
CITY OF DANVILLE WATER AND SEWER SYSTEM

Financial Statements and Supplemental Information

December 31, 2021 and 2020

(with Independent Auditors' Report thereon)

CITY OF DANVILLE WATER AND SEWER SYSTEM

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SHOPTAW, LABAHN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

JOHN W. SHOPTAW, CPA
LORI A. MELTON, CPA
JEFFREY S. NUFER, CPA

915 WEST MAIN, SUITE B, P.O. BOX 1065, RUSSELLVILLE, ARKANSAS 72811
TEL. 479-967-3600 FAX 479-967-2131

Independent Auditor's Report

Water and Sewer Committee
City Council of Danville
Danville, Arkansas

Opinion

We have audited the accompanying financial statements of the City of Danville Water and Sewer System which comprise the statements of net position as of December 31, 2021 and 2020 and the related statements of income and expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

As discussed in note 1, the financial statements present only the City of Danville Water and Sewer System and are not intended to present fairly the net position of the City of Danville, Arkansas, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the City of Danville Water and Sewer System, as of December 31, 2021 and 2020, and changes in net position and, where applicable, cash flows thereof 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. 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 City of Danville Water and Sewer System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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 City of Danville Water and Sewer System ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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, 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 City of Danville Water and Sewer System internal control. Accordingly, no such opinion is expressed.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Danville Water and Sewer System's basic financial statements. The supplemental information, disclosed in compliance with requirements for audits of United States Department of Agriculture Rural Development Borrowers' Accounting Records is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplemental information is fairly stated, in all material respects, in relation to the basic 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 August 19, 2022 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

August 19, 2022

Shoptaw, Zabala & Company, P.A.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Net Position

December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------|-------------|
| <u>Assets</u> | | |
| Assets: | | |
| Cash in bank | \$ 434,322 | 522,143 |
| Restricted cash | 812,030 | 795,739 |
| Total cash | 1,246,352 | 1,317,882 |
| Accounts receivable, less allowance for doubtful accounts of \$12,500 in 2021 and \$10,000 for 2020 | 170,720 | 156,026 |
| Other receivable | 5,211 | 27,193 |
| Prepaid expenses | 28,142 | 26,892 |
| Utility plant and equipment: | | |
| Plant in service | 18,137,624 | 17,542,794 |
| Municipal building and vehicles | 284,987 | 256,842 |
| Construction in progress | 147,615 | 470,123 |
| | 18,570,226 | 18,269,759 |
| Less accumulated depreciation | (9,567,044) | (9,013,105) |
| Net utility plant and equipment | 9,003,182 | 9,256,654 |
| Total assets | 10,453,607 | 10,784,647 |
| Liabilities: | | |
| Accounts payable | 36,935 | 53,346 |
| Construction payable | 3,186 | 36,664 |
| Taxes payable | 5,693 | 9,907 |
| Accrued interest | 13,275 | 13,308 |
| Customers' deposits | 62,625 | 57,773 |
| Long-term liabilities: | | |
| Due within one year | 141,753 | 113,528 |
| Due in more than one year | 3,680,968 | 3,822,762 |
| Total liabilities | 3,944,435 | 4,107,288 |
| Deferred inflows: | | |
| Refundable advance | 152,860 | 187,470 |
| Total deferred inflows | 152,860 | 187,470 |
| Net position: | | |
| Net investment in capital assets | 5,164,000 | 5,268,592 |
| Restricted for debt service and construction activities | 812,030 | 795,739 |
| Unrestricted | 380,282 | 425,558 |
| Total net position | \$ 6,356,312 | 6,489,889 |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Revenue and Expenses

Years ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|------------------|
| Operating revenue: | | |
| Water | \$ 1,711,100 | 1,643,362 |
| Sewer | 162,590 | 156,862 |
| Connection fees | 4,350 | 2,675 |
| Penalties | 16,740 | 19,450 |
| Fire hydrant rentals | 1,125 | 1,125 |
| Total operating revenues | <u>1,895,905</u> | <u>1,823,474</u> |
| Operating expenses: | | |
| Payroll and payroll expenses | 650,790 | 593,200 |
| Water and sewer chemicals | 335,772 | 292,952 |
| Utilities | 187,550 | 190,779 |
| Repairs, maintenance and supplies | 227,740 | 139,894 |
| Insurance | 14,551 | 11,866 |
| Truck and backhoe expenses | 33,738 | 26,213 |
| Other | 80,815 | 74,806 |
| Office and computer expense | 10,109 | 6,862 |
| Bad debts | 3,165 | 5,890 |
| Total operating expense | <u>1,544,230</u> | <u>1,342,462</u> |
| Net operating revenue before provision for depreciation | 351,675 | 481,012 |
| Depreciation | <u>553,938</u> | <u>497,597</u> |
| Operating loss | <u>(202,263)</u> | <u>(16,585)</u> |
| Other revenue (expense): | | |
| Interest income | 3,008 | 3,381 |
| Grant revenue | 168,560 | 309,507 |
| Miscellaneous | 28,960 | 711 |
| Oil and gas royalties | 40 | 20 |
| Interest expense | <u>(143,723)</u> | <u>(144,227)</u> |
| Total other revenue (expense) | <u>56,845</u> | <u>169,392</u> |
| Change in net position | <u>\$ (145,418)</u> | <u>152,807</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Changes in Net Position

