NOTE 2- LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2021</u>	<u>2020</u>
Loan payable to Horatio State Bank, due in monthly installments of \$420, including interest at 5%, over a period of 3 years. (1)	\$ 6,772	\$ 11,347
Arkansas Natural Resources Loan 235-WSSW-D, due in monthly installments of \$1,143, including interest at 5% beginning in June 2013 through June 2033. (2)	125,240	132,343
Loan payable to USDA, due in monthly installments of \$2,208, including interest at 2.5%, over a period of 40 years. (3)	532,269	545,281
Arkansas Natural Resources Loan 1028-WSSW-L, due in monthly installments of \$993, including interest at 2.75% beginning in June 2017 through June 2026. (2)	49,784	60,054
Loan payable to Leasing 2, Inc., due in annual installments of \$15,220, including interest at 5.5%, over a period of 5 years. (1)	41,066	53,353
Loan payable to Deere Credit, Inc., due in monthly installments of \$1,663, including interest at 3.25%, over a period of 5 years. (1)	86,279	-
	<u>841,410</u>	<u>802,378</u>
Less: Current portion	<u>(66,800)</u>	<u>(47,600)</u>
Long-Term Portion	<u>\$ 774,610</u>	<u>\$ 754,778</u>

(1) The loan has no restrictive covenants.

(2) The loan has restrictive covenants, including the requirement to begin accumulating a depreciation reserve in the amount of 3% of the gross revenue for the life of the loan.

(3) The loan has restrictive covenants, including the requirement to begin accumulating a debt service reserve in monthly installments of \$230 over a ten-year period, beginning January 2011. To be fully funded, the debt service reserve must equal \$27,600.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 2- LONG-TERM DEBT, con't:

Annual maturities of long-term debt at December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 66,800	\$ 25,549	\$ 92,349
2023	66,372	22,923	89,295
2024	66,666	20,643	87,309
2025	54,100	17,988	72,088
2026	42,263	16,816	59,079
2027-2031	133,800	67,280	201,080
2032-2036	118,840	41,103	159,943
2037-2041	102,000	30,480	132,480
2042-2046	115,600	16,880	132,480
2047-2049	74,969	2,742	77,711
	<u>\$ 841,410</u>	<u>\$ 262,404</u>	<u>\$ 1,103,814</u>

Long-term activity for the years ended December 31, 2021 and 2020 is as follows:

	<u>Balance 12/31/20</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/21</u>	<u>Due Within One Year</u>
Long Term Debt Loans	\$ 802,378	\$ 91,956	\$ (52,924)	\$ 841,410	\$ 66,800
	<u>\$ 830,758</u>	<u>\$ 13,915</u>	<u>\$ (42,295)</u>	<u>\$ 802,378</u>	<u>\$ 47,600</u>

The Fund has pledged future water customer revenues, net of specified operating expenses, to repay \$841,410 in loans. Proceeds from the loans were used for building of the Fund's water and sewer system and water storage tank facilities and equipment. Principal and interest on the loans are payable through 2049, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2021 were \$52,924 and \$26,123, respectively. Principal and interest paid in the year ended December 31, 2020 were \$42,295 and \$25,867, respectively.

NOTE 3 – COMMITMENTS:

The Fund has been awarded a Community Development Block Grant in the amount of \$200,000 to fund the wastewater treatment renovation project. Of the \$200,000 awarded in grants, the Department has received \$0 as of December 31, 2021.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 4 – PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

The carrying amount of the Fund's deposits was \$313,154 and \$289,706 at December 31, 2021 and 2020, respectively, and the bank balance was \$318,824 and \$293,614 at December 31, 2021 and 2020, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$318,824 was insured by federal depository insurance.

NOTE 5 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2021 and 2020 are as follows:

	Balance at 12/31/20	Additions	Deletions Transfers	Balance at 12/31/21
Building Improvements	\$ 174,500	\$ -	\$ -	\$ 174,500
Equipment	244,368	96,616	(45,393)	295,591
Fixtures	15,129	-	-	15,129
Land	8,297	-	-	8,297
Sewer Facility and Improvements	1,331,144	-	-	1,331,144
Automobiles	60,774	-	-	60,774
Distribution Lines	3,423,513	-	-	3,423,513
	<u>5,257,725</u>	<u>\$ 96,616</u>	<u>\$ (45,393)</u>	<u>5,308,948</u>
Less: Accumulated Depreciation	<u>(2,472,535)</u>			<u>(2,571,220)</u>
Net Capital Assets	<u>\$ 2,785,190</u>			<u>\$ 2,737,728</u>

