

**CITY OF ELM SPRINGS
ELM SPRINGS, ARKANSAS
SEWER DEPARTMENT**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

December 31, 2018 and 2017

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DAVID BEAUCHAMP
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Elm Springs
Sewer Department
Elm Springs, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Sewer Department (the Department) of the City of Elm Springs, Arkansas as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Department of City of Elm Springs, Arkansas, as of December 31, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Sewer Department of the City of Elm Springs, Arkansas and do not purport to, and do not present fairly the financial position of the City of Elm Springs, Arkansas as of December 31, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2020 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.



David Beauchamp, CPA
Rogers, Arkansas
November 20, 2020

CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 46,741	\$ 34,540
Accounts receivable, net of allowance for doubtful accounts	11,187	9,486
Inventories	3,000	3,000
Total Current Assets	60,928	47,026
RESTRICTED ASSETS		
Cash	37,456	57,840
PROPERTY, PLANT AND EQUIPMENT		
Sewer plant	977,153	977,153
Collection lines	1,201,911	1,201,911
Tanks	34,082	34,082
Vehicles	41,243	16,598
Equipment	48,468	48,468
Office equipment	6,050	6,050
Construction in progress	563,433	73,177
	2,872,340	2,357,439
Less accumulated depreciation	(764,903)	(688,477)
	2,107,437	1,668,962
OTHER ASSETS		
Bond fees, net of amortization of \$46,456 and \$42,689	62,778	66,544
TOTAL ASSETS	\$ 2,268,599	\$ 1,840,372

2018 2017

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 663	\$ 130
Tap and tank deposits	39,600	40,700
Total Current Liabilities	<u>40,263</u>	<u>40,830</u>

CURRENT LIABILITIES

PAYABLE FROM RESTRICTED ASSETS

Current portion of note payable	<u>52,387</u>	<u>50,976</u>
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LONG-TERM LIABILITIES

Note payable, net of current portion	<u>1,191,486</u>	<u>1,243,873</u>
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TOTAL LIABILITIES

<u>1,284,136</u>	<u>1,335,679</u>
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NET POSITION

Invested in capital assets, net of related debt	758,790	374,113
Restricted for debt service	29,754	10,666
Designated for infrastructure projects	32,297	16,969
Unrestricted	<u>163,622</u>	<u>102,945</u>
	984,463	504,693

TOTAL LIABILITIES AND NET POSITION

<u>\$ 2,268,599</u>	<u>\$ 1,840,372</u>
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CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Sewer fees	\$ 145,818	\$ 133,174
Capacity fees	67,500	65,000
Tap fees	500	1,900
Other fees	733	1,240
Other revenues	1,234	194
Total Operating Revenues	215,785	201,508
OPERATING EXPENSES		
Accounting	3,500	-
Amortization	3,767	3,767
Bad debts	-	1,721
Depreciation	76,426	68,753
Education	-	600
Equipment rental	-	400
Laboratory fees	5,670	4,930
License and permits	700	500
Repairs and installations	1,675	14,506
Office expenses	8,466	7,191
Vehicle expenses	5,574	1,947
Supplies	4,987	1,356
Travel and meals	17	506
Utilities	5,935	5,768
Other expenses	3,338	11,212
Effluent fees	15,852	2,987
Total Operating Expenses	135,907	126,144
Operating Income	79,878	75,364

	<u>2018</u>	<u>2017</u>
NON-OPERATING REVENUES AND (EXPENSES)		
Transfers from City of Elm Springs	435,000	70,113
Interest income	652	347
Interest expense and paying agent's fees	<u>(35,760)</u>	<u>(37,434)</u>
Net Non-Operating Revenues and (Expenses)	399,892	33,026
 CHANGE IN NET POSITION	 <u>479,770</u>	 <u>108,390</u>
Total net position-beginning of year	504,693	396,303
Total net position-end of year	<u>\$ 984,463</u>	<u>\$ 504,693</u>

See independent auditor's report and notes to financial statements

CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 144,117	\$ 130,696
Receipts from capacity fees	67,500	65,000
Payments to suppliers	(55,181)	(55,195)
Other receipts (payments)	1,367	3,334
Total Cash Provided by Operating Activities	<u>157,803</u>	<u>143,835</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond principal payments	(50,976)	(49,602)
Bond interest and fees paid	(35,760)	(37,434)
Property, plant and equipment additions	(24,645)	(49,918)
Construction in progress	(490,256)	(73,177)
Transfers from City of Elm Springs	435,000	70,113
Total Cash (Used) by Capital and Related Financing Activities	<u>(166,637)</u>	<u>(140,018)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received	651	347
Decrease in restricted cash	20,384	2,729
Total Cash Provided by Investing Activities	<u>21,035</u>	<u>3,076</u>
 Increase (decrease) in cash	<u>12,201</u>	<u>6,893</u>
Cash at beginning of year	34,540	27,647
Cash at end of year	<u>\$ 46,741</u>	<u>\$ 34,540</u>

