

CITY OF BOONEVILLE

WATER AND SEWER DEPARTMENT

Financial Statements and Supplemental Information

December 31, 2023 and 2022

(with independent auditors' report thereon)

CITY OF BOONEVILLE
WATER AND SEWER DEPARTMENT

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Independent Auditor's Report

Waterworks and Sewer Commission
City of Booneville:

Opinion

We have audited the accompanying financial statements of the City of Booneville Water and Sewer Department which comprise the statements of net position as of December 31, 2023 and 2022 and the related statements of income and expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the City of Booneville Water and Sewer Department, as of December 31, 2023 and 2022, and changes in net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Booneville Water and Sewer Department and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Booneville Water and Sewer Department's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we

- * Exercise professional judgment and maintain professional skepticism throughout the audit.
- * Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- * Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Booneville Water and Sewer Department internal control. Accordingly, no such opinion is expressed.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Booneville Water and Sewer Department's basic financial statements. The supplemental information, disclosed in compliance with requirements for audits of Revolving Loan Funds for Municipalities' Accounting Records, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 July 24, 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, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

July 24, 2024

Shoptaw, Zabala & Company, P.A.

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Statements of Net Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets:		
Unrestricted cash	\$ 2,378,065	2,484,549
Restricted cash	1,537,105	1,404,043
Total cash	3,915,170	3,888,592
Accounts receivable (net of allowance for credit losses of \$36,000 for 2023 and \$30,000 for 2022)	126,361	131,281
Accrued interest	12,533	912
Prepaid expenses	4,259	4,223
Supplies inventory, at cost	107,770	123,474
Right to use assets - operating, net of depreciation	8,691	-
Property, plant and equipment	11,860,418	11,661,773
Less accumulated depreciation	<u>(7,563,450)</u>	<u>(7,307,420)</u>
Net property, plant and equipment	<u>4,296,968</u>	<u>4,354,353</u>
Total assets	<u>8,471,752</u>	<u>8,502,835</u>
Liabilities:		
Accounts payable	56,665	63,036
Accounts payable - projects in progress	-	35,977
Taxes payable	7,004	15,597
Accrued interest	20	1,150
Customer deposits	112,888	105,325
Customer credit balance refundable	116,506	92,184
Long-term liabilities:		
Operating lease - due within one year	1,954	-
Operating lease - due in more than one year	7,021	-
Notes and bonds - due within one year	18,898	41,987
Notes and bonds - due in more than one year	<u>-</u>	<u>27,267</u>
Total liabilities	<u>320,956</u>	<u>382,523</u>
Deferred inflows of resources:		
Deferred grant funding	<u>4,673</u>	<u>12,683</u>
Total deferred inflows of resources	<u>4,673</u>	<u>12,683</u>
Net position:		
Net investment in capital assets	4,277,766	4,283,949
Restricted for debt service, deposits and construction	1,537,105	1,404,043
Unrestricted	<u>2,331,252</u>	<u>2,419,637</u>
Total net position	<u>\$ 8,146,123</u>	<u>8,107,629</u>

See accompanying notes to financial statements. 4

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Statements of Income and Expenses and Changes in Net Position

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating income:		
Water	\$ 812,305	819,624
Sewer	254,484	245,387
Tapping fees	4,792	3,500
Grants	8,010	8,010
Other operating income	<u>256,686</u>	<u>266,715</u>
Total operating income	<u>1,336,277</u>	<u>1,343,236</u>
Operating expenses:		
Administrative salaries	75,758	100,385
Salaries	315,254	267,467
Payroll taxes	29,177	30,960
Insurance	79,770	59,464
Operating supplies	46,067	29,903
Maintenance and repairs	85,294	23,016
Utilities and telephone	140,749	140,896
Water testing and treatment chemicals	238,841	225,155
Legal and accounting	6,500	6,311
Office supplies and postage	21,734	23,862
Truck expense	27,306	38,146
Fees and dues	22,224	23,408
Miscellaneous	27,144	45,981
Uncollectible accounts	9,473	32,739
Employee benefit plan	26,259	23,812
Depreciation	<u>257,580</u>	<u>256,358</u>
Total operating expense	<u>1,409,130</u>	<u>1,327,863</u>
Operating income (loss)	<u>(72,853)</u>	<u>15,373</u>
Other income (expense):		
Interest income	70,494	8,354
Other income	42,711	7,770
Interest expense	<u>(1,858)</u>	<u>(3,529)</u>
Total other income (expense)	<u>111,347</u>	<u>12,595</u>
Increase in net position	<u>38,494</u>	<u>27,968</u>
Net position, beginning of year	8,107,629	8,149,187
Prior period adjustment	<u>-</u>	<u>(69,526)</u>
Net position - restated	<u>8,107,629</u>	<u>8,079,661</u>
Net position, end of year	<u>\$ 8,146,123</u>	<u>8,107,629</u>