Years ended December 31, 2021 and 2020

| | Invested in Capital Assets | Construction Fund | <u>Restricted Net Assets</u> Depreciation Fund | Revenue Bond Fund | Total Restricted Net Assets | Unrestricted | Total Net Assets |
|---------------------------------|----------------------------------|----------------------|--|----------------------|-----------------------------------|-----------------|---------------------|
| Net position, January 1, 2020 | \$ 5,202,923 | - | 167,832 | 723,410 | 891,242 | 242,917 | 6,337,082 |
| Change in net position | <u>65,669</u> | <u>965</u> | <u>(11,192)</u> | <u>(85,276)</u> | <u>(95,503)</u> | <u>182,641</u> | <u>152,807</u> |
| Net position, December 31, 2020 | 5,268,592 | 965 | 156,640 | 638,134 | 795,739 | 425,558 | 6,489,889 |
| Contribution to capital by City | - | - | - | - | - | 11,841 | 11,841 |
| Change in net position | <u>(104,592)</u> | <u>(965)</u> | <u>(22,252)</u> | <u>39,508</u> | <u>16,291</u> | <u>(57,117)</u> | <u>(145,418)</u> |
| Net position, December 31, 2021 | <u>\$ 5,164,000</u> | <u>-</u> | <u>134,388</u> | <u>677,642</u> | <u>812,030</u> | <u>380,282</u> | <u>6,356,312</u> |

See accompanying notes to financial statements.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Cash Flows

Years ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,881,211 | 1,814,976 |
| Cash payment to suppliers | (915,315) | (744,733) |
| Cash paid to employees for payroll and payroll expense | (650,790) | (593,200) |
| Net cash provided by operating activities | <u>315,106</u> | <u>477,043</u> |
| Cash flows from non-capital and related financing activities: | | |
| Miscellaneous income including oil and gas receipts | 23,789 | 2,723 |
| Grant funds received | 161,143 | 247,705 |
| Customer deposits received, net | <u>4,852</u> | <u>1,818</u> |
| Net cash provided by non-capital and related financing activities | <u>189,784</u> | <u>252,246</u> |
| Cash flows from capital and related financing activities: | | |
| Capital contribution - city | 11,841 | - |
| Principal paid on bonds and notes payable | (121,695) | (85,674) |
| Interest paid | (143,756) | (144,684) |
| Proceeds from new bond issues and loans | <u>8,125</u> | <u>431,243</u> |
| Net cash provided (used) by capital and related financing activities | <u>(245,485)</u> | <u>200,885</u> |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (333,943) | (894,681) |
| Interest received | <u>3,008</u> | <u>3,381</u> |
| Net cash used by investing activities | <u>(330,935)</u> | <u>(891,300)</u> |
| Increase (decrease) in cash | (71,530) | 38,874 |
| Cash, beginning of year | <u>1,317,882</u> | <u>1,279,008</u> |
| Cash, end of year | <u>\$ 1,246,352</u> | <u>1,317,882</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Cash Flows (Continued)

Years ended December 31, 2021 and 2020

Reconciliation of operating loss to net cash provided by
operating activities:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|----------------|
| Cash flows from operating activities: | | |
| Operating loss | \$ (202,263) | (16,585) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 553,938 | 497,597 |
| Changes in assets and liabilities | | |
| Increase in accounts receivable | (14,694) | (8,498) |
| Increase in prepaid insurance | (1,250) | (2,081) |
| Increase (decrease) in taxes payable | (4,214) | 7,177 |
| Decrease in trade accounts payable | <u>(16,411)</u> | <u>(567)</u> |
| Total adjustments | <u>517,369</u> | <u>493,628</u> |
| Net cash provided by operating activities | <u>\$ 315,106</u> | <u>477,043</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2021 and 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The Danville Water and Sewer System (the "System") provides water and sewer services to local, residential, commercial and industrial customers in the City of Danville, Arkansas and water services to surrounding communities, including the cities of Belleville, Havana, Northeast Yell County Water Association and to the Tri-County Regional Water Distribution District.

The System is a municipally operated system and is governed by the Danville City Council of the City of Danville, Arkansas. The System is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The accompanying financial statements are intended to present only the financial position and results of operations of the Danville Water and Sewer System and not the City of Danville, Arkansas.

(b) Basis of Accounting and Presentation

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

Enterprise funds are used to account for operations that are financed 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 and services to the general public on a continuing basis be financed primarily through user charges. The System applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In accordance with GAAP, the System's operations are accounted for as a business type activity. In this regard, the System follows the accrual basis of accounting, whereby income is recognized when it is earned and expenses are recorded when they are incurred, irrespective of when paid.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(c) Property, Plant and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|------------|
| Vehicles and other moveable equipment | 5-10 years |
| Water plant and related line infrastructure | 5-50 years |
| Sewer plant and related infrastructure | 7-50 years |
| City hall building | 40 years |

Depreciation expense for the years ended December 31, 2021 and 2020 was \$553,938 and \$497,597, respectively. Expenditures for maintenance and repairs are expensed as incurred; replacements and betterments that extend the useful lives of property and equipment are capitalized. Property and equipment used by the System are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In the event that facts and circumstances indicate an impairment exists, an evaluation of recoverability would be performed.

