

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
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BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Bay, Arkansas 72411

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Bay Water and Sewer Department as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Bay Water and Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bay Water and Sewer Department, as of December 31, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note A, the financial statements present only the Bay Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Bay, AR as of December 31, 2023 and 2022, the changes in its financial position, or where applicable, its cash flows 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 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 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 department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–6 and 20 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2024, on our consideration of the Bay Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bay Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay Water and Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396
November 14, 2024

**BAY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

Within this section of the Bay Water and Sewer Department's financial report, the Department's management provides narrative discussion and analysis of the financial activities of the Department for the years ended December 31, 2023 and 2022. The Water and Sewer Department's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Water and Sewer Department as a whole and present a longer term view of the Department's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Bay Water and Sewer Department as a whole

Our analysis of the Water and Sewer Department as a whole follow in the next section. The Department operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Water and Sewer Department's finances is: "Is the Department as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Water and Sewer Department as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer Department's net position and the changes which have occurred in the year. You can think of the Department's net position (the difference between its assets and liabilities) as one way to measure the Water and Sewer Department's financial health.

Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Department.

**BAY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

Financial highlights are presented below. Future year information will include comparative prior year data when available.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Financial Highlights			
Beginning Net Position	\$ 271,828	\$ 201,861	\$ 203,703
Increase (Decrease) in Net Position	<u>(10,464)</u>	<u>69,967</u>	<u>(1,842)</u>
Ending Net Position	<u><u>\$ 261,364</u></u>	<u><u>\$ 271,828</u></u>	<u><u>\$ 201,861</u></u>

Assets, liabilities, and net position for 2023, 2022 and 2021 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current Assets	\$ 99,376	\$ 111,070	\$ 55,305
Restricted Assets	103,233	127,265	114,340
Capital Assets	<u>621,487</u>	<u>641,132</u>	<u>673,968</u>
Total Assets	<u><u>\$ 824,096</u></u>	<u><u>\$ 879,467</u></u>	<u><u>\$ 843,613</u></u>
Current Liabilities	\$ 95,022	\$ 114,865	\$ 105,819
Long-term Liabilities	<u>467,710</u>	<u>492,774</u>	<u>535,933</u>
Total Liabilities	<u><u>\$ 562,732</u></u>	<u><u>\$ 607,639</u></u>	<u><u>\$ 641,752</u></u>
Net Position			
Unrestricted	\$ 82,580	\$ 101,052	\$ 39,931
Restricted for Debt Service	40,525	60,894	60,606
Net Investment in Capital Assets	<u>138,259</u>	<u>109,882</u>	<u>101,324</u>
Total Net Position	<u><u>\$ 261,364</u></u>	<u><u>\$ 271,828</u></u>	<u><u>\$ 201,861</u></u>

**BAY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

The following schedule presents a summary of revenues and expenditures for the years ended December 31, 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$ 316,718	\$ 319,308	\$ 336,769
Operating Expenses	<u>283,088</u>	<u>288,504</u>	<u>335,389</u>
Operating Income	33,630	30,804	1,380
Other Income (Expenses)	<u>(44,094)</u>	<u>39,163</u>	<u>(3,222)</u>
	<u>\$ (10,464)</u>	<u>\$ 69,967</u>	<u>\$ (1,842)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end December 31, 2023 and 2022, the Department had \$ 621,487 and \$ 641,132 respectively invested in capital assets. This represents a net decrease of \$ 19,645 which is the result of depreciation expense recognized of \$ 43,658 and purchases of \$ 24,013.

Debt

At year end, the Water and Sewer Department had \$ 483,228 in outstanding debt. This represents a decrease of \$ 48,022 of principal payments made.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Water and Sewer Department has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Water and Sewer Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Keith, Mayor of Bay, Arkansas.

