

BROOKLAND UTILITIES DEPARTMENT

Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
Brookland, AR 72417

OPINION

We have audited the accompanying financial statements of the Brookland Utilities Department (of the City of Brookland, Arkansas), which comprise the Statement of Net Position as of December 31, 2021, and 2020, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brookland Utilities Department as of December 31, 2021, and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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

ENTERPRISE FUND ONLY

As discussed in Note A, the financial statements present only the Brookland Utilities Department and are not intended to present fairly the financial position of the City of Brookland, 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. Our opinion is not modified with respect to this matter.

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 FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of the 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 Brookland Utilities 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.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2022, on our consideration of the Brookland Utilities Department's internal control over financial reporting and 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 testing, and not to provide an opinion on the 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 Brookland Utilities Department's internal control over financial reporting and compliance.

*Despain, Luther, Short
& Company, CPAs, PA*

Jonesboro, Arkansas
August 31, 2022

BROOKLAND UTILITIES DEPARTMENT

Statement of Net Position December 31

<u>ASSETS:</u>	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash & Cash Equivalents	\$ 2,026,764	\$ 1,460,838
Less Restricted Cash	<u>(1,433,726)</u>	<u>(1,047,930)</u>
Unrestricted Cash	\$ 593,038	\$ 412,908
Accounts Receivable	<u>93,344</u>	<u>91,028</u>
Total Current Assets	\$ 686,382	\$ 503,936
Capital Assets:		
Equipment & Tools	\$ 692,790	\$ 522,467
Water & Sewer Systems	10,266,931	9,136,204
Less Accumulated Depreciation	<u>(3,620,380)</u>	<u>(3,262,564)</u>
Net Depreciable Assets	\$ 7,339,341	\$ 6,396,107
Construction in Progress	127,548	74,943
Land	<u>44,118</u>	<u>170,905</u>
Net Capital Assets	7,511,007	6,641,955
Other Assets:		
Restricted Cash	<u>1,433,726</u>	<u>1,047,930</u>
Total Assets	<u>\$ 9,631,115</u>	<u>\$ 8,193,821</u>

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

BROOKLAND UTILITIES DEPARTMENT

Statement of Net Position

December 31

<u>LIABILITIES AND NET ASSETS:</u>	<u>2021</u>	<u>2020</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 13,758	\$ 30,786
Taxes Payable	8,745	7,449
Accrued Interest Payable (Bonds/Loans)	3,171	3,346
Accrued Interest Payable (2% Sales Tax Bonds)	-	25,383
Accrued Compensated Absences	18,930	14,375
Current Portion of Bonds / Loans Payable	55,589	53,276
Current Portion of 2% Sales Tax Bonds	-	110,000
Total Current Liabilities	<u>\$ 100,193</u>	<u>\$ 244,615</u>
Long-Term Liabilities:		
Bonds / Loans Payable	\$ 813,249	\$ 866,525
Bonds Payable (2% Sales Tax Bonds)	-	3,370,000
Less Bond Discount (2% Sales Tax bonds)	-	(37,435)
Less Current Portion (Included Above)	<u>(55,589)</u>	<u>(163,276)</u>
Net Long Term Liabilities	757,660	4,035,814
Liabilities Payable from Restricted Assets:		
Customer Meter Deposits	<u>164,160</u>	<u>154,861</u>
Total Liabilities	<u>\$ 1,022,013</u>	<u>\$ 4,435,290</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$ 6,697,758	\$ 2,417,482
Restricted	1,269,566	893,069
Unrestricted	<u>641,778</u>	<u>447,980</u>
Total Net Position	<u>8,609,102</u>	<u>3,758,531</u>
Total Liabilities and Net Position	<u>\$ 9,631,115</u>	<u>\$ 8,193,821</u>

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

BROOKLAND UTILITIES DEPARTMENT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31