Management evaluates the condition of property, plant, and equipment on a continuing basis and has accumulated reserves it believes are adequate to fund major repairs and replacements. Amounts accumulated in reserve funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the System has the right, subject to regulatory authority, to increase user rates, obtain additional bond funding, or delay repairs and replacements until funds are available.

(d) Use of Estimates

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

(e) Regulatory Environment

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department. The System may be assessed penalties should a violation occur with respect to regulatory requirements.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(f) Income Tax

The System is a municipally owned system that is exempt from federal and state income tax.

(g) Receivables

All receivables are reported at their gross value and where appropriate are reduced by the estimated portion that is expected to be uncollectible. The System assesses late fees on accounts determined to be past due but does not assess finance charges on such accounts. The System collects a customer deposit when initiating service. The customer deposit may be applied to outstanding account balances at the termination of service.

(h) Cash

The System defines cash for purposes of the statement of cash flows as cash on hand and in banks, including restricted cash.

(i) Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The carrying value of bonds payable approximates fair value because those financial instruments bear interest at rates that approximate current market rates for bonds with similar maturities and credit quality.

(j) Revenue Recognition, Contract Assets and Contract Liabilities

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments ("ASC 606"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to fulfill a contract. The System recognizes revenue when performance obligations are satisfied. Generally, the System's performance obligations are satisfied, control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the System's right to consideration is unconditional at the

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

time, the System currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities). Effective January 1, 2020, the System adopted ASC 606, which provides accounting guidance on the recognition of revenues from contracts. The adoption of ASC 606 did not result in a change of timing of the System's revenue recognition.

(2) RESTRICTED CASH

The terms of Resolution number 2-64 (authorizing the issuance of the waterworks and sewer system refunding bonds) and ordinances Number 130, 134, and 150 require designated funds to be maintained with restrictions placed on their uses.

At December 31, 2021 and 2020, the System had restricted cash shown as follows:

| | 2021 | 2020 |
|---|-------------------|----------------|
| Reserve accounts required by the Water and Sewer Revenue Bonds: | | |
| Depreciation fund | \$ 134,388 | 156,640 |
| Water and Sewer Revenue Bond Fund | <u>677,642</u> | <u>638,134</u> |
| | <u>\$ 812,030</u> | <u>794,774</u> |

(a) Depreciation Fund

Bond ordinances require that a minimum of 3% of the gross revenue from the System be deposited in this fund to be used for the purpose of paying for necessary replacements or repairs to the water and sewer facilities or for the cost of economically justifiable extensions to the distribution and collection systems. The required transfers for the years ended December 31, 2021 and 2020, were \$55,864 and \$53,592, respectively. Beginning in 2020, management elected to transfer funds to this account at a 5% rate. The actual transfers to this fund from the Revenue Fund for the years ended December 31, 2021 and 2020 were \$93,107 and \$89,321 excluding interest earned, respectively. Interest earned totaled \$281 and \$426 for 2021 and 2020, respectively.

(b) Water and Sewer Revenue Bond Fund

Bond ordinances require a reserve for contingencies be maintained in this fund. Transfers from the revenue fund to this fund are to be made monthly in payments sufficient to meet the next maturities of principal and interest. In addition to monthly transfers, dedicated sales tax remittances are collected and deposited into the fund. The monies in this fund are pledged for the purpose of paying interest and principal

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

of the bonds. Fund activity for the years ended December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-------------------|------------------|
| Reserve balance - beginning of year | \$ 638,134 | 723,410 |
| Funding transfers | 327,193 | 547,705 |
| Interest income | 2,062 | 2,737 |
| Fund expenditures | <u>(289,747)</u> | <u>(635,718)</u> |
| Reserve balance - end of year | <u>\$ 677,642</u> | <u>638,134</u> |

(3) METER DEPOSIT FUND

The meter deposit fund is a custodial account for meter deposits paid to the System by water customers.

| | <u>2021</u> | <u>2020</u> |
|---|-----------------|-----------------|
| Cash in fund | \$ 62,875 | 58,588 |
| Customer meter deposits | <u>(62,625)</u> | <u>(57,773)</u> |
| Meter deposit cash funds over (under) liability | <u>\$ 250</u> | <u>815</u> |

Other than normal recurring deposit transactions, no transfers were made during 2021 and 2020.