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 79,878	\$ 75,364
Items not requiring the use of cash:		
Depreciation and amortization	80,193	72,520
Decrease (increase) in current assets:		
Accounts receivable	(1,701)	(756)
Increase (decrease) in current liabilities:		
Accounts payable	533	(1,093)
Tank deposits	(1,100)	(2,200)
Net cash provided by operating activities	<u>\$ 157,803</u>	<u>\$ 143,835</u>

SUPPLEMENTAL INFORMATION

Interest paid	<u>\$ 35,260</u>	<u>\$ 37,434</u>
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CITY OF ELM SPRINGS
SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Unit

The financial statements of the City of Elm Springs Sewer Department, (the Department) conform to generally accepted accounting principles in the United States of America.

The City of Elm Springs operates under a Mayor-Council form of government. The Department is governed by the City Council.

The Department is an enterprise fund of The City of Elm Springs. Enterprise funds are used to account for business-like activities provided for the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Department considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Department had no cash equivalents at December 31, 2018 and 2017.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. No provision for doubtful accounts has been established for the years ended December 31, 2018 and 2017 as management deems all accounts receivable collectible.

Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method of accounting.

Income Taxes

The City is a political subdivision of the State of Arkansas and is exempt from income taxes.

Compensated Absences

Compensated absences are not accrued because there are no employees paid from the Sewer Department.

CITY OF ELM SPRINGS
SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

The property, plant and equipment is recorded at cost, less allowances for depreciation. Depreciation has been computed on the straight-line method over the estimated useful lives of the assets varying from 5 to 50 years. Depreciation expense for the years ended December 31, 2018 and 2017 was \$76,426 and \$68,753, respectively.

Basis of Estimates

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

Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Department's ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2-CASH AND CASH EQUIVALENTS

The Department maintains separate bank accounts. All bank deposits at December 31, 2018 and 2017 were entirely insured by the Federal Deposit Insurance Corporation.

NOTE 3-RESTRICTED ASSETS

Restricted assets, at December 31, 2018 and 2017, consists of \$29,754 and \$10,666 respectively, of advance long-term debt payments which will be applied to Arkansas Natural Resource Commission (ANRC) note. No reserve funds for payment of current maturities of long-term debt are required by loan covenants. The restricted assets also include \$7,702 and \$47,174, respectively, of construction funds of which, at December 31, 2018 and 2017, were the remaining funds from the original loan from ANRC. The construction funds are restricted for use in construction of the system and if not used for that purpose will be applied to the ANRC note at the discretion of the ANRC.

CITY OF ELM SPRINGS
SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 4-PROPERTY, PLANT AND EQUIPMENT

A summary of changes in the Department's property, plant and equipment for the years ended December 31 is as follows:

2018:

Property, Plant and Equipment

	<u>Balance</u> <u>12/31/2017</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>12/31/2018</u>
Sewer plant	\$ 977,153	\$ -	\$ 977,153
Collection lines	1,201,911	-	1,201,911
Tanks	34,082	-	34,082
Vehicles	16,598	24,645	41,243
Equipment	48,468	-	48,468
Office equipment	6,050	-	6,050
Construction in progress	<u>73,177</u>	<u>490,256</u>	<u>563,433</u>
	<u>\$ 2,357,439</u>	<u>\$ 514,901</u>	<u>\$ 2,872,340</u>

Accumulated Depreciation

Sewer plant	\$ 388,587	\$ 39,086	\$ 427,673
Collection lines	263,164	24,037	287,201
Tanks	13,362	1,364	14,726
Vehicles	12,002	4,815	16,817
Equipment	5,312	7,124	12,436
Office equipment	<u>6,050</u>	<u>-</u>	<u>6,050</u>
	<u>\$ 688,477</u>	<u>\$ 76,426</u>	<u>\$ 764,903</u>

**CITY OF ELM SPRINGS
SEWER DEPARTMENT**
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 4-PROPERTY, PLANT AND EQUIPMENT (continued)

2017:

Property, Plant and Equipment

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>12/31/2017</u>
Sewer plant	\$ 977,153	\$ -	\$ 977,153
Collection lines	1,201,911	-	1,201,911
Tanks	34,082	-	34,082
Vehicles	11,648	4,950	16,598
Equipment	3,500	44,968	48,468
Office equipment	6,050	-	6,050
Construction in progress	<u>-</u>	<u>73,177</u>	<u>73,177</u>
	<u>\$ 2,234,344</u>	<u>\$ 123,095</u>	<u>\$ 2,357,439</u>

Accumulated Depreciation

Sewer plant	\$ 349,501	\$ 39,086	\$ 388,587
Collection lines	239,127	24,037	263,164
Tanks	11,998	1,364	13,362
Vehicles	11,648	354	12,002
Equipment	1,400	3,912	5,312
Office equipment	<u>6,050</u>	<u>-</u>	<u>6,050</u>
	<u>\$ 619,724</u>	<u>\$ 68,753</u>	<u>\$ 688,477</u>

CITY OF ELM SPRINGS
SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 5-CURRENT LIABILITIES-TAP AND TANK DEPOSITS

Tap and tank deposits are deposits for installation fees and tap fees deposited by customers prior to being added to the sewer system. For the years ended December 31, 2018 and 2017 there were \$39,600 and \$40,700, respectively of these customer's deposits. As per the agreement, these deposits are refundable if for any reason the Department is unable to perform the hookup to the system within a 7 year period beginning with the date the deposit was made. These deposits will become revenue as each hookup is completed.

NOTE 6-LONG-TERM DEBT

Long term debt at December 31, 2018 and 2017 consisted of a note payable to ANRC in the amount of \$1,243,873 and \$1,294,849, respectively, with semiannual payments of \$48,362 bearing interest @ 4%, maturing June, 2037, secured by properties and equipment of the Department. The semiannual payment amount changed to \$43,118 on June 1, 2017 with an interest rate of 2.75% and maturity date of June, 2037.

The maturities of ANRC outstanding debt as of December 31, 2018, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 52,387	\$ 33,849	\$ 86,236
2020	53,838	32,398	86,236
2021	55,328	30,908	86,236
2022	56,860	29,376	86,236
2023	58,435	27,801	86,236
2024-2028	317,359	113,821	431,180
2029-2033	363,797	67,383	431,180
2034-2037	<u>285,869</u>	<u>15,938</u>	<u>301,807</u>
	<u>\$ 1,243,873</u>	<u>\$ 351,474</u>	<u>\$ 1,595,347</u>

NOTE 7-INTEREST

The Department incurred \$35,260 and \$37,434, respectively, in interest expense for years ended December 31, 2018 and 2017. All interest was expensed and none was capitalized.

CITY OF ELM SPRINGS
SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 8-NET POSITION

GASB 34 as amended by GASB 63 requires the classification of net position into three components-invested in capital assets, net of related debt, restricted for debt service and unrestricted. Invested in capital assets, net of related debt net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction, or improvement to these assets. Restricted for debt service net position consists of constraints place on net position by debt covenants. Unrestricted net position consists of net position that does not meet the definition of the other two components.

NOTE 9-SUBSEQUENT EVENTS EVALUATION DATE

The Department evaluated the events and transactions subsequent to December 31, 2018 balance sheet date and determined there were no significant events to report through November 20, 2020 which is the date the Department issued its financial statements.

DAVID BEAUCHAMP
CERTIFIED PUBLIC ACCOUNTANT

**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**

To the City Council
City of Elm Springs
Sewer Department
Elm Springs, 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 the City of Elm Springs Sewer Department (the Department) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated November 20, 2020.

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 auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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.

Our 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. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control that we consider to be a material weakness and significant deficiency.

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.

We consider the deficiency described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 instance of noncompliance or other matters that is required to be reported under Government Auditing Standards.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



David Beauchamp, CPA
Rogers, Arkansas
November 20, 2020

**CITY OF ELM SPRINGS
SEWER DEPARTMENT**

Schedule of Findings and Responses
For the Year Ended December 31, 2018

Segregation of Duties

Condition: Due to the limited numbers of employees in the accounting department, there is an inadequate segregation of duties in the Department.

Criteria: Internal controls should be in place that provide for reasonable assurance that there is sufficient segregation of duties in the Department to minimize misstatements in the financial statements.

Effect: Lack of segregation of duties could cause misstatements in the financial statements.

Recommendation: Because of the size of the Department and the cost restrictions we understand segregation of duties is difficult. We recommend that the Committee monitor financial results on a monthly basis to help alleviate the segregation of duties condition.

Views of Responsible Officials and Planned Corrective Actions: The Department agrees with the finding and the recommended procedures have been implemented.