	2021	2020
Operating Revenue:		
Water Sales	\$ 357,135	\$ 340,079
Sewer Service Revenue	341,642	321,807
Late Charges	16,940	17,460
Other Fees & Operating Revenue	88,141	96,123
Total Operating Revenue	\$ 803,858	\$ 775,469
Operating Expenses:		
Salaries	\$ 134,631	\$ 130,393
Payroll Taxes	9,914	9,975
Utilities & Telephone	79,728	71,657
Chemicals	29,590	29,027
Repairs & Maintenance	117,458	131,589
Materials & Supplies	55,267	69,656
Fuel & Oil	6,338	5,591
Insurance	13,091	10,361
Employee Health Insurance	50,650	56,278
Employee Retirement	9,719	9,780
Professional Fees	12,273	14,212
Office Supplies & Expense	10,378	8,848
Postage	6,742	6,470
Licenses, Dues & Subscriptions	11,521	10,391
Uniform Rental & Laundry	2,894	3,958
Advertising	433	709
Miscellaneous	12,217	18,052
Depreciation	357,816	321,566
Total Operating Expenses	920,660	908,513
Net Income (Loss) From Operations	\$ (116,802)	\$ (133,044)
Non-Operating Income (Expense):		
Interest Income	\$ 4,761	\$ 9,159
2% Sales Tax Collected	526,435	682,063
Interest Expense (Bonds / Loans)	(37,527)	(39,687)
Interest Expense (2% Sales Tax Bonds)	(70,210)	(108,220)
Loss Bond Refunding	(37,435)	-
Donated Water & Sewer Improvements	1,098,900	-
Net Non-Operating Income (Expense)	1,484,924	543,315
Net Income (Loss) before Contributions / Transfers	\$ 1,368,122	\$ 410,271
Capital Contributions / Transfers:		
From (To) Other City Funds	3,482,449	(710)
Change in Net Position	\$ 4,850,571	\$ 409,561
Net Position, Beginning of Year	3,758,531	3,348,970
Net Position, End of Year	\$ 8,609,102	\$ 3,758,531

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

BROOKLAND UTILITIES DEPARTMENT

Statement of Cash Flows For the Year Ended December 31

	2021	2020
Cash Flow from Operating Activities:		
Cash receipts from customers	\$ 801,542	\$ 770,628
Cash paid to employees	(134,631)	(130,393)
Cash paid to suppliers	(439,390)	(421,341)
Cash Flow from Operating Activities	\$ 227,521	\$ 218,894
Cash Flow from Investing Activities:		
Interest Income	\$ 4,761	\$ 9,159
Total Cash Flow from Investing Activities	4,761	9,159
Cash Flow from Non-Capital Financing Activities:		
Customer Meter Deposits (Net)	\$ 9,299	\$ 17,605
Cash Flow from Non-Capital Financing Activities	9,299	17,605
Cash Flow from Capital & Related Financing Activities:		
Capital Assets Purchased	\$ (254,755)	\$ (210,885)
Sale Proceeds - House at 247 Brady Ln	126,787	-
2% Sales Tax Collected	526,435	682,063
Principal paid - Bonds / Loans Payable	(3,423,276)	(536,060)
Interest paid - Bonds / Loans Payable	(133,295)	(148,507)
Transfer from (to) Other City Funds	3,482,449	(710)
Total Cash Flow from Financing Activities	324,345	(214,099)
Cash Increase (Decrease) for Period	\$ 565,926	\$ 31,559
Beginning Cash & Cash Equivalents	1,460,838	1,429,279
Ending Cash & Cash Equivalents	\$ 2,026,764	\$ 1,460,838
Reconciliation of Net Income from Operations and Cash Flow from Operations:		
Net Income (Loss) from Operations	\$ (116,802)	\$ (133,044)
Add Depreciation	357,816	321,566
(Increase) Decrease in Current Assets:		
Accounts Receivable	(2,316)	(4,841)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(17,028)	20,763
Taxes Payable	1,296	75
Accrued Compensated Absences	4,555	14,375
Cash Flow from Operations	\$ 227,521	\$ 218,894
Noncash Transactions:		
Accepted donated water & sewer improvements	\$ 1,098,900	\$ -
Total NonCash Transactions	\$ 1,098,900	\$ -

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

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity and Activities

The Brookland Utilities Department (Department) is charged with the full responsibility for the efficient operation and control of the Water & Sewer Department and to provide water and sewer services to the citizens of the City of Brookland. The Brookland Utilities Department is an enterprise fund and for financial statement purposes is being presented as an enterprise fund activity. Enterprise funds are used to account for operations (a) that are financial and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements present only the Brookland Utilities Department funds, accounts and balances and are not intended to present the financial position, the results of operations, and the cash flows of the City of Brookland, Arkansas and its proprietary and similar trust fund types.

Measurement Focus and Financial Statement Presentation

The term “measurement focus” is used to denote what is being measured and reported in the Brookland Utilities Department’s operating statement. The Brookland Utilities Department is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Brookland Utilities Department is better or worse off economically as a result of events and transactions of the period.

The Department adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as unspent proceeds.
- Restricted—This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Management’s Discussion and Analysis is intended to be presented for the reporting entity as a whole, not for individual Departments or component units; therefore, it has not been included as supplemental information to these financial statements.

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Department uses the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The citizens of Brookland, on November 10, 2015, voted to approve the issuance of bonds to finance capital improvements with a 2% sales and use tax. The sales and use tax accounts are accounted for with the modified accrual basis of accounting. Their revenues are recognized when received and their expenses are recognized when they are incurred.

Allowance for Doubtful Accounts

Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. The Department uses the direct write-off method, which is to say that bad debts are recognized as they occur. This practice does not have a material effect on the financial statements because customers are required to make a "meter deposit" that may be applied to customer final billings (if necessary).

Capital Assets

Capital Assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water & Sewer System Additions 30-50 Years
Water & Sewer System Improvements 15-20 Years
Trucks & Equipment 5-10 Years
Computer & Software 3-5 Years

Inventory

The Department's policy is to expense supplies and materials used in the operation of the water and sewer system as they are purchased.

Cash Equivalents

The Department considers all cash amounts on deposit with an original maturity of twelve months or less to be cash equivalents. Restricted cash is considered a cash equivalent.

Estimates

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

Use of FASB Pronouncements

The Entity uses Financial Accounting Standards Board (FASB) pronouncements that do not conflict with pronouncements of the Government Accounting Standards Board (GASB).

Taxes

The Department is subject to various taxes, including payroll and sales/use taxes. Federal and Arkansas payroll tax returns are generally subject to examination for four years from the due date or when actually filed (if later). Sales and use tax returns are subject to examination and generally there is a seventy-two (72) month statute of limitations imposed by Arkansas for reporting periods filed. As a result of these laws and regulations the Department has reporting periods open that could be selected for examination.

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE B - RESTRICTED CASH

City ordinances and loan agreements mandate certain cash funds be set aside for bond debt retirement and emergency reserves. As of December 31, restricted cash was as follows:

	2021	2020
Meter Deposit Fund	\$ 174,846	\$ 164,706
Reserve Bond Fund (1979)	40,965	40,760
Depreciation Fund (1999)	53,265	51,039
Sales Tax Bond Fund (2016)	-	581,200
Construction Fund (2016)	-	41,812
Debt Service Fund (2016)	-	125,443
Depreciation Fund	43,490	42,970
Sewer Construction Fund (2021)	1,121,160	-
Total	<u>\$ 1,433,726</u>	<u>\$ 1,047,930</u>

NOTE C - OFF BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Department to concentrations of credit risk, consist principally of cash deposits (i.e., demand deposit accounts and interest-bearing accounts) and trade accounts receivable.