(4) ACCOUNTS RECEIVABLE

The accounts receivable due for water and sewer services at December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|-------------------|-----------------|
| Current (0-30 days) | \$ 159,331 | 144,595 |
| Past due (30-60 days) | 9,215 | 8,585 |
| Past due (over 60 days) | <u>14,674</u> | <u>12,846</u> |
| Total accounts receivable | 183,220 | 166,026 |
| Allowance for doubtful accounts | <u>(12,500)</u> | <u>(10,000)</u> |
| Net accounts receivable | <u>\$ 170,720</u> | <u>156,026</u> |

(5) INSURANCE

| <u>Company</u> | <u>Description</u> | <u>Coverage</u> | <u>Amount</u> |
|-----------------------------------|--|-----------------------|---------------|
| Arkansas Fidelity Bond Trust Fund | All elected city officials, employees and councilmen | Blanket Fidelity Bond | \$ 300,000 |
| Arkansas Municipal League | Automobile liability | | 25,000/50,000 |
| | Workmen's compensation | | Statutory |
| | Buildings, equipment and vehicles | | 7,000,869 |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(6) LONG-TERM NOTES AND BONDS PAYABLE

Long-term notes payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2021 and 2020:

| | Interest Rate | 2021 | 2020 |
|--|------------------|---------------------|------------------|
| United States Department of Agriculture Rural Development, 2002 bonds, due in annual installments of \$14,544, including interest. The bonds mature in April, 2040. | 4.750% | \$ 177,812 | 183,755 |
| Arkansas Natural Resources Commission, 2019 series no interest bonds, due in annual installments of \$25,661, beginning October, 2021 including 0.5% service fee. The bonds mature in April, 2031. | 0.000% | 406,797 | 431,243 |
| Arkansas Natural Resources Commission, 2014 bonds, due in annual installments of \$24,449, beginning June, 2016 including interest. The bonds mature in June, 2034. | 3.000% | 260,011 | 276,175 |
| United States Department of Agriculture Rural Development, 2006 bonds, due in monthly installments of \$6,465, including interest. The bonds mature in December, 2046. | 4.125% | 1,207,338 | 1,234,507 |
| United States Department of Agriculture Rural Development, 2007 bonds, due in monthly installments of \$9,482, including interest. The bonds mature in December, 2046. | 4.125% | <u>1,770,763</u> | <u>1,810,610</u> |
| | | 3,822,721 | 3,936,290 |
| Notes payable due within one year | | <u>141,753</u> | <u>113,528</u> |
| | | <u>\$ 3,680,968</u> | <u>3,822,762</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

Maturities of long-term debt for each of the years ending December 31, 2022 through 2027 and thereafter are as follows:

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------|--------------|
| 2022 | \$ 141,712 | 139,664 | 281,376 |
| 2023 | 145,696 | 135,680 | 281,376 |
| 2024 | 149,832 | 131,544 | 281,376 |
| 2025 | 154,130 | 127,246 | 281,376 |
| 2026 | 158,595 | 122,781 | 281,376 |
| 2027 and thereafter | 3,119,746 | 1,293,946 | 4,413,692 |

Interest expense incurred for 2021 and 2020 totaled \$143,723 and \$144,227, respectively.

(7) EMPLOYEE PENSION PLAN

The City of Danville has established a SEP (Simplified Employee Pension) Plan for all full time employees. Monthly contributions are made to each employee's individual IRA account by the city equal to 6% of applicable wages. During 2021 and 2020, \$23,973 and \$20,237, respectively, was contributed to the plan.

(8) CONCENTRATIONS

The System services consumers in Danville, Arkansas and surrounding communities. Poultry processing plants and other surrounding communities and associations accounted for approximately 85% and 86% of consumption in the years ended December 31, 2021 and 2020, respectively.

All funds are deposited in financial institutions insured by the FDIC. Deposits in excess of the insured amount total approximately \$1,039,000 of which \$1,039,000 was collateralized by a pledge of Federally backed securities by the financial institution.

The System had one major supplier in 2021 and 2020 that accounted for approximately 94% and 52%, respectively, of the cost of chemicals used in the water and sewer treatment process. Management reviews its vendor relationships on a regular basis to assess quality and continuity of service in maintaining a reliable source of necessary supplies and materials. Other vendors are available if the current vendors are unable to supply necessary treatment chemicals.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(9) REFUNDABLE ADVANCE

During 2015, the System received a grant to install fluoridating equipment in its water treatment plant. The terms of the grant include a provision whereby if the System elects to voluntarily discontinue the use of such equipment within ten years of the date of the grant agreement, a proportional balance of the grant will be refundable to the grantor. Management has elected to recognize the grant over the ten year conditional period based on the date the equipment is placed in service. Management placed the equipment in service during 2016. At December 31, 2021 and 2020, grant funds received in advance totaled \$152,860 and \$187,470, respectively. During 2021 and 2020, the advance recognized as grant income totaled \$34,610 and \$34,610, respectively.

(10) OTHER OPERATING EXPENSES

Other operating expenses include the following:

| | 2021 | 2020 |
|--|------------------|---------------|
| Legal and accounting | \$ 14,900 | 18,426 |
| Lab and testing | 10,210 | 8,691 |
| Corps of Engineer fees | 26,060 | 26,901 |
| Permit application fees and consulting | 420 | 540 |
| Sales and excise tax recovery consulting | 3,725 | 697 |
| Water - schools and meetings | 1,219 | 20 |
| Miscellaneous | 24,281 | 19,531 |
| Total other expense | <u>\$ 80,815</u> | <u>74,806</u> |

(11) SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 19, 2022, which is the date the financial statements were available to be issued.