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 and 2022**

ASSETS

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash on Hand and in Banks	\$ 87,982	\$ 70,672
Accounts Receivable	11,394	
Unbilled Revenue		40,398
Total Current Assets	<u>99,376</u>	<u>111,070</u>
Restricted Assets:		
Cash - Customer Deposits	22,077	54,529
Debt Service CDs	40,525	60,894
Meter Deposit CD	40,631	11,842
Total Restricted Assets	<u>103,233</u>	<u>127,265</u>
Property, Plant and Equipment		
Land	12,038	12,038
Buildings	12,593	12,593
Equipment	144,014	120,001
Water and Sewer System	1,971,550	1,971,550
	2,140,195	2,116,182
Less Accumulated Depreciation	<u>(1,518,708)</u>	<u>(1,475,050)</u>
Net Property, Plant and Equipment	<u>621,487</u>	<u>641,132</u>
Total Assets	<u><u>\$ 824,096</u></u>	<u><u>\$ 879,467</u></u>

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

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 and 2022**

LIABILITIES AND NET POSITION

	<u>2023</u>	<u>2022</u>
Current Liabilities:		
Accounts Payable	\$ 894	\$ 1,229
Sanitation Payable	12,522	12,153
Sales Tax Payable	2,547	2,412
Accrued Interest Payable	174	179
Current Portion of Long Term Debt	15,518	38,476
Total Current Liabilities	<u>31,655</u>	<u>54,449</u>
Current Liabilities Payable from Restricted Assets		
Customer Meter Deposits	<u>63,367</u>	<u>60,416</u>
Long Term Liabilities		
First Community Bank		33,110
Bonds Payable - USDA	483,228	498,140
	483,228	531,250
Less Current Portion	<u>(15,518)</u>	<u>(38,476)</u>
Net Long Term Liabilities	<u>467,710</u>	<u>492,774</u>
Total Liabilities	<u>562,732</u>	<u>607,639</u>
Net Position		
Net Investment in Capital Assets	138,259	109,882
Restricted for Debt Service	40,525	60,894
Unrestricted	82,580	101,052
Total Net Position	<u>261,364</u>	<u>271,828</u>
Total Liabilities and Net Position	<u><u>\$ 824,096</u></u>	<u><u>\$ 879,467</u></u>

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

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Water Fees	\$ 200,642	\$ 194,961
Sewer Fees	104,317	103,006
Other Revenues	<u>11,759</u>	<u>21,341</u>
Total Operating Revenues	<u>316,718</u>	<u>319,308</u>
Operating Expenses:		
Operating Supplies	53,065	36,833
Salaries and Wages	26,814	97,326
Dues and Fees	12,778	3,388
Auto and Truck Expense	7,930	4,994
Depreciation	43,658	41,010
Employee Benefits	6,003	1,561
Insurance Expense	5,948	17,900
Laboratory Expense	8,915	4,240
Miscellaneous	4,703	1,200
Office Expense	19,492	12,475
Professional Fees	12,750	6,000
Rent	6,470	2,878
Travel	5,319	1,371
Repairs and Maintenance	16,094	7,300
Utilities Expense	<u>53,149</u>	<u>50,028</u>
Total Operating Expense	<u>283,088</u>	<u>288,504</u>
OPERATING INCOME (LOSS)	<u>33,630</u>	<u>30,804</u>
Non-operating Revenues (Expenses)		
Interest Income	2,258	424
Interest Expense	(22,039)	(24,377)
Insurance Settlement		51,791
Transfers from (to) City	<u>(24,313)</u>	<u>11,325</u>
Total Non-operating Revenues (Expenses)	<u>(44,094)</u>	<u>39,163</u>
Change in Net Position	(10,464)	69,967
Beginning Net Position	<u>271,828</u>	<u>201,861</u>
Ending Net Position	<u>\$ 261,364</u>	<u>\$ 271,828</u>