Credit risk information required by Governmental Accounting Standards Board ("GASB") Statement No. 3 pertains to the carrying amount of total cash deposits and investments with financial institutions classified into the following three categories:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name;
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- (3) Uncollateralized.

The disclosures required by GASB Statement No. 3 should generally be made for an entity as a whole (e.g., the City of Brookland and its component units, i.e., utilities department). The Department had the following amounts on deposit with local banks and trust departments subject to the GASB Statement No. 3 requirements as of December 31, 2021 - \$925,873, and \$1,121,160 was on deposit for the Sewer Construction Fund. The regulations of the FDIC are subject to various interpretations regarding insurance coverage for governmental unit accounts. Therefore, it is impractical to determine the Department's extent of insured and collateralized deposits separate from the City of Brookland.

The Department is engaged primarily in providing services to the residents of Brookland, Arkansas and the surrounding area. Concentrations of credit risk with respect to trade receivables are limited due to the customer meter deposits held by the Department. As of December 31, 2021, customer deposits exceeded trade receivables by \$70,816.

NOTE D - RISK MANAGEMENT

The Department is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage the risk of loss, the Department purchases commercial insurance policies, which includes a worker's compensation insurance policy and a commercial vehicle policy.

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE E – BONDS / LOANS PAYABLE

Bonds payable at December 31, 2021, consisted of five bond issues. All bond issues were for the construction or expansion of the water and sewer system, including lines, wells, tanks, distribution systems and ponds, and all are secured by a lien on all department assets and revenues. Following is a summary of bonds payable:

	<u>Arvest</u>	<u>USDA-RD</u>	<u>ANRC</u>	<u>ANRC</u>	<u>ANRC</u>	<u>Total</u>
Date of Bond	2018	2004	2000	2001	2001	
Interest Rate	3.990%	4.500%	3.800%	5.000%	4.500%	
Payment Period	Monthly	Monthly	Semi-Annual	Annual	Semi-Annual	
Amount of Period Payment	\$ 1,977	\$ 2,730	\$ 2,483	\$ 4,132	\$ 12,698	
Total Annual Payment	\$ 23,724	\$ 32,760	\$ 4,966	\$ 4,132	\$ 25,396	

The above payments include principal and interest.

Summary of Changes in Principal Balance:

Balance 12/31/2019	\$ 77,378	\$488,364	\$ 53,562	\$ 36,632	\$261,649	\$ 917,585
Principal Paid 2020	(21,018)	(11,009)	(2,958)	(2,300)	(13,775)	(51,060)
Balance 12/31/2020	\$ 56,360	\$477,355	\$ 50,604	\$ 34,332	\$247,874	\$ 866,525
Principal Paid 2021	(21,873)	(11,513)	(3,072)	(2,416)	(14,402)	(53,276)
Balance 12/31/2021	<u>\$ 34,487</u>	<u>\$465,842</u>	<u>\$ 47,532</u>	<u>\$ 31,916</u>	<u>\$233,472</u>	<u>\$ 813,249</u>

Estimated Principal Maturities:

For the year ended 12/31:

2022	\$ 22,762	\$ 12,044	\$ 3,190	\$ 2,536	\$ 15,057	\$ 55,589
2023	11,725	12,597	3,312	2,663	15,743	46,040
2024	-	13,175	3,439	2,796	16,459	35,869
2025	-	13,781	3,571	2,936	17,208	37,496
2026	-	14,414	3,709	3,083	17,991	39,197
2027 - 2031	-	82,631	20,786	17,902	103,005	224,324
2032 - 2036	-	103,438	9,525	-	48,009	160,972
2037 - 2041	-	129,483	-	-	-	129,483
2042 - 2044	-	84,279	-	-	-	84,279
Balance 12/31/2021	<u>\$ 34,487</u>	<u>\$465,842</u>	<u>\$ 47,532</u>	<u>\$ 31,916</u>	<u>\$233,472</u>	<u>\$ 813,249</u>