Beginning in 2020 and continuing into 2022, a pandemic had broken out which has had major health and economic implications to all entities. Management continues to consider measures to mitigate associated risks to the System's operating activities.

CITY OF DANVILLE

WATER AND SEWER SYSTEM

Supplemental Information Disclosed in Compliance

with Requirements for Audits of United States

Department of Agriculture Rural Development

Borrowers' Accounting Records

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statement of Net Position

Year ended December 31, 2021

| | <u>Total</u> | <u>Water</u> | <u>Sewer</u> |
|---|--------------|--------------|--------------|
| Assets: | | | |
| Cash in bank | \$ 434,322 | 434,322 | - |
| Restricted cash | 812,030 | 721,407 | 90,623 |
| Total cash | 1,246,352 | 1,155,729 | 90,623 |
| Accounts receivable, less allowance for doubtful accounts of \$12,500 in 2021 and \$10,000 in 2020 | 170,720 | 157,259 | 13,461 |
| Other receivable | 5,211 | 5,211 | - |
| Prepaid expenses | 28,142 | 28,142 | - |
| Utility plant and equipment: | | | |
| Plant in service | 18,137,624 | 13,345,559 | 4,792,065 |
| Municipal building and vehicles | 284,987 | 284,987 | - |
| Construction in progress | 147,615 | 137,371 | 10,244 |
| | 18,570,226 | 13,767,917 | 4,802,309 |
| Less accumulated depreciation | (9,567,044) | (7,512,120) | (2,054,924) |
| Net utility plant and equipment | 9,003,182 | 6,255,797 | 2,747,385 |
| Total assets | 10,453,607 | 7,602,138 | 2,851,469 |
| Liabilities: | | | |
| Accounts payable | 36,560 | 26,854 | 9,706 |
| Construction payable | 3,186 | 3,186 | - |
| Taxes payable | 5,693 | 5,693 | - |
| Accrued interest | 13,275 | 10,000 | 3,275 |
| Customers' deposits | 62,625 | 62,625 | - |
| Long-term liabilities: | | | |
| Due within one year | 141,753 | 113,445 | 28,308 |
| Due in more than one year | 3,681,343 | 2,502,313 | 1,179,030 |
| Total liabilities | 3,944,435 | 2,724,116 | 1,220,319 |
| Deferred inflows: | | | |
| Refundable advance | 152,860 | 152,860 | - |
| Total deferred inflows | 152,860 | 152,860 | - |
| Net position: | | | |
| Net investment in capital assets | 5,163,625 | 3,626,853 | 1,536,772 |
| Restricted for debt service and construction activities | 812,030 | 721,407 | 90,623 |
| Unrestricted | 380,282 | 376,527 | 3,755 |
| Total net position | \$ 6,355,937 | 4,724,787 | 1,631,150 |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statement of Revenue and Expenses - Actual vs. Budget

Year ended December 31, 2021

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|---|---------------------|------------------|------------------|
| Operating revenue: | | | |
| Water | \$ 1,711,100 | 1,731,000 | (19,900) |
| Sewer | 162,590 | 160,000 | 2,590 |
| Connection fees | 4,350 | 3,000 | 1,350 |
| Penalties | 16,740 | 17,000 | (260) |
| Fire hydrant rentals | 1,125 | 1,200 | (75) |
| Total operating revenues | <u>1,895,905</u> | <u>1,912,200</u> | <u>(16,295)</u> |
| Operating expenses: | | | |
| Payroll and payroll expenses | 650,790 | 649,009 | (1,781) |
| Water and sewer chemicals | 335,772 | 306,000 | (29,772) |
| Utilities | 187,550 | 186,000 | (1,550) |
| Repairs, maintenance and supplies | 227,740 | 234,600 | 6,860 |
| Insurance | 14,551 | 24,000 | 9,449 |
| Truck and backhoe expenses | 33,738 | 25,000 | (8,738) |
| Other operating expenses | 80,815 | 95,370 | 14,555 |
| Office and computer expense | 10,109 | 6,000 | (4,109) |
| Bad debts | 3,165 | 2,000 | (1,165) |
| Total operating expense | <u>1,544,230</u> | <u>1,527,979</u> | <u>(16,251)</u> |
| Net operating revenue before provision for depreciation | 351,675 | 384,221 | (32,546) |
| Depreciation | <u>553,938</u> | <u>35,000</u> | <u>(518,938)</u> |
| Net operating revenue (loss) | <u>(202,263)</u> | <u>349,221</u> | <u>(551,484)</u> |
| Other revenue (expense): | | | |
| Interest income | 3,008 | 3,000 | 8 |
| Grant revenue | 168,560 | - | 168,560 |
| Miscellaneous | 28,960 | 3,100 | 25,860 |
| Oil and gas royalties | 40 | - | 40 |
| Interest expense | <u>(143,723)</u> | <u>(19,000)</u> | <u>(124,723)</u> |
| Total other revenue (expense) | <u>56,845</u> | <u>(12,900)</u> | <u>69,745</u> |
| Change in net position | <u>\$ (145,418)</u> | <u>336,321</u> | <u>(481,739)</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statement of Revenue and Expenses - Actual vs. Budget