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

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Cash Flows from Operating Activities		
Receipts from Customers	\$ 348,673	\$ 327,846
Payments to Suppliers	(212,447)	(148,956)
Payments to Employees	(26,814)	(97,326)
Net Cash Provided by (Used in) Operating Activities	<u>109,412</u>	<u>81,564</u>
Cash Flows from Non-Capital Financing Activities		
Transfers (to) from Restricted Accounts	24,032	(12,925)
Net Cash Provided by (Used in) Investing Activities	<u>24,032</u>	<u>(12,925)</u>
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Debt	(48,022)	(41,394)
Transfers from (to) Governmental Fund (City General)	(24,313)	11,325
Proceeds from Insurance		51,791
Purchase of Capital Assets	(24,013)	(8,174)
Interest Paid on Capital Debt	(22,044)	(24,382)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(118,392)</u>	<u>(10,834)</u>
Cash Flows from Investing Activities		
Interest Income	2,258	424
Net Cash Provided by (Used in) Investing Activities	<u>2,258</u>	<u>424</u>
Increase (Decrease) in Cash and Cash Equivalents	17,310	58,229
Cash and Cash Equivalents, Beginning of Year	70,672	12,443
Cash and Cash Equivalents, End of Year	<u>\$ 87,982</u>	<u>\$ 70,672</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	33,630	30,804
Depreciation	43,658	41,010
(Increase) Decrease in Accounts Receivable	29,004	2,464
Increase (Decrease) in Sales Tax Payables	135	446
Increase (Decrease) in Accounts Payable	34	766
Increase (Decrease) in Customer Deposits	2,951	6,074
Net Cash Provided by Operating Activities	<u>\$ 109,412</u>	<u>\$ 81,564</u>

The accompanying notes are an integral part of the financial statements

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Organization and Financial Reporting – Bay Water and Sewer Department is a component unit of the City of Bay, Arkansas. The accompanying financial statements present only the Bay Water and Sewer Department and do not include all funds, account groups, and programs controlled by the City of Bay. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Water and Sewer Department consists of an enterprise fund with the purpose of providing water and sewer services to the general public within the City and the rural residents of the surrounding area.

Basis of Accounting – The Bay Water and Sewer Department uses the accrual basis of accounting in accordance with generally accepted accounting principles. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business. Revenues are recognized when earned, and expenses are recognized when incurred.

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

Cash and Cash Equivalents – The Bay Water and Sewer Department considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted per loan agreements or other purposes are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are presented at net estimated realizable value. The direct charge off method is used to record bad debt expense. No material difference results from use of the direct charge off method rather than the allowance method as required by generally accepted accounting principles. Accounts receivable are collateralized by customer deposits.

Property and Equipment – Property and Equipment are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 5 - 7 years for office furniture and equipment, to 40 years for the water and sewer system.

Restricted Assets – The Bay Water and Sewer Department is required under the terms of various bond ordinances to establish and maintain prescribed cash balances that can only be used for specific purposes.

Risk Management - The Bay Water and Sewer Department minimizes risk of loss through purchase of commercial insurance coverage.

Operating Revenues and Expenses – Operating Revenues and Expenses consist of those revenues that result from ongoing operations and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services. When an expense is incurred for purposes

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONT'D)

for which there are both restricted and unrestricted net assets available, it is the Department's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Sales Tax – The Bay Water and Sewer Department collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

Compensated Absences – No accrual has been made for compensated absences because the amounts would not be material.

Net Position – Net Position is categorized as investments in capital assets (net of related debt), restricted for debt services (pursuant to debt agreements), or unrestricted.

Advertising – Advertising costs are charged to expenses when incurred.

Credit Risk – Financial instruments which subject the Department to concentration of credit risk consist principally of temporary cash investments. The Department places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit risk exposure. The Department's policy is to limit such investments to amounts covered by FDIC coverage and securities pledged to collateralize deposits. Credit risk from accounts receivable is limited due to the large number of customers and security deposits held as collateral.

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Water and Sewer Department's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Water and Sewer Department's deposits are categorized to give an indication of the level of risk assumed by the Water and Sewer Department. The categories are described as follows:

Category 1- Insured or collateralized by the Water and Sewer Department or by its agent in the Water and Sewer Department's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust department or by its agent in the Water and Sewer Department's name.