USDA-RD = USDA Rural Development

ANRC = Arkansas Natural Resources Commission

A summary of debt service requirements for the bonds / loans payable at December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 55,589	\$ 35,389	\$ 90,978
2023	46,040	33,076	79,116
2024	35,869	31,385	67,254
2025	37,496	29,758	67,254
2026	39,197	28,057	67,254
Thereafter	599,058	215,288	814,346
	<u>\$ 813,249</u>	<u>\$ 372,953</u>	<u>\$ 1,186,202</u>

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE F – BONDS PAYABLE (2% SALES & USE TAX BONDS)

City of Brookland, Arkansas Sales and Use Tax Bonds, Series 2016 (“bonds”) were issued for the purpose of financing the cost of acquiring, constructing and equipping extensions, betterments, and improvements to the Department’s water facilities. The original issue was in the amount of \$4,700,000 and the bonds were issued on March 15, 2016. The interest rates for the bond issue range from 2.0% to 3.5%.

Interest on the bonds is payable semi-annually on March 1 and September 1. Principal payments are due on March 1 of each year. The final maturity of the bonds is March 1, 2046.

The City has pledged revenues from a 2% Sales and Use Tax imposed within the City of Brookland, Arkansas to pay and secure the bonds. The 2% Sales and Use Tax is set to expire on the first date which the sales and use tax can be administratively removed when there are sufficient funds available to pay in full any outstanding Water Improvement Bonds secured by a pledge of collections of the 2% Sales and Use Tax.

The following is a summary of the 2% Sales & Use Tax Bonds payable:

Summary of Changes in Principal Balance:

Balance 12/31/2019	\$ 3,855,000
Principal Paid 2020	<u>(485,000)</u>
Balance 12/31/2020	\$ 3,370,000
Principal Paid 2021	<u>(3,370,000)</u>
Balance 12/31/2021	<u>\$ -</u>

Extinguishment of the debt described above (2% Sales & Use Tax Bonds – Series 2016):

The City of Brookland issued new bonds titled as “City of Brookland, Arkansas Sales and Use Tax Refunding and Improvement Bonds, Series 2021” for the purpose of financing and refinancing the cost of capital improvements. Note – the new bond issue will fund other City capital improvements (i.e., Park Improvements, Municipal Building Improvements and Sewer Improvements), and provide funding for the extinguishment of the 2% Sales & Use Tax Bonds.

The net proceeds from the sale of the new bonds totaled \$9,011,322 (Bond face value \$9,155,000 less original issue & underwriter’s discounts of \$143,678). The sale proceeds were disbursed as follows:

1. \$ 228,566 to the Debt Service Reserve account (Titled as “2021 Bond Fund”);
2. **\$ 2,263,197 to accomplish the refunding of the 2% Sales and Use Tax Bonds, Series 2016;**
3. \$ 61,590 to the Cost of Issuance Fund, Series 2021;
4. \$ 4,165,523 to the Park Construction Fund;
5. \$ 1,043,755 to the Municipal Building Construction Fund; and
6. \$ 1,248,691 to the Sewer Construction Fund.

The amortization of the original issue discount, relating to the Series 2016 bonds, was \$3,180 for 2020. The remaining balance of the original issue discount was reported as a loss of \$37,435 due to bond refunding.

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE G - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Department has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, bonds payable, etc.) none of which are held for trading purposes. The Department, unless otherwise indicated, estimates that the fair values of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values as stated in the accompanying statement of net position. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Department could realize in a current market exchange.