Year ended December 31, 2020

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|---|-------------------|------------------|------------------|
| Operating revenue: | | | |
| Water | \$ 1,643,362 | 1,680,000 | (36,638) |
| Sewer | 156,862 | 100,000 | 56,862 |
| Connection fees | 2,675 | 3,000 | (325) |
| Penalties | 19,450 | 17,000 | 2,450 |
| Fire hydrant rentals | 1,125 | 1,200 | (75) |
| Total operating revenues | <u>1,823,474</u> | <u>1,801,200</u> | <u>22,274</u> |
| Operating expenses: | | | |
| Payroll and payroll expenses | 593,200 | 556,368 | (36,832) |
| Water and sewer chemicals | 292,952 | 362,000 | 69,048 |
| Utilities | 190,779 | 185,000 | (5,779) |
| Repairs, maintenance and supplies | 139,894 | 229,000 | 89,106 |
| Insurance | 11,866 | 24,000 | 12,134 |
| Truck and backhoe expenses | 26,213 | 28,000 | 1,787 |
| Other operating expenses | 74,806 | 94,340 | 19,534 |
| Office and computer expense | 6,862 | 5,000 | (1,862) |
| Bad debts | 5,890 | - | (5,890) |
| Total operating expense | <u>1,342,462</u> | <u>1,483,708</u> | <u>141,246</u> |
| Net operating revenue before provision for depreciation | 481,012 | 317,492 | 163,520 |
| Depreciation | <u>497,597</u> | <u>-</u> | <u>(497,597)</u> |
| Net operating revenue (loss) | <u>(16,585)</u> | <u>317,492</u> | <u>(334,077)</u> |
| Other revenue (expense): | | | |
| Interest income | 3,381 | 6,000 | (2,619) |
| Grant revenue | 309,507 | - | 309,507 |
| Miscellaneous | 711 | 2,400 | (1,689) |
| Oil and gas royalties | 20 | 500 | (480) |
| Interest expense | <u>(144,227)</u> | <u>17,000</u> | <u>(161,227)</u> |
| Total other revenue (expense) | <u>169,392</u> | <u>25,900</u> | <u>143,492</u> |
| Change in net position | <u>\$ 152,807</u> | <u>343,392</u> | <u>(190,585)</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statements of Revenue and Expenses

Year ended December 31, 2021

| | <u>Total</u> | <u>Water</u> | <u>Sewer</u> |
|---|---------------------|------------------|------------------|
| Operating revenue: | | | |
| Water | \$1,711,100 | 1,711,100 | - |
| Sewer | 162,590 | - | 162,590 |
| Connection fees | 4,350 | 4,100 | 250 |
| Penalties | 16,740 | 16,740 | - |
| Fire hydrant rentals | 1,125 | 1,125 | - |
| Total operating revenues | <u>1,895,905</u> | <u>1,733,065</u> | <u>162,840</u> |
| Operating expenses: | | | |
| Payroll and payroll expenses | 650,790 | 572,695 | 78,095 |
| Water and sewer chemicals | 335,772 | 328,466 | 7,306 |
| Utilities | 187,550 | 138,339 | 49,211 |
| Repairs, maintenance and supplies | 227,740 | 192,366 | 35,374 |
| Insurance | 14,551 | 14,551 | - |
| Truck and backhoe expenses | 33,738 | 33,738 | - |
| Other operating expenses | 80,815 | 64,298 | 16,517 |
| Office and computer expense | 10,109 | 10,109 | - |
| Bad debt | 3,165 | 3,165 | - |
| Total operating expense | <u>1,544,230</u> | <u>1,357,727</u> | <u>186,503</u> |
| Net operating revenue before provision for depreciation | 351,675 | 375,338 | (23,663) |
| Depreciation | <u>553,938</u> | <u>409,829</u> | <u>144,109</u> |
| Net operating revenue (loss) | <u>(202,263)</u> | <u>(34,491)</u> | <u>(167,772)</u> |
| Other revenue (expense): | | | |
| Interest income | 3,008 | 3,008 | - |
| Grant revenue | 168,560 | 168,560 | - |
| Miscellaneous | 28,960 | 28,140 | 820 |
| Oil and gas royalties | 40 | 40 | - |
| Interest expense | <u>(143,723)</u> | <u>(93,385)</u> | <u>(50,338)</u> |
| Total other revenue (expense) | <u>56,845</u> | <u>106,363</u> | <u>(49,518)</u> |
| Change in net position | <u>\$ (145,418)</u> | <u>71,872</u> | <u>(217,290)</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statements of Revenue and Expenses

Year ended December 31, 2020

| | <u>Total</u> | <u>Water</u> | <u>Sewer</u> |
|---|-------------------|------------------|------------------|
| Operating revenue: | | | |
| Water | \$1,643,362 | 1,643,362 | - |
| Sewer | 156,862 | - | 156,862 |
| Connection fees | 2,675 | 2,675 | - |
| Penalties | 19,450 | 19,450 | - |
| Fire hydrant rentals | 1,125 | 1,125 | - |
| Total operating revenues | <u>1,823,474</u> | <u>1,666,612</u> | <u>156,862</u> |
| Operating expenses: | | | |
| Payroll and payroll expenses | 593,200 | 522,001 | 71,199 |
| Water and sewer chemicals | 292,952 | 286,823 | 6,129 |
| Utilities | 190,779 | 141,123 | 49,656 |
| Repairs, maintenance and supplies | 139,894 | 115,221 | 24,673 |
| Insurance | 11,866 | 11,866 | - |
| Truck and backhoe expenses | 26,213 | 26,213 | - |
| Other operating expenses | 74,806 | 65,757 | 9,049 |
| Office and computer expense | 6,862 | 6,862 | - |
| Bad debt | 5,890 | 5,890 | - |
| Total operating expense | <u>1,342,462</u> | <u>1,181,756</u> | <u>160,706</u> |
| Net operating revenue before provision for depreciation | 481,012 | 484,856 | (3,844) |
| Depreciation | <u>497,597</u> | <u>387,468</u> | <u>110,129</u> |
| Net operating revenue (loss) | <u>(16,585)</u> | <u>97,388</u> | <u>(113,973)</u> |
| Other revenue (expense): | | | |
| Interest income | 3,381 | 3,381 | - |
| Grant revenue | 309,507 | 34,609 | 274,898 |
| Miscellaneous | 711 | 121 | 590 |
| Oil and gas royalties | 20 | 20 | - |
| Interest expense | <u>(144,227)</u> | <u>(92,790)</u> | <u>(51,437)</u> |
| Total other revenue (expense) | <u>169,392</u> | <u>(54,659)</u> | <u>224,051</u> |
| Change in net position | <u>\$ 152,807</u> | <u>42,729</u> | <u>110,078</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information

Years ended December 31, 2021 and 2020

WATER CONSUMPTION

Water consumption for the year ended December 31:

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Residential and small business | 111,259,000 | 101,800,700 |
| Cities of Belleville, Havana, NE Yell County Assn. & Tri County Water Dist. | 346,555,800 | 310,725,600 |
| State and county buildings | 1,528,600 | 1,668,600 |
| Poultry processing plants | 310,009,100 | 316,161,500 |
| Total water consumed | <u>769,352,500</u> | <u>730,356,400</u> |

Cost of water production per thousand gallons consumed:

2021

| | | | | |
|--------------------|---------------------|-------------------------------|-------------|------------|
| Operating expenses | \$ 1,544,230 | divided by 769,352,500 gal. = | 2.01 | / thousand |
| Depreciation | 553,938 | divided by 769,352,500 gal. = | 0.72 | / thousand |
| | <u>\$ 2,098,168</u> | | <u>2.73</u> | / thousand |

2020

| | | | | |
|--------------------|---------------------|-------------------------------|-------------|------------|
| Operating expenses | \$ 1,342,462 | divided by 730,356,400 gal. = | 1.84 | / thousand |
| Depreciation | 497,597 | divided by 730,356,400 gal. = | 0.68 | / thousand |
| | <u>\$ 1,840,059</u> | | <u>2.52</u> | / thousand |

The water rate schedule for the operations of the water and sewer system is as follows for December 31, 2021 and 2020:

| <u>Water rates</u> | | <u>2021</u> Per thousand Gallons | <u>2020</u> Per thousand Gallons |
|--------------------|-------------------------|--|--|
| First | 2,000 gallons - minimum | \$11.72 | 11.72 |
| Next | 3,000 gallons | 3.83 | 3.83 |
| Next | 5,000 gallons | 3.29 | 3.29 |
| Next | 50,000 gallons | 2.89 | 2.89 |
| Next | 140,000 gallons | 2.74 | 2.74 |
| Over | 200,000 gallons | 2.04 | 2.04 |
| Industrial | Per 1,000 gallons | 2.04 | 2.04 |
| Wholesale | Per 1,000 gallons | 1.95 | 1.95 |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

The sewer rate schedule for the operations of the water and sewer system is as follows for December 31, 2021 and 2020:

| <u>Sewer rates</u> | | 2021 Per thousand Gallons | 2020 Per thousand Gallons |
|--------------------|-------------------------|---------------------------------|---------------------------------|
| First | 2,000 gallons - minimum | \$10.00 | 10.00 |
| Over | 3,000 gallons | 2.05 | 2.05 |

Sewer rates are established based on the average water usage registered by each customer during the November and December usage periods. That average is then used to establish a fixed charge for the following operating period based on the noted fee structure identified above.