Category 3- Uncollateralized.

At December 31, 2023, cash deposits categorized by level of risks are as follows:

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS -cont'd

	Category		
Carrying Amount	1	2	3
<u>\$ 191,215</u>	<u>\$ 191,215</u>		

NOTE C – PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Water and Sewer Department is presented below:

	12/31/2022	Additions	Deletions	12/31/2023
Land	\$ 12,038			\$ 12,038
Buildings	12,593			12,593
System Plant, Wells, & Lines	1,971,550			1,971,550
Equipment	120,001	24,013		144,014
	2,116,182	24,013	-	2,140,195
Less Accumulated Depreciation	(1,475,050)	(43,658)		(1,518,708)
Net Property, Plant, and Equipment	<u>\$ 641,132</u>	<u>\$ (19,645)</u>	<u>\$ -</u>	<u>\$ 621,487</u>

NOTE D – LONG TERM NOTES PAYABLE

The following is a summary of the Bay Water and Sewer Department's long-term notes payable:

	2023	2022
USDA, 4.375 % , monthly \$ 728, through June 2044, secured by future revenues	\$ 109,999	\$ 113,832
USDA, 4.375 % , monthly \$ 2,306 through June 2044, secured by future revenues	373,229	384,308
First Community Bank, 4.5%, monthly \$2,006 through January 2021. Refinanced subsequent to year end at 4%, due in monthly installments of \$ 2039 through July, 2024, unsecured.		33,110
	\$ 483,228	\$ 531,250
Less Current Portion	(15,518)	(38,476)
Net Long-Term Notes Payable	<u>\$ 467,710</u>	<u>\$ 492,774</u>

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE D – LONG TERM NOTES PAYABLE (CON'T'D)

A summary of notes payable activity is as follows:

	<u>12/31/2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2023</u>
First Community Bank	\$ 33,110		\$ 33,110	
USDA	498,140		14,912	\$ 483,228
Total	<u>\$ 531,250</u>	<u>\$ -</u>	<u>\$ 48,022</u>	<u>\$ 483,228</u>

A Schedule of the future payments required is as follows:

For the Years Ending December 31,	Principal	Interest	Total
2024	\$ 15,518	\$ 20,890	\$ 36,408
2025	16,270	20,138	36,408
2026	16,996	19,411	36,407
2027	17,755	18,653	36,408
2028	18,497	17,911	36,408
For the five years ending December 31,			
2033	105,867	76,173	182,040
2038	131,712	50,328	182,040
2043	148,828	18,686	167,514
2048	11,785	134	11,919
	<u>\$ 483,228</u>	<u>\$ 242,324</u>	<u>\$ 725,552</u>

NOTE E – RESTRICTED ACCOUNTS

The Debt Service Reserve cash accounts have been established pursuant to agreements with U.S. Rural Development. These accounts are required to maintain monthly transfers as defined by loan agreements and are restricted for retirement of long-term debt and repairs.

The required balance for the Debt Service Reserve accounts at December 31, 2023 is \$36,408. The actual amounts held in the Debt Service Reserve cash accounts at December 31, 2023 is \$40,525, for a surplus in the Debt Service Reserve of \$4,117. The required balance for the Debt Service reserve accounts at December 31, 2022 was \$ 36,408. The actual amount held in the Debt Service Reserve cash account was \$ 60,894.

The Customer Meter Deposit Cash account is reserved for customer meter deposits. The cash balance should equal or exceed the Customer Meter Deposit liability. At December 31, 2023, the Customer Meter Deposit liability exceeded the Cash Balance by \$659 and at December 31, 2022 the Customer Meter Deposit Cash Balance exceeded the Customer Meter Deposit Liability by \$5,955.

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022**

NOTE F – RETIREMENT PLAN

The Department maintains a pension plan for all water and sewer employees and has contracted with a private insurance carrier, who maintains the account for the Department. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments earnings. The plan requires the Department to contribute to the insurance carrier an amount up to 5% of employee contribution match of the employee's base salary. Eligibility commences upon retirement. Earnings are credited to the employees' account quarterly. Employees are entitled only to the funds deposited by them and on their behalf; therefore, there is no unfunded liability. The department's contribution to the plan for the years ended December 31, 2023 and 2022 was \$27, and \$5,210 respectively.

NOTE G – DEBT – CAPTIAL LEASE

The Water and Sewer Department purchases a lease right of use for land from the railroad for water and sewer lines that cross the railroad. The lease term is less than twelve months and qualifies as a short term lease that is included in operating income.

NOTE H – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report; no items were noted which would require disclosure.

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

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

Members of the City Council
Bay, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Bay Water and Sewer Department as of and for the years ended December 31, 2023, and 2022 and the related notes to the financial statements, which collectively comprise the Water and Sewer Department's basic financial statements and have issued our report thereon dated November 14, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bay Water and Sewer Department'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 Bay Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Bay Water and Sewer Department's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 over financial reporting 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 that we consider to be significant deficiencies (#23-001).

Compliance and Other Matters

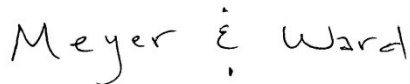
As part of obtaining reasonable assurance about whether the Bay Water and Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 that are required to be reported under *Government Auditing Standards*.

Bay Water and Sewer Department's Response to Findings

Bay Water and Sewer Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Bay Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statement 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 Bay Water and Sewer Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Sewer Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Meyer & Ward". The signature is written in a cursive, slightly informal style.

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396
November 14, 2024

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023**

23-001 Segregation of Duties

CONDITION: The Bay Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Department's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Department's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.-

RESPONSE: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly by the Council.

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2023**

Prior year finding #22-001 – Lack of Segregation of Duties

This finding has been repeated as finding #23-001.

**BAY WATER AND SEWER DEPARTMENT
CITY OF BAY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Actual	Budget	Variance
Operating Revenues:			
Water Fees	\$ 200,642	\$ 505,000	(304,358)
Sewer Fees	104,317	1,000	103,317
Other Revenues	11,759	6,500	5,259
Total Operating Revenues	<u>316,718</u>	<u>512,500</u>	<u>(195,782)</u>
Operating Expenses:			
Operating Supplies	53,065	40,200	(12,865)
Salaries and Wages	26,814	53,610	26,796
Dues and Fees	12,778	10,000	(2,778)
Auto and Truck Expense	7,930	6,500	(1,430)
Depreciation	43,658		(43,658)
Employee Benefits	6,003	2,300	(3,703)
Equipment		25,420	25,420
Insurance Expense	5,948	32,080	26,132
Laboratory Expense	8,915	8,000	(915)
Miscellaneous	4,703	2,600	(2,103)
Office Expense	19,492	5,700	(13,792)
Professional Fees	12,750	7,700	(5,050)
Rent	6,470	3,500	(2,970)
Sanitation Expense		130,000	130,000
Travel	5,319	1,500	(3,819)
Loan Payments		65,524	65,524
Sales Tax		29,500	29,500
Repairs and Maintenance	16,094	8,000	(8,094)
Utilities Expense	53,149	45,000	(8,149)
Total Operating Expense	<u>283,088</u>	<u>477,134</u>	<u>194,046</u>
OPERATING INCOME (LOSS)	<u>33,630</u>	<u>35,366</u>	<u>(1,736)</u>
Non-operating Revenues (Expenses)			
Interest Income	2,258	35	2,223
Interest Expense	(22,039)		(22,039)
Transfers from (to) City	(24,313)		(24,313)
Total Non-operating Revenues (Expenses)	<u>(44,094)</u>	<u>35</u>	<u>(44,129)</u>
Change in Net Position	<u>\$ (10,464)</u>	<u>\$ 35,401</u>	<u>\$ (45,865)</u>