

**CITY OF ELM SPRINGS SEWER DEPARTMENT
Elm Springs, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2020 and 2019
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF ELM SPRINGS SEWER DEPARTMENT
Elm Springs, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2020 and 2019

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**Honorable Harold Douthit, Mayor,
And Members of The City Council
Elm Springs, Arkansas**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the City of Elm Springs Sewer Department (“the Department”), as of and for the years ended December 31, 2020 and 2019, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 polices 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Elm Springs Sewer Department as of December 31, 2020 and 2019 and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

11225 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791
jtberry@berryassociatescpa.com
2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919
PO Box 2485 • Madison, MS 39130 • 601-383-0119

**Honorable Harold Douthit, Mayor,
And Members of The City Council
City of Elm Springs Sewer Department**

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elm Springs Sewer Department financial statements. The Supplementary Information is presented for purposes of additional information and is not a required part of the basic financial statements.

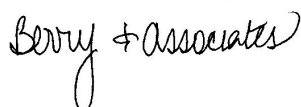
The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial 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 Supplementary Information is fairly stated in all material respects in relation to the 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 October 28, 2024, on our consideration of the City of Elm Springs Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elm Springs Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elm Springs Sewer Department's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Elm Springs, Arkansas, as of December 31, 2020 and 2019, and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Berry & Associates, P.A.
Little Rock, Arkansas
October 28, 2024

**CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 258,028	\$ 130,581
Accounts receivable	<u>13,303</u>	<u>12,078</u>
Total Current Assets	<u>271,331</u>	<u>142,659</u>
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	52,284	41,814
Capital assets, net of accumulated depreciation	<u>1,920,091</u>	<u>1,996,949</u>
Total Non-Current Assets	<u>1,972,375</u>	<u>2,038,763</u>
TOTAL ASSETS	<u>\$ 2,243,706</u>	<u>\$ 2,181,422</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 55,300	\$ 53,800
Tap and tank deposits	35,200	37,400
Accrued interest payable	<u>2,607</u>	<u>2,730</u>
Total Current Liabilities	<u>93,107</u>	<u>93,930</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	<u>1,082,348</u>	<u>1,137,686</u>
TOTAL LIABILITIES	<u>1,175,455</u>	<u>1,231,616</u>
NET POSITION		
Net investment in capital assets	285,808	805,463
Unrestricted	<u>782,443</u>	<u>144,343</u>
Total Net Position	<u>1,068,251</u>	<u>949,806</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,243,706</u>	<u>\$ 2,181,422</u>

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

CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Sewer fees	\$ 195,768	\$ 178,198
Capacity fees	180,000	145,800
Other income	9	765
Total operating revenues	<u>375,777</u>	<u>324,763</u>
OPERATING EXPENSES		
Office expenses	2,994	2,979
Operator expenses	117,271	98,774
Repairs and maintenance	6,699	7,217
Auto and truck expenses	1,371	3,714
Bank service charge	534	690
Insurance	545	1,895
Depreciation expense	78,320	77,248
Professional fees	8,500	-
Supplies	5,057	1,955
Travel	-	395
Utilities	2,942	5,396
Advertising	207	207
Laboratory fees	-	1,016
Total operating expenses	<u>224,440</u>	<u>201,486</u>
OPERATING INCOME	<u>151,337</u>	<u>123,277</u>
NON-OPERATING REVENUES (EXPENSES)		
Bad debt expense	(320)	(45)
Interest income	358	954
Interest expense	<u>(32,275)</u>	<u>(36,580)</u>
Net non-operating expenses	<u>(32,237)</u>	<u>(35,671)</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	119,100	87,606
TRANSFERS		
Transfers in (out)	<u>(655)</u>	<u>5,000</u>
CHANGE IN NET POSITION	118,445	92,606
NET POSITION - BEGINNING OF YEAR, originally stated	<u>949,806</u>	<u>984,463</u>
PRIOR PERIOD ADJUSTMENT	-	(127,263)
NET POSITION - BEGINNING OF YEAR, restated	<u>949,806</u>	<u>857,200</u>
NET POSITION - END OF YEAR	<u>\$ 1,068,251</u>	<u>\$ 949,806</u>

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

**CITY OF ELM SPRINGS SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 374,552	\$ 323,872
Cash payments for supplies	<u>(148,640)</u>	<u>(136,632)</u>
Net cash provided by operating activities	<u>225,912</u>	<u>187,240</u>
Cash flows from investing activities:		
Change in restricted cash and cash equivalents	(10,470)	(4,358)
Interest received	358	954
Purchases on construction in progress	-	(18,760)
Fixed asset purchases	<u>(1,462)</u>	<u>-</u>
Net cash used by investing activities	<u>(11,574)</u>	<u>(22,164)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(53,838)	(52,387)
Interest payments on long-term debt	(32,398)	(33,849)
Transfers in (out)	<u>(655)</u>	<u>5,000</u>
Net cash used by financing activities	<u>(86,891)</u>	<u>(81,236)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	127,447	83,840
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>130,581</u>	<u>46,741</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 258,028</u>	<u>\$ 130,581</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating income	\$ 151,337	\$ 123,277
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	78,320	77,248
Provision for bad debt expense	(320)	(45)
(Increase) Decrease in:		
Accounts receivable	(1,225)	(10,376)
Increase (Decrease) in:		
Accounts payable	-	(664)
Tap and tank deposits	<u>(2,200)</u>	<u>(2,200)</u>
Total adjustments	<u>74,575</u>	<u>63,963</u>
Net cash provided by operating activities	<u>\$ 225,912</u>	<u>\$ 187,240</u>

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

**CITY OF ELM SPRINGS SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department is a component unit of the City of Elm Springs, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Elm Springs and certain properties outside the city limits.

Basis of Presentation and Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues, and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (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 accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Department considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. 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 credited or charged in the nonoperating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Collection lines	50 years
Equipment	5 years
Office equipment	3-5 years
Sewer plant	25 years
Tanks	25 years
Vehicles	5-7 years

**CITY OF ELM SPRINGS SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. 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.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Date of Management's Review

Subsequent events have been evaluated through October 28, 2024, which is the date the financial statements were available to be issued.

Income Taxes

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

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, Department adopts an annual budget. The budget of the Department is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at fiscal year-end.

Allowance for Doubtful Accounts

No allowance for uncollectible accounts has been established. Management deems only immaterial amounts may prove to be uncollectible.

Restricted Assets

Certain proceeds of the Department's revenue, as well as certain resources set aside for the loan repayment and loan agreement requirements, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. Customer deposits held by the Department are also considered restricted.

**CITY OF ELM SPRINGS SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 2 - LONG-TERM DEBT:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Sewer Revenue Bonds, payable to Arkansas Natural Resources Commission, \$43,118 due semi-annually, including interest at 2.75% (1)	\$ 1,137,648	\$ 1,191,486
Less Current Portion	<u>(55,300)</u>	<u>(53,800)</u>
Total Long-Term Portion	<u>\$ 1,082,348</u>	<u>\$ 1,137,686</u>

- (1) The loans have restrictive covenants including the requirements to begin accumulating a depreciation reserve in monthly installments of 3% of the gross revenue for the preceding month while the bond is outstanding.