See accompanying notes to financial statements. 5

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Statements of Cash Flows

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,357,509	1,377,243
Cash paid to suppliers for goods and services	(759,550)	(716,701)
Cash payments to employees for services	<u>(391,012)</u>	<u>(367,852)</u>
Net cash provided by operating activities	<u>206,947</u>	<u>292,690</u>
Cash flows from non-capital financing activities:		
Cash received from other non-operating sources	42,711	7,770
Customer deposits received, net	<u>7,563</u>	<u>6,397</u>
Net cash provided by non-capital financing activities	<u>50,274</u>	<u>14,167</u>
Cash flows from capital and related financing activities:		
Purchase of property, plant and equipment	(236,172)	(257,532)
Repayment of notes and bonds payable	(50,356)	(40,179)
Interest paid on notes and bonds payable	<u>(2,988)</u>	<u>(4,386)</u>
Net cash used by capital and related financing activities	<u>(289,516)</u>	<u>(302,097)</u>
Cash flows from investing activities:		
Interest received	<u>58,873</u>	<u>8,567</u>
Net cash provided by investing activities	<u>58,873</u>	<u>8,567</u>
Increase in cash	26,578	13,327
Cash, beginning of year	<u>3,888,592</u>	<u>3,875,265</u>
Cash, end of year	<u>\$ 3,915,170</u>	<u>3,888,592</u>
Non cash capital and financing activities:		
Assets acquired through operating lease	<u>\$ 10,429</u>	<u>-</u>

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2023 and 2022

(1) ACCOUNTING POLICIES

(a) Nature of Operations

The City of Booneville Water and Sewer Department provides water and sewer services to the general public located in the City of Booneville, Arkansas and water services to surrounding areas and to other municipalities.

Booneville Water and Sewer Department is a municipally operated system and is governed by the Booneville Water Commission and the City Council of the City of Booneville, Arkansas. The City of Booneville Water and Sewer Department is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The System applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(b) Basis of Presentation

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

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

(c) Use of Estimates

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

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(d) Cash

For purposes of the statements of cash flows, the Department considers cash to be all cash funds in banks, including certificates of deposit.

(e) Receivables

All receivables are reported at their net realizable value. Balances not expected to be collected are reserved in an allowance for credit losses and charged to bad debt expense. The Department assesses late fees on accounts determined to be past due but does not assess finance charges on such accounts. The Department collects a customer deposit when initiating service. The customer deposit may be applied to outstanding account balances at the termination of service.

(f) Supplies Inventory

Supplies inventory consists of pipe, pipe fittings, valves, chemicals, and related supplies used in the maintenance and expansion activities of the Department. Inventory is stated at the lower of cost or market with costs determined using average cost methods.

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost including interest on funds borrowed to finance the construction of major capital additions, as applicable. Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 99 years. Major additions and improvements are capitalized and routine maintenance and repairs are charged to expense as incurred.

(h) Regulatory Environment

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department.

(i) Income Tax

The City of Booneville Water and Sewer Department is a municipally owned system that is exempt from federal and state income tax.

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(j) Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The amounts shown for bonds and notes payable approximate fair value since these instruments are carried at prevailing market interest rates.

(k) Leases

The Department determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of net position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Department does not report ROU assets and lease liabilities for short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

(2) RESTRICTED CASH

At December 31, 2023 and 2022, the Department had restricted cash shown as follows:

	<u>2023</u>	<u>2022</u>
Customer deposit account	\$ 113,680	107,735
Water development fund	1,255,297	1,149,839
Other reserve accounts:		
Bond fund	16	15
Depreciation fund	<u>168,112</u>	<u>146,454</u>
	<u>\$ 1,537,105</u>	<u>1,404,043</u>

The water development fund was established by the Department for the future development of new water sources and treatment operations. The depreciation fund is established as a reserve which is used to maintain current property, plant and equipment infrastructure of the Department. Other restricted funds include funds set aside for customer deposits and bond repayment purposes.

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(3) PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment is as follows:

	<u>2023</u>	<u>2022</u>
Sewer system	\$ 3,898,053	3,898,053
Water treatment plant	1,465,999	1,465,999
Water distribution system	1,996,494	1,996,494
Reservoir	1,720,001	1,720,001
Equipment	2,067,295	2,022,125
Building	295,540	286,858
Projects in progress	321,534	176,741
Land	<u>95,502</u>	<u>95,502</u>
	<u>\$ 11,860,418</u>	<u>11,661,773</u>

Depreciation expense was \$257,580 and \$256,358 for 2023 and 2022, respectively.

(4) LONG-TERM NOTES AND BONDS PAYABLE

Long-term notes and bonds payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Arkansas Soil and Water Conservation Commission, note payable, due in annual installments of \$20,108, including interest at 5% per annum. The Department paid the note off in 2023.	\$ -	24,253
First Western Bank, note payable, due in monthly installments of \$2,038, including interest at 3.95% per annum. The note is collateralized by equipment and will mature on November 30, 2024.	<u>18,898</u>	<u>45,001</u>
	18,898	69,254
Less current installment of notes and bonds payable	<u>18,898</u>	<u>41,987</u>
	<u>\$ -</u>	<u>27,267</u>

The required payments of the long-term notes and bonds payable are as follows for the years succeeding December 31, 2023:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 18,898	286	19,184

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(5) CONCENTRATION OF RISK

The City of Booneville Water and Sewer Department services customers in City of Booneville, Arkansas, the surrounding area, and other municipalities. All of the accounts receivable balance reported herein is from these customers and municipalities.

All funds are deposited in financial institutions insured by the FDIC. Deposits in excess of the insured amount total approximately \$3,702,000 and are collateralized by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Dallas.

During 2023, the Department purchased approximately 78% of its water treatment chemicals from one vendor. Management reviews its vendor relationships on a regular basis to assess quality and continuity of service in maintaining a reliable source of necessary supplies and materials. Other vendors are available if the current vendors are unable to supply necessary treatment chemicals.

(6) EMPLOYEE BENEFIT PLAN

The Department has a deferred compensation plan, in which all current employees are eligible to participate. Contributions are made by the employees through payroll deductions throughout the year. At the discretion of the Commission, additional contributions may be made to the employees' accounts. The Department contