

**CITY OF STUTTGART, ARKANSAS
WATER AND SEWER DEPARTMENT**

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S
REPORT

INDEPENDENT AUDITORS' REPORT

**The Honorable Members of the City Council
City of Stuttgart, Arkansas
Report on the Audit of the Financial Statements**

Opinion

I have audited the accompanying modified cash basis financial statements of the City of Stuttgart, Arkansas Water and Sewer Department (the Department), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the City of Stuttgart, Arkansas Water and Sewer Department as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position and cash flows thereof for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1(B).

Basis of Accounting

As disclosed in Note 1(B) to the financial statements, these financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My 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 the modified cash basis of accounting described in Note 1(B); this includes determining that the modified cash basis of accounting is an acceptable basis for presentation of the financial statements in accounting the circumstances. Management is also responsible 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 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

My 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 my 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 GAAS 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 a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if

there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risk 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 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 judgement, 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 a reasonable period of time.

I am 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 I identified during the audit.

Emphasis of Matter

As discussed in Note 1(A), the financial statements present only the Department and do not purport to, and do not, present fairly the financial position balances and transactions that are directly attributable to the changes in financial position, or cash flows of the City of Stuttgart, Arkansas. My opinion is not modified with respect to this matter.

Other Matters

Other Information

In connection with my audit of the basic financial statements, my responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If based on work performed, I conclude that an uncorrected material misstatement of other information exists, I am required to describe it in my report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated May 15, 2024, on my consideration of the Department's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of 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 Department's internal control over financial reporting and compliance.



Baker Firm, P.A.
Jonesboro, Arkansas
May 15, 2024

FINANCIAL STATEMENTS

**City of Stuttgart, Arkansas
Water and Sewer Department
Statements of Net Position
Modified Cash Basis
December 31, 2021 and 2020**

	2021	2020
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,131,654	\$ 5,303,587
Certificate of deposits	288,298	287,306
Total current assets	5,419,952	5,590,893
NON-CURRENT ASSETS		
Restricted cash	1,173,523	913,904
Capital assets		
Capital assets, net	21,441,341	22,229,984
Total non-current assets	22,614,864	23,143,888
TOTAL ASSETS	\$ 28,034,816	\$ 28,734,781
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Customer deposits	202,433	194,049
Current portion of long-term debt	293,461	285,756
Total current liabilities	495,894	479,805
LONG-TERM DEBT, net of current maturities	12,449,479	12,752,457
TOTAL LIABILITIES	12,945,373	13,232,262
NET POSITION		
Net investment in capital assets	9,120,395	9,454,199
Restricted for:		
Renewal and replacement	549,002	456,335
Capital projects	1,094	1,120
Unrestricted	5,418,952	5,590,865
Total net position	15,089,443	15,502,519
TOTAL LIABILITIES AND NET POSITION	\$ 28,034,816	\$ 28,734,781

City of Stuttgart, Arkansas
Water and Sewer Department
Statements of Revenues, Expenditures and Changes in Net Position
Modified Cash Basis
December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Water service	\$ 2,503,215	\$ 2,463,806
Sewer service	1,447,469	1,436,777
Sanitation fees collected for the City of Stuttgart	1,018,687	1,018,155
Mosquito fees collected for the City of Stuttgart	374,553	374,566
Infrastructure fee	453,274	455,644
Late fees, adjustments and service calls	147,776	143,866
Sales tax	303,933	305,006
Other income	19,176	33,250
Total operating revenue	6,268,083	6,231,070
OPERATING EXPENDITURES		
Chemicals and laboratory	474,384	441,865
Depreciation	947,862	806,541
Dues & fees	19,858	19,353
Employee benefits	184,746	183,999
Insurance	100,088	161,169
Miscellaneous	4,140	1,638
Operating supplies	286,122	205,083
Payroll taxes	63,660	63,305
Repairs and maintenance	1,034,280	1,067,156
Rent	55,559	44,026
Retirement plan contribution	128,502	118,300
Sales tax	304,649	307,063
Salaries and wages	836,793	779,252
Transportation	55,420	45,583
Utilities	462,261	486,336
Uniforms	12,106	9,563
Mosquito fees remitted to the City of Stuttgart	373,281	374,200
Sanitation fees remitted to the City of Stuttgart	1,015,057	1,021,833
Total operating expenditures	6,358,768	6,136,265
OPERATING INCOME (LOSS)	(90,685)	94,805
NON-OPERATING REVENUES (EXPENDITURES)		
Interest income	4,263	8,715
Interest expense	(326,654)	(329,749)
Nonoperating revenues (expenditures)	(322,391)	(321,034)
INCOME BEFORE OTHER REVENUES, EXPENDITURES, GAINS OR LOSSES	(413,076)	(226,229)
OTHER REVENUES, EXPENDITURES, GAINS OR LOSSES		
INCREASE (DECREASE) IN NET POSITION	(413,076)	(226,229)
NET POSITION AT BEGINNING OF YEAR	15,502,519	15,728,748
NET POSITION AT END OF YEAR	\$ 15,089,443	\$ 15,502,519

City of Stuttgart, Arkansas
Water and Sewer Department
Statements of Cash Flows
Modified Cash Basis
December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 6,268,083	\$ 6,231,070
Cash payments to suppliers for goods and services	(4,574,113)	(4,550,472)
Cash payments to employees	(836,793)	(779,252)
Net cash provided/(used) by operating activities	857,177	901,346
Cash flows from non-capital financing activities:		
Net cash provided/(used) by non-capital financing activities	-	-
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(305,734)	(1,249,856)
Interest payments on long-term debt	(326,654)	(329,749)
Proceeds from issuance of long term debt	10,461	2,119,594
Purchases of capital assets	(159,219)	(1,546,721)
Net cash provided/(used) in financing activities	(781,146)	(1,006,732)
Cash flows from investing activities:		
Customer deposits	8,561	7,224
Interest received	3,094	5,284
Net cash provided/(used) by investing activities	11,655	12,508
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	87,686	(92,878)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,217,491	6,310,369
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,305,177	\$ 6,217,491
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (90,685)	\$ 94,805
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	947,862	806,541
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 857,177	\$ 901,346
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION		
MODIFIED CASH BASIS		
Unrestricted cash	\$ 5,131,654	\$ 5,303,587
Restricted cash-non current	1,173,523	913,904
	\$ 6,305,177	\$ 6,217,491
NONCASH TRANSACTIONS		
	2021	2020
Amount of interest earned on certificate of deposits and reinvested with certificate of deposits	\$ 3,092	\$ 3,432

NOTES TO THE FINANCIAL
STATEMENTS

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. Organization

The City of Stuttgart, Arkansas Water and Sewer Department (the "Department") provides water sales and sewer treatment services to the citizens of the City of Stuttgart, Arkansas (the "City") and to commercial and industrial customers located within the service area. The City Council serves as the governing board of the Department and approves rates for user charges.

These financial statements include the Department and present only balances and transactions that are directly attributable to the Water and Sewer Funds. They are not intended to present, and do not present, the financial position and changes therein of the City or its proprietary funds. The Water and Sewer Fund has no potential component units required to be evaluated for inclusion in its reporting entity.

B. Measurement Focus and Basis of Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The basis of accounting determines when transactions and economic events are reflected in financial statements and measurement focus identifies which transactions and events should be recorded. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives which are the determination of an operating income, changes in financial position and cash flow. Under an economic resource measurement focus, all assets, deferred inflows (outflows) of resources and liabilities are reported. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department records all transactions on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the modified cash basis of accounting, the Department generally recognizes assets, liabilities, deferred inflows (outflows) of resources, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivables and revenues for services billed or provided, but not collected. In addition, these financial statements do not reflect liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported on these financial statements that are not directly attributable to the receipts or disbursements of cash are depreciation of the Department's capital assets over the estimated useful lives of the assets.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

C. Basis of Presentation

The presentation of the Department's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the usage of water and sewer are distinguished from nonoperating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenditures and changes in net position—modified cash basis. Operating revenues consist primarily of user charges and operating expenditures which includes the costs of maintaining and operating the water and sewer system. Nonoperating revenues and expenditures consist of those revenues and expenditures that are related to financing and investing type activities. When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's informal policy to apply the expenditure to restricted net position to the extent such are available and then to unrestricted net position.

D. Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Department considers all cash balance on hand, demand deposits, money market accounts and highly liquid investments with an original maturity of three months or less to be cash equivalents.

E. Capital Assets

Capital assets consist of property, plant and equipment which are stated at historical cost or at estimated cost if actual historical cost information is not available. Contributed assets are recorded at their estimated fair value at the time of contribution. The cost of additions and major replacements financed with loan proceeds of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is reported as non-operating revenues or expenditures. The cost of current repairs, maintenance, and minor replacements is charged as an expenditure when incurred.

Depreciation of capital assets is charged as an expenditure against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Water & Sewer Systems	40-50 Years
Buildings	50 Years
Office Furniture and Equipment	10 Years
Transportation and Equipment	5-10 Years

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

F. Estimates

The preparation of financial statements in accordance with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

G. Net Position

Net position is classified in the following three components:

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

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

Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets”.

H. Taxes

The City, and thus the Department, is exempt from federal income taxes under Code Section 115 of the Internal Revenue Code and is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

I. Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City Council adopts an annual budget for the Department. The budget is adopted under a cash basis and does not include depreciation, certain capital expenditures, and non-operating income and expense items. All annual appropriations lapse at year-end and budgets are amended as needed.

J. Customer Deposits

Customer deposits are held until the customer’s service is terminated, at which time the deposit is applied to the final bill.

NOTE 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department’s deposits may not be returned to the Department. In accordance with Arkansas State statutes, the Department

NOTE 2: CASH AND CASH EQUIVALENTS (continued)

requires full collateralization of cash balances above the Federal Deposit Insurance Corporation insurance limits.

At December 31, 2021 and 2020, the Department was fully insured by a combination of FDIC insurance and additional collateralization of securities held by the Department's agent in the Department's name.

Restricted cash:

Customer Meter Deposit Fund

Represents funds required to have a balance equal to or greater than the outstanding customer meter/service deposit liability.

Debt Service Reserve

Represents funds required to be maintained as stipulated by the underlying bond agreements to ensure the Department's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service requirement is typically based on a percentage of the maximum annual debt service requirement.

Asset Management Reserve

Represents funds required to be reserved per the debt covenant agreement with the United States Department of Agriculture (USDA) for management of short-lived assets obtained with USDA funding.

The following is a summary of the restricted cash and cash equivalents as of December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Customer meter deposit fund	\$ 202,433	\$194,049
Unspent loan proceeds	1,093	1,120
Asset management reserve funds	549,002	456,308
Debt service reserve funds	420,995	262,427
	<u>\$1,173,523</u>	<u>\$913,904</u>

NOTE 3: CERTIFICATE OF DEPOSITS

As of December 31, 2021, the Department's certificate of deposits balance was \$288,298, the total amount was unrestricted.

As of December 31, 2020, the Department's certificate of deposits balance was \$287,306, the total amount was unrestricted.

NOTE 4: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the years ended December 31, 2021 and 2020 follows:

	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
Non-depreciable:				
Land	\$ 215,261	\$ -	\$ -	\$ 215,261
Construction in progress	-	-	-	-
	<u>215,261</u>	<u>-</u>	<u>-</u>	<u>215,261</u>
Depreciable:				
System Plant, Wells & Lines	41,109,558	-	-	41,109,558
Equipment and Vehicles	2,948,641	159,219	-	3,107,860
	<u>44,058,199</u>	<u>159,219</u>	<u>-</u>	<u>44,217,418</u>
Less accumulated depreciation	<u>(22,043,476)</u>	<u>(947,862)</u>	<u>-</u>	<u>(22,991,338)</u>
	22,014,723	(788,643)	-	21,226,080
Capital assets, net	<u>\$ 22,229,984</u>	<u>\$ (788,643)</u>	<u>\$ -</u>	<u>\$ 21,441,341</u>