The annual maturities of long-term debt payable at December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 55,300	\$ 30,936	\$ 86,236
2022	56,900	29,336	86,236
2023	58,400	27,836	86,236
2024	60,100	26,136	86,236
2025	61,700	24,536	86,236
2026-2030	335,200	95,980	431,180
2031-2035	384,200	46,980	431,180
2036-2037	125,848	3,487	129,335
	<u>\$ 1,137,648</u>	<u>\$ 285,227</u>	<u>\$ 1,422,875</u>

Long-term liability activity for the years ended December 31, 2020 and 2019 is as follows:

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2020</u>	<u>Due Within One Year</u>
Bonds payable \$	<u>1,191,486</u>	<u>\$ -</u>	<u>\$ (53,838)</u>	<u>\$ 1,137,648</u>	<u>\$ 55,300</u>

	<u>Balance 1/1/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2019</u>	<u>Due Within One Year</u>
Bonds payable \$	<u>1,243,873</u>	<u>\$ -</u>	<u>\$ (52,387)</u>	<u>\$ 1,191,486</u>	<u>\$ 53,800</u>

**CITY OF ELM SPRINGS SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 2 - LONG-TERM DEBT (Continued):

The Department has pledged future sewer customer revenues, net of specified operating expenses, to repay \$1,137,648 in sewer revenue bonds. Proceeds from the bonds were used for building the Department's sewer system. Principal and interest on the bonds are payable through 2037, solely from the sewer customer net revenues. Principal and interest paid in the year ended December 31, 2020 were \$53,838 and \$32,398, respectively. Principal and interest paid in the year ended December 31, 2019 were \$52,387 and \$33,849, respectively.

NOTE 3 –PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Department's name. As of December 31, 2020, all deposited funds were adequately collateralized.

NOTE 4 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2020 and 2019 is as follows:

	Balance 1/1/2020	Additions	Deletions/ Transfers	Balance 12/31/2020
Sewer plant	\$ 977,153	\$ -	\$ -	\$ 977,153
Collection lines	1,201,911	531,655	-	1,733,566
Tanks	34,082	-	-	34,082
Vehicles	41,243	-	-	41,243
Equipment	48,468	-	-	48,468
Office equipment	6,050	-	-	6,050
Construction in Progress	530,193	-	(530,193)	-
Total	<u>2,839,100</u>	<u>531,655</u>	<u>(530,193)</u>	<u>2,840,562</u>
Less: Accumulated Depreciation	<u>(842,151)</u>	<u>(78,320)</u>	<u>-</u>	<u>(920,471)</u>
Total Capital Assets	<u>\$ 1,996,949</u>	<u>\$ 453,335</u>	<u>\$ (530,193)</u>	<u>\$ 1,920,091</u>

	Balance 1/1/2019	Additions	Deletions/ Transfers	Balance 12/31/2019
Sewer plant	\$ 977,153	\$ -	\$ -	\$ 977,153
Collection lines	1,201,911	-	-	1,201,911
Tanks	34,082	-	-	34,082
Vehicles	41,243	-	-	41,243
Equipment	48,468	-	-	48,468
Office equipment	6,050	-	-	6,050
Construction in Progress	563,433	18,760	(52,000)	530,193
Total	<u>2,872,340</u>	<u>18,760</u>	<u>(52,000)</u>	<u>2,839,100</u>
Less: Accumulated Depreciation	<u>(764,903)</u>	<u>(77,248)</u>	<u>-</u>	<u>(842,151)</u>
Total Capital Assets	<u>\$ 2,107,437</u>	<u>\$ (58,488)</u>	<u>\$ (52,000)</u>	<u>\$ 1,996,949</u>

**CITY OF ELM SPRINGS SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

NOTE 5 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants, cash held in trust, and other restricted funds. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 2).

The following is a list of the restricted cash at December 31:

	<u>2020</u>	<u>2019</u>
Debt service reserve	\$ 52,284	\$ 41,126
Other restricted funds	-	688
	<u>\$ 52,284</u>	<u>\$ 41,814</u>

NOTE 6 – 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, 2020 and 2019 there were \$35,200 and \$37,400, 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 7 – PRIOR PERIOD ADJUSTMENT

The Department capitalized and amortized costs related to acquiring the revenue bond in prior years. These fees should have been expensed. Adjustments related to the corrections of these bond fees net of amortization resulted in an increase to unrestricted net assets of \$62,778 as of December 31, 2018.