	Balance at 12/31/19	Additions	Deletions Transfers	Balance at 12/31/20
Building Improvements	\$ 172,940	\$ 1,560	\$ -	\$ 174,500
Equipment	244,368	-	-	244,368
Fixtures	13,603	1,526	-	15,129
Land	8,297	-	-	8,297
Sewer Facility and Improvements	1,331,144	-	-	1,331,144
Automobiles	33,064	27,710	-	60,774
Distribution Lines	3,410,045	13,468	-	3,423,513
	<u>5,213,461</u>	<u>\$ 44,264</u>	<u>\$ -</u>	<u>5,257,725</u>
Less: Accumulated Depreciation	<u>(2,335,453)</u>			<u>(2,472,535)</u>
Net Capital Assets	<u>\$ 2,878,008</u>			<u>\$ 2,785,190</u>

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 6 – ARKANSAS PUBLIC EMPLOYEE RETIREMENT PENSION PLAN:

Plan Description. The City of Foreman contributes to the Arkansas Public Employees 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. The Arkansas Public Employees Retirement System 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, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% 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. The Department's contributions to APERS for the years ending December 31, 2021 and 2020 were \$14,047 and \$13,522, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal but would be included in the government wide financial statements and not the individual fund financial statements.

NOTE 7 – 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 depreciation fund (see Note 2).

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

	<u>2021</u>	<u>2020</u>
Meter deposits	\$ 34,411	\$ 33,771
Debt service reserves	136,663	132,629
Other restricted funds	45,978	-
	<u>\$ 217,052</u>	<u>\$ 166,400</u>

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 8 – AMERICAN RESCUE PLAN ACT:

The American Rescue Plan Act (ARPA) was signed into law March 11, 2021 and it guaranteed direct relief to cities, towns, and villages in the United States. ARPA funds may be used to invest in necessary improvements to their water and sewer infrastructures. Using a simple per-capita calculation, the City of Foreman was awarded \$191,349. As of December 31, 2021, the City of Foreman received \$95,925 and was subsequently transferred to the Fund. The Fund expects to receive the remaining \$95,424 in 2022. The Fund is using these proceeds to make improvements to the water and sewer system. The Fund has entered into a contract with Southwest Planning and Development District, Inc. to ensure compliance with ARPA regulations. The Fund paid Southwest Planning and Development District \$6,000 during the year ended December 31, 2021.

BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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**Honorable William Harp, Mayor
And Members of The City Council
City of Foreman
Foreman, 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 the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Foreman Water and Sewer Fund (the "Fund"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collective comprise the City of Foreman Water and Sewer Fund's basic financial statements, and have issued our report thereon dated February 23, 2022.

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) 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 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 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 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. 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 and responses as items 2021-001 that we consider to be significant deficiencies.

**Honorable William Harp, Mayor
And Members of The City Council
City of Foreman
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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 provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Fund’s responses to the findings identified in our audit are described in the accompanying Schedule of Finding and Responses. The Fund’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’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, Arkansas
February 23, 2022

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2021**

2021-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and 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 who is responsible for customer billing and adjustment, receives customer payments, 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. 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 of the Fund should consider a formal evaluation of their risks associated with this lack of duty 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. For example, the Fund might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View of Responsible Officials: The City of Foreman Water and Sewer Fund has attempted to segregate duties, but due to the limited number of personnel, effective segregation of duties is not possible. Management of the City of Foreman Water and Sewer Fund will provide oversight to the personnel.

SUPPLEMENTARY INFORMATION

**CITY OF FOREMAN, ARKANSAS
 WATER AND SEWER FUND
 SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT
 December 31, 2021**

GOVERNMENT:

A mayor and six aldermen govern the City of Foreman, Arkansas. The Deputy Recorder/Treasurer and the City Water Clerk maintain the records. William Harp is the City Mayor, Theresa Woods is Deputy Recorder/Treasurer and Coleen Fowler is the City Water Clerk.

CITY COUNCIL ALDERMEN:

Alana Cody
 Joyce Green
 Tommy McDonald
 Mike McKee
 Perry Young
 Jacqueline Wiseman

WATER AND SEWER RATE SCHEDULES:

The current water and sewer rates are shown in the following schedules:

WATER RATES:

GALLONS	<u>Per 1,000 gallons</u>
Minimum	\$ 30.77
Thereafter	7.30

SEWER RATES:

Debt Service – flat fee	\$ 6.30
Debt Service per 1,000 gallons	.35
OM&R per 1,000 gallons	1.35
Administrative charge – flat fee	<u>.50</u>
Total	<u>\$ 8.50</u>

The Sewer department has one class of users. Sewer rates are based on average of first quarter usage of water per year. The average is re-calculated every April.

As of December 31, 2021, water service and sewer service was provided to 510 and 435 users, respectively.

Total gallons consumed during the year ended December 31, 2021 amounted to approximately 28,718,000.

**CITY OF FOREMAN, ARKANSAS
WATER AND SEWER FUND
SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT (Continued)
December 31, 2021**

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are being properly maintained.

INSURANCE SCHEDULE:

<u>POLICY NO.</u>	<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
PNC549PR	Arkansas Municipal League	Property	\$1,100,074
FBTF11	Arkansas Fidelity Bond Trust	Fidelity Bond	\$ 250,000
PNC549VPR	Arkansas Municipal League	Automobile	\$ 256,714