PRINCIPAL OFFICERS AT DECEMBER 31, 2021:

Mayor: Phil Moudy

City manager: Jerry Pendergraft (Deceased)

PROPERTY AND PLANT ADDITIONS AND DISPOSITIONS

| | <u>2021</u> |
|------------------------------------|-------------------|
| Additions: | |
| Vehicle and equipment acquisitions | \$ 28,144 |
| Sewer equipment and improvements | 53,614 |
| Water equipment and improvements | <u>218,709</u> |
| | <u>\$ 300,467</u> |
| | |
| | <u>2020</u> |
| Additions: | |
| Sewer equipment and improvements | \$ 490,462 |
| Sewer construction in progress | <u>990</u> |
| | <u>\$ 491,452</u> |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

Five year amortization schedule of long-term notes and bonds payable:

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-04):

| <u>Year</u> | <u>Total Payment</u> | <u>Principal Retirement</u> | <u>Interest Requirement</u> | <u>Remaining Principal</u> |
|-------------|--------------------------|---------------------------------|---------------------------------|--------------------------------|
| 2022 | \$ 14,544 | 6,232 | 8,312 | 171,579 |
| 2023 | 14,544 | 6,535 | 8,009 | 165,044 |
| 2024 | 14,544 | 6,852 | 7,692 | 158,192 |
| 2025 | 14,544 | 7,185 | 7,359 | 151,007 |
| 2026 | 14,544 | 7,534 | 7,010 | 143,473 |
| Past 2027 | 193,960 | 143,473 | 50,487 | - |

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-07):

| <u>Year</u> | <u>Total Payment</u> | <u>Principal Retirement</u> | <u>Interest Requirement</u> | <u>Remaining Principal</u> |
|-------------|--------------------------|---------------------------------|---------------------------------|--------------------------------|
| 2022 | \$ 113,784 | 41,518 | 72,266 | 1,729,245 |
| 2023 | 113,784 | 43,264 | 70,520 | 1,685,981 |
| 2024 | 113,784 | 45,082 | 68,702 | 1,640,899 |
| 2025 | 113,784 | 46,978 | 66,806 | 1,593,921 |
| 2026 | 113,784 | 48,952 | 64,832 | 1,544,969 |
| Past 2027 | 2,269,118 | 1,544,969 | 724,149 | - |

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-06):

| <u>Year</u> | <u>Total Payment</u> | <u>Principal Retirement</u> | <u>Interest Requirement</u> | <u>Remaining Principal</u> |
|-------------|--------------------------|---------------------------------|---------------------------------|--------------------------------|
| 2022 | \$ 77,580 | 28,308 | 49,272 | 1,179,030 |
| 2023 | 77,580 | 29,498 | 48,082 | 1,149,532 |
| 2024 | 77,580 | 30,738 | 46,842 | 1,118,794 |
| 2025 | 77,580 | 32,030 | 45,550 | 1,086,764 |
| 2026 | 77,580 | 33,377 | 44,203 | 1,053,387 |
| Past 2027 | 1,547,122 | 1,053,387 | 493,735 | - |

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-06):

| <u>Year</u> | <u>Total Payment</u> | <u>Principal Retirement</u> | <u>Interest Requirement</u> | <u>Remaining Principal</u> |
|-------------|--------------------------|---------------------------------|---------------------------------|--------------------------------|
| 2022 | \$ 24,449 | 16,649 | 7,800 | 243,362 |
| 2023 | 24,449 | 17,148 | 7,301 | 226,214 |
| 2024 | 24,449 | 17,663 | 6,786 | 208,551 |
| 2025 | 24,449 | 18,192 | 6,257 | 190,359 |
| 2026 | 24,449 | 18,738 | 5,711 | 171,621 |
| Past 2027 | 195,588 | 171,621 | 23,967 | - |

Arkansas Development Finance Authority 0% Water and Sewer Revenue Bonds, Series 2019
(note 01214-DWSRF-L):

| <u>Year</u> | <u>Total Payment</u> | <u>Principal Retirement</u> | <u>Service Fee Requirement</u> | <u>Remaining Principal</u> |
|-------------|--------------------------|---------------------------------|------------------------------------|--------------------------------|
| 2022 | \$ 51,019 | 49,005 | 2,014 | 404,783 |
| 2023 | 51,019 | 49,251 | 1,768 | 355,532 |
| 2024 | 51,019 | 49,497 | 1,522 | 306,035 |
| 2025 | 51,019 | 49,745 | 1,274 | 256,290 |
| 2026 | 51,019 | 49,994 | 1,025 | 206,296 |
| Past 2027 | 207,904 | 206,296 | 1,608 | - |

The 0% interest bond repayment will include an annual 0.5% servicing fee assessment.

SHOPTAW, LABAHN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN W. SHOPTAW, CPA
LORI A. MELTON, CPA
JEFFREY S. NUFER, CPA

915 WEST MAIN, SUITE B, P.O. BOX 1065, RUSSELLVILLE, ARKANSAS 72811
TEL 479-967-3600 FAX 479-967-2131

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

Water and Sewer Committee
City Council of Danville
Danville, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Danville Water and Sewer System (a component unit of the City of Danville, Arkansas), which comprise the statement of net position as of December 31, 2021, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 19, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danville Water and Sewer System's financial statements are free from 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*.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

August 19, 2022

Shoptaw, Zubahn & Company, P.A.