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
Non-depreciable:				
Land	\$ 215,261	\$ -	\$ -	\$ 215,261
Construction in progress	4,836,026	1,251,996	-	-
	<u>5,051,287</u>	<u>1,045,332</u>	<u>-</u>	<u>215,261</u>
Depreciable:				
System Plant, Wells & Lines	35,021,536	-	-	41,109,558
Equipment and Vehicles	2,653,916	294,725	-	2,948,641
	<u>37,675,452</u>	<u>-</u>	<u>-</u>	<u>44,058,199</u>
Less accumulated depreciation	<u>(21,236,935)</u>	<u>(806,541)</u>	<u>-</u>	<u>(22,043,476)</u>
	16,438,517	(806,541)	-	22,014,723
Capital assets, net	<u>\$ 21,489,804</u>	<u>\$ 238,791</u>	<u>\$ -</u>	<u>\$ 22,229,984</u>

NOTE 5: RETIREMENT PLAN

Plan Description:

All Department employees participate in the Arkansas Public Employee' Retirement Plan (the "Plan"), which is a cost-sharing, multiple-employer, defined benefit plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The Plan meet the criteria set forth in GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, as amended (GASB No. 68). Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contribution are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The Plan issues a publicly available financial report that includes the financial statements and supplementary information for the Plan, which is available on the APERS website, www.apers.org. The report may also be obtained by writing to APERS, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201-1015.

Benefits Provided:

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

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2018	2.00%
Non-Contributory	1.72%

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

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

NOTE 5: RETIREMENT PLAN (continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

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

Contributions:

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

The Department was required to contribute at an actuarially determined rate which was 15.32% for the period July 1, 2018, to December 31, 2021. For December 31, 2021 and 2020, the Department's contribution to APERS were \$128,502 and \$118,300, respectively. The Department's contributions equaled the required contributions for each year.

Net Pension Liability:

The Department's proportionate share of the collective net pension at June 30, 2021 and June 30, 2020 (actuarial valuation date and measurement date) was \$1,082,257 and \$2,929,289, respectively. Because of the use of a modified cash basis of accounting framework in the preparation of the financial statements, this proportionate share of APERS net pension liability is not reported in the Department's financial statements as a liability. In accordance with the modified cash basis of accounting, pension expenditures are only reported when contributions are paid by the Department.

NOTE 6: LONG-TERM DEBT

The Department's long-term debt at December 31, 2021 and 2020 consists of the following:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2021	Maturities To December 31, 2021
2/24/2012	2/27/2032	3%	\$ 1,000,000	\$ 603,829	\$ 396,171
5/16/2012	5/6/2052	2.75%	7,079,000	5,970,061	1,108,939
6/22/2016	6/22/2056	2.25%	4,978,539	4,288,490	690,049
6/22/2016	6/22/2056	2.25%	954,000	854,837	99,163
6/18/2020	6/18/2060	2.38%	1,050,000	1,025,723	24,277
			<u>\$ 15,061,539</u>	<u>\$ 12,742,940</u>	<u>\$ 2,318,599</u>

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2020	Maturities To December 31, 2020
2/24/2012	2/27/2032	3%	\$ 1,000,000	\$ 654,016	\$ 345,984
5/16/2012	5/6/2052	2.75%	7,079,000	6,100,412	978,588
6/22/2016	6/22/2056	2.25%	4,978,539	4,370,229	608,310
6/22/2016	6/22/2056	2.25%	954,000	871,697	82,303
6/18/2020	6/18/2060	2.38%	1,050,000	1,041,859	8,141
			<u>\$ 15,061,539</u>	<u>\$ 13,038,213</u>	<u>\$ 2,023,326</u>

Changes in long-term debt for the years ended December 31, 2021 and 2020, were as follows:

December 31, 2021					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	<u>\$13,038,213</u>	<u>\$ 10,461</u>	<u>\$ 305,734</u>	<u>\$12,742,940</u>	<u>\$293,461</u>

December 31, 2020					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$11,723,470	\$1,612,157	\$ 297,414	\$13,038,213	\$285,756
Direct Borrowings-Notes Payable	445,005	507,437	952,442	-	-
	<u>\$12,168,475</u>	<u>\$2,119,594</u>	<u>\$1,249,856</u>	<u>\$13,038,213</u>	<u>\$285,756</u>

NOTE 6: LONG-TERM DEBT (continued)

Debt Service Reserve

The bond indentures requires deposits to be made into certain restricted funds and requires certain balances to be maintained in these funds. At December 30, 2021 and 2020, the Department had \$420,995 and \$262,426 in reserve funds restricted for debt service, respectively.

Pledged Revenue

The Department has pledged future customer revenues, net of specified operating expenditures, to repay bonds. The bonds were issued for various water and sewer capital projects.

For year ending December 31, 2021, the total principal and interest remaining on the bonds was \$18,657,324. Principal and interest paid for the current year and total customer revenue pledged for debt service was \$305,734 and \$326,654, respectively. The percentage of customer revenue pledged for the current year for principal and interest payments was 13.89%.

For year ending December 31, 2020, the total principal and interest remaining on the bonds was \$19,288,269. Principal and interest paid for the current year and total customer revenue pledged for debt service was \$297,414 and \$314,622, respectively. The percentage of customer revenue pledged for the current year for principal and interest payments was 13.59%.

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

<u>Year Ended</u>	<u>Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2022	293,461	327,966	621,427
2023	301,378	320,049	621,427
2024	309,512	311,916	621,428
2025	317,868	303,559	621,427
2026	326,454	294,973	621,427
2027-2031	1,769,528	1,337,609	3,107,137
2032-2036	1,662,671	1,110,048	2,772,719
2037-2041	1,880,918	880,619	2,761,537
2042-2046	2,142,459	619,077	2,761,536
2047-2051	2,440,950	320,586	2,761,536
2052-2056	1,161,278	82,096	1,243,374
2057-2060	136,463	5,886	142,349
	<u>\$ 12,742,940</u>	<u>\$ 5,914,384</u>	<u>\$ 18,657,324</u>

NOTE 7: OPERATING LEASE

- a. On October 1, 2020, the Department entered into an operating lease for a tractor. The arrangements stipulated annual payments of \$14,996 for a period of two years.

NOTE 7: OPERATING LEASE (continued)

1. Future minimum rental payments (aggregate) at December 31, 2021: \$14,996

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Department is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized only when the claim is paid. In determining claims, events that might create claims, but for which none have been reported, are considered. There has been no significant reduction in the Department's coverage during the years ended December 31, 2021 and 2020. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three years.

NOTE 9: SUBSEQUENT EVENTS

During March 2024 the Council approved the Department to issue revenue bonds for \$7,911,332 for constructing betterments and improvements to the sewer facilities of the water and sewer system.

OTHER INFORMATION

City of Stuttgart Water and Sewer
Other Information
Schedule of Water and Sewer Rates
December 31, 2021

Water Usage Rates

<u>Rates</u>	<u>Per 100 Cubic Feet</u>
First 300 cubic feet	\$ 13.80 <i>minimum</i>
Next 500 cubic feet	3.70
Next 500 cubic feet	2.90
Next 148,700 cubic feet	2.40
All over 150,000 cubic feet per month	2.20

Sewer Usage Rates

<u>Rates</u>	<u>Per 100 Cubic Feet</u>
First 300 cubic feet	\$ 13.20 <i>minimum</i>
Next 500 cubic feet	3.05
Next 500 cubic feet	2.70
Next 6,700 cubic feet	2.30
All over 8,000 cubic feet per month	2.10

OTHER REQUIRED REPORT

OTHER REQUIRED REPORT

**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**

**The Honorable Members of the City Council
City of Stuttgart, Arkansas**

I 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 business-type activities of the City of Stuttgart, Arkansas, Water and Sewer Department (the Department) as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued my report thereon dated May 15, 2024.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, I 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 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.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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 I did not identify any deficiencies in internal control that I 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 the Department's financial statements are free from material misstatement, I 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 my audit, and accordingly, I

do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, consisting of a stylized 'Z' followed by a horizontal line.

Baker Firm, P.A.
Jonesboro, Arkansas
May 15, 2024