NOTE H – CAPITAL ASSET ACTIVITY

	Equipment & Tools	Water & Sewer Systems	Construction in Progress	Land	Accumulated Depreciation
Balance 12/31/19	\$ 514,222	\$ 9,021,154	\$ -	\$ 158,258	\$ (2,940,998)
2020 Additions	8,245	115,050	74,943	12,647	(321,566)
2020 Subtractions	-	-	-	-	-
Balance 12/31/20	\$ 522,467	\$ 9,136,204	\$ 74,943	\$ 170,905	\$ (3,262,564)
2021 Additions	170,323	1,130,727	169,361	-	(357,816)
2021 Subtractions	-	-	(116,756)	(126,787)	-
Balance 12/31/21	<u>\$ 692,790</u>	<u>\$ 10,266,931</u>	<u>\$ 127,548</u>	<u>\$ 44,118</u>	<u>\$ (3,620,380)</u>

NOTE I – RESTRICTED NET POSITION

Restricted net position consisted of the following as of December 31:

	2021	2020
Meter Deposit Funds	\$ 10,686	\$ 9,845
Debt Service & Depreciation Funds for Bonds / Loans	137,720	134,769
Debt Service - 2% Sales & Use Tax Bonds	-	125,443
2% Sales & Use Tax Bond Fund	-	581,200
Construction Fund (2016)	-	41,812
Sewer Construction Fund (2021)	1,121,160	-
	<u>\$ 1,269,566</u>	<u>\$ 893,069</u>

NOTE J – ACCRUED COMPENSATED ABSENCES

The Department offers benefits to full-time employees for time off with pay related to vacation pay and sick leave. The Department has recognized an estimated liability (based on current rates of pay) for unused vacation and sick leave days at year end that are eligible for carryover to the next year. The estimated liability is presented as Accrued Compensated Absences.

BROOKLAND UTILITIES DEPARTMENT

Notes to Financial Statements
December 31, 2021 and 2020

NOTE K – SEWER CONSTRUCTION FUND

The Sewer Construction Fund was created in conjunction with the issuance of the Arkansas Sales and Use Tax Refunding and Improvement Bonds, Series 2021. The Sewer Construction Fund accounting records (and general ledger) are maintained separate from the Department's accounting records (and general ledger).

The Sewer Construction Fund financial information has been combined with the Department's financial information and has been included in these financial statements for reporting purposes.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 31, 2022, the date on which these financial statements were available for release.

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*



despain luther short & company

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**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**

Honorable Mayor and
Members of the City Council
Brookland, Arkansas 72477

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 Brookland Utilities Department (hereafter referred to as "Department"), which comprise the Statement of Net Position as of December 31, 2021 and 2020, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements, and have issued our report thereon dated August 31, 2022, which was unmodified.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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, as described in the accompanying schedule of findings **(ITEM #2021-1)**, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

THE DEPARTMENT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the 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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Despain, Luther, Short
& Company, CPAs, PA*

Jonesboro, Arkansas
August 31, 2022

BROOKLAND UTILITIES DEPARTMENT
Schedule of Findings
For the Year Ended December 31, 2021 and 2020

SUMMARY OF AUDIT RESULTS

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Brookland Utilities Department.
2. 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* (a) disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*; and (b) disclosed a significant deficiency described below. No material weaknesses are reported.
3. There were no prior audit findings to be resolved. However, the significant deficiency described in **ITEM #2021-1** was present in the prior year.

INTERNAL CONTROL -- AUDIT OF FINANCIAL STATEMENTS

Significant Deficiency

ITEM #2021-1: The Department has a limited number of accounting personnel (two employees) that effectively precludes an adequate segregation of duties relating to the billing, collection, recording, coding, and classification of transactions that affect the general ledger and accounts receivable for services. This same circumstance extends to other areas as well. There is a limited amount of control activities with respect to procurement, acquisition, and use of materials.

DEPARTMENT'S RESPONSE: Management of the Department realizes that better internal control could be maintained by utilizing more individuals in the internal control process. However, it is Management's determination that the cost of hiring additional people would exceed the benefit realized.

COMPLIANCE AND OTHER MATTERS – AUDIT OF FINANCIAL STATEMENTS

No findings noted.