The Department capitalized certain costs in prior years that were not capital in nature. These fees should have been expensed. Adjustments related to the corrections of these costs resulted in an increase to unrestricted net assets of \$52,000 as of December 31, 2018.

The Department recognized inventories in prior years that were expenses. Adjustments related to the corrections of these inventories resulted in an increase to unrestricted net assets of \$3,000 as of December 31, 2018.

The Department maintained certain accounts receivable balances that were deemed uncollected in prior years. Adjustments related to the corrections of these customer balances resulted in an increase to unrestricted net assets of \$9,485 as of December 31, 2018.



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**Honorable Harold Douthit, Mayor,
And Members of The City Council
Elm Springs, Arkansas**

**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***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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, 2020, and the related notes to the financial statements, which collective comprise the City of Elm Springs Sewer Department’s basic financial statements, and have issued our report thereon dated October 28, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2020-003.

1125 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791
jtberry@berryassociatescpa.com
2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919
PO Box 2485 • Madison, MS 39130 • 601-383-0119

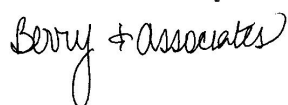
**Honorable Harold Douthit, Mayor,
And Members of The City Council
Elm Springs, Arkansas**

Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Finding and Responses. 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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.
Little Rock, Arkansas
October 28, 2024

**CITY OF ELM SPRINGS SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

2020-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same person who is responsible for service billing and adjustment, posts payments to subsidiary accounts receivable ledger. In addition, only limited oversight is provided over this entity in the conduct of their daily functions. The person also has control over check writing and bank reconciliations. This finding was also noted in 2019.

Cause: The Department's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the city council should consider a formal evaluation of their risks associated with this lack of duty segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight. For example, the Department might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View of Responsible Officials: City of Elm Springs Sewer Department has attempted to segregate duties, but due to the limited number of personnel, effective segregation of duties is not possible.

2020-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2020, the Department's general ledger did not include the current year's transactions for the Regions trust account that is administered by third parties that is a material part of the financial statements. This finding was also noted in 2019.

Cause: The Department did not properly record transactions and maintain accounting records.

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Department's internal financial statements. With these accounts missing, it does not permit the preparation of accurate and reliable financial statements.

Recommendation: We recommend that management of the Department properly records all transactions and appropriately maintains all accounting records in a timely manner.

View Of Responsible Officials: The Department concurs with the recommendation.

**CITY OF ELM SPRINGS SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

2020-003 Compliance –Bond Covenants

Criteria: The Department was not in compliance with the depreciation reserve requirements set forth by the General Obligation Bond agreement with Arkansas Natural Resources Commission.

Condition: Bond covenants with Arkansas Natural Resources Commission require a depreciation reserve in the amount of three percent of gross monthly revenues to be accumulated for the life of the loan. This finding was also noted in 2019.

Cause: The Department has not been making required monthly transfers to the depreciation reserve accounts.

Effect or Potential Effect: Without having the proper reserve accounts, the Department risks having the ability to pay for any major repair.

Recommendation: We recommend that the Department start making the required monthly transfers to the depreciation reserve accounts.

View Of Responsible Officials: The Department concurs with the recommendation.

**CITY OF ELM SPRINGS SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION
December 31, 2020**

GOVERNMENT:

A mayor and six aldermen govern the City of Elm Springs, Arkansas. The Recorder/Treasurer maintains the records. Harold Douthit is the City Mayor; Twila Taylor is Recorder/Treasurer.

<u>Names</u>	<u>Title</u>
Harold Douthit	Mayor
Twila Taylor	Recorder/Treasurer
Derl Howertown	Council Member
Jeannie Burks	Council Member
Roberta Peters	Council Member
Sarah Downum	Council Member
Steve Roberts	Council Member
Allen Huddleston	Council Member

SEWER RATES:

As of December 31, 2020, sewer service was provided to 590 customers. Each customer was charged a flat \$45.00/month sewer fee.

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are not being properly maintained.