

**CITY OF ELM SPRINGS SEWER DEPARTMENT  
Elm Springs, Arkansas  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
For the Years Ended December 31, 2022 and 2021  
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, 2022 and 2021**

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

## **INDEPENDENT AUDITOR'S REPORT**

### **Opinions**

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, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

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, 2022 and 2021 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.

### **Basis for Opinion**

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

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the City of Elm Springs Sewer Department does not purport to, and does not, present fairly the financial position of the City of Elm Springs, Arkansas as of December 31, 2022, and 2021, the changes in its financial position, or, where applicable, its cash flow 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.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**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**

**Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2024, 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 effectiveness of the 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 Department's internal control over financial reporting and compliance.



Berry & Associates, P.A.  
Little Rock, Arkansas  
December 18, 2024

**CITY OF ELM SPRINGS SEWER DEPARTMENT  
STATEMENTS OF NET POSITION  
December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 29,516	\$ 42,163
Accounts receivable	<u>18,846</u>	<u>17,490</u>
Total Current Assets	<u>48,362</u>	<u>59,653</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and cash equivalents	22,435	62,780
Capital assets, net of accumulated depreciation	<u>1,724,463</u>	<u>1,822,277</u>
Total Non-Current Assets	<u>1,746,898</u>	<u>1,885,057</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,795,260</u></u>	<u><u>\$ 1,944,710</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 59,900	\$ 56,900
Tap and tank deposits	35,200	35,200
Accrued interest payable	<u>2,350</u>	<u>2,480</u>
Total Current Liabilities	<u>97,450</u>	<u>94,580</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current maturities	<u>913,890</u>	<u>1,025,420</u>
<b>TOTAL LIABILITIES</b>	<u>1,011,340</u>	<u>1,120,000</u>
<b>NET POSITION</b>		
Net investment in capital assets	33,247	84,753
Unrestricted	<u>750,673</u>	<u>739,957</u>
Total Net Position	<u>783,920</u>	<u>824,710</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 1,795,260</u></u>	<u><u>\$ 1,944,710</u></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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Sewer fees	\$ 263,456	\$ 230,297
Capacity fees	-	10,000
Other income	1,855	43
Total operating revenues	<u>265,311</u>	<u>240,340</u>
<b>OPERATING EXPENSES</b>		
Office expenses	5,886	4,414
Operator expenses	139,337	61,889
Repairs and maintenance	18,294	12,235
Auto and truck expenses	2,142	2,248
Bank service charge	-	521
Insurance	563	556
Depreciation expense	97,814	97,814
Professional fees	551	192
Supplies	4,729	3,398
Utilities	6,122	3,306
Advertising	223	207
Rent expense	193	-
Total operating expenses	<u>275,854</u>	<u>186,780</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(10,543)</u>	<u>53,560</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Other expense	(1,242)	(710)
Settlement expense	-	(265,736)
Interest income	741	126
Interest expense	(29,746)	(30,781)
Net non-operating expenses	<u>(30,247)</u>	<u>(297,101)</u>
<b>CHANGE IN NET POSITION</b>	(40,790)	(243,541)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>824,710</u>	<u>1,068,251</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 783,920</u>	<u>\$ 824,710</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 263,955	\$ 236,153
Cash payments for supplies	<u>(179,782)</u>	<u>(89,676)</u>
Net cash provided by operating activities	<u>84,173</u>	<u>146,477</u>
<b>Cash flows from investing activities:</b>		
Change in restricted cash and cash equivalents	40,345	(10,496)
Interest received	<u>741</u>	<u>126</u>
Net cash provided (used) by investing activities	<u>41,086</u>	<u>(10,370)</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(108,530)	(55,328)
Interest payments on long-term debt	(29,376)	(30,908)
Payments of settlement expenses	<u>-</u>	<u>(265,736)</u>
Net cash used by financing activities	<u>(137,906)</u>	<u>(351,972)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(12,647)	(215,865)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>42,163</u>	<u>258,028</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 29,516</u></u>	<u><u>\$ 42,163</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (11,043)	\$ 53,560
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	97,814	97,814
Other expense	(1,242)	(710)
(Increase) Decrease in:		
Accounts receivable	<u>(1,356)</u>	<u>(4,187)</u>
Total adjustments	<u>95,216</u>	<u>92,917</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 84,173</u></u>	<u><u>\$ 146,477</u></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, 2022 and 2021**

**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 Department type, specifically an enterprise Department. The activities of this Department are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues, and expenses. Enterprise Departments 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 Departments 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	5-7 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, 2022 and 2021**

**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 two 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 December 18, 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.

**Adoption of GASB 87**

Effective January 1, 2022, the Department adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Department's results of operations or cash flows.

**CITY OF ELM SPRINGS SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**

**NOTE 2 - LONG-TERM DEBT:**

	December 31, 2022	December 31, 2021
Sewer Revenue Bonds, payable to Arkansas Natural Resources Commission, \$43,118 due semi-annually, including interest at 2.75% (1)	\$ 973,790	\$ 1,082,320
Less Current Portion	<u>(59,900)</u>	<u>(56,900)</u>
Total Long-Term Portion	<u>\$ 913,890</u>	<u>\$ 1,025,420</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, 2022 are as follows:

	Principal	Interest	Total
2023	\$ 59,900	\$ 26,336	\$ 86,236
2024	61,500	24,736	86,236
2025	63,200	23,036	86,236
2026	65,000	21,236	86,236
2027	66,800	19,436	86,236
2028-2032	362,700	68,480	431,180
2033-2036	294,690	17,030	311,720
	<u>\$ 973,790</u>	<u>\$ 200,290</u>	<u>\$ 1,174,080</u>

Long-term liability activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance 1/1/2022	Additions	Retirements	Balance 12/31/2022	Due Within One Year
Bonds payable \$	<u>1,082,320</u>	<u>\$ -</u>	<u>\$ (108,530)</u>	<u>\$ 973,790</u>	<u>\$ 59,900</u>

	Balance 1/1/2021	Additions	Retirements	Balance 12/31/2021	Due Within One Year
Bonds payable \$	<u>1,137,648</u>	<u>\$ -</u>	<u>\$ (55,328)</u>	<u>\$ 1,082,320</u>	<u>\$ 56,900</u>

**CITY OF ELM SPRINGS SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**

**NOTE 2 - LONG-TERM DEBT (Continued):**

The Department has pledged future sewer customer revenues, net of specified operating expenses, to repay \$973,790 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 2036, solely from the sewer customer net revenues. Principal and interest paid in the year ended December 31, 2022 were \$108,530 and \$29,376, respectively. Principal and interest paid in the year ended December 31, 2021 were \$55,328 and \$30,908, respectively.

**NOTE 3 –PUBLIC DEPARTMENTS: DEPOSITS WITH FINANCIAL INSTITUTIONS:**

As required by law, all Departments are deposited in approved banks. The deposited Departments 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, 2022, all deposited Departments were adequately collateralized.

**NOTE 4 – CAPITAL ASSETS:**

A summary of changes in capital assets for the years ended December 31, 2022 and 2021 is as follows:

	Balance 1/1/2022	Additions	Deletions/ Transfers	Balance 12/31/2022
Sewer plant	\$ 977,153	\$ -	\$ -	\$ 977,153
Collection lines	1,733,566	-	-	1,733,566
Tanks	34,082	-	-	34,082
Vehicles	41,243	-	-	41,243
Equipment	48,468	-	-	48,468
Office equipment	6,050	-	-	6,050
Total	2,840,562	-	-	2,840,562
Less: Accumulated Depreciation	(1,018,285)	(97,814)	-	(1,116,099)
Total Capital Assets	\$ 1,822,277	\$ (97,814)	\$ -	\$ 1,724,463

	Balance 1/1/2021	Additions	Deletions/ Transfers	Balance 12/31/2021
Sewer plant	\$ 977,153	\$ -	\$ -	\$ 977,153
Collection lines	1,733,566	-	-	1,733,566
Tanks	34,082	-	-	34,082
Vehicles	41,243	-	-	41,243
Equipment	48,468	-	-	48,468
Office equipment	6,050	-	-	6,050
Total	2,840,562	-	-	2,840,562
Less: Accumulated Depreciation	(920,471)	(97,814)	-	(1,018,285)
Total Capital Assets	\$ 1,920,091	\$ (97,814)	\$ -	\$ 1,822,277

**CITY OF ELM SPRINGS SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021**

**NOTE 5 – RESTRICTED ASSETS:**

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

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

	<u>2022</u>	<u>2021</u>
Debt service reserve	\$ <u>22,435</u>	\$ <u>62,780</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, 2022 and 2021 there were \$35,200 and \$35,200, 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 – SETTLEMENT EXPENSE:**

Capstone Builders, Inc. filed a class action lawsuit against the City of Elm Springs relating to the City's capacity fee connections. The litigation was settled on October 8, 2021, pursuant to which the City of Elm Springs made a settlement payment of \$370,000, in resolution, of which the Department paid \$265,736 in 2021. The amount is included as settlement expense on the statements of revenues, expenses and changes in net position.



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**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***

**Honorable Harold Douthit, Mayor,  
And Members of The City Council  
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 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, 2022, and the related notes to the financial statements, which collectively comprise the City of Elm Springs Sewer Department's basic financial statements, and have issued our report thereon dated December 18, 2024.

**Report on 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) as a basis for designing 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 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 2022-003.

**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**

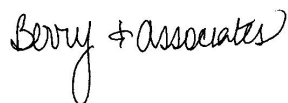
**Honorable Harold Douthit, Mayor,  
And Members of The City Council  
Elm Springs, Arkansas**

**Department's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying Schedule of 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  
December 18, 2024

**CITY OF ELM SPRINGS SEWER DEPARTMENT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2022**

**2022-001 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 2021.

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.

**2022-002 Internal Control – Complete set of accounting records**

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2022, 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 2021.

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, continued  
For the Year Ended December 31, 2022**

**2022-003 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 2021.

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, 2022**

**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
Paul Fontaine	Council Member
Steve Roberts	Council Member
Allen Huddleston	Council Member

**SEWER RATES:**

As of December 31, 2022, sewer service was provided to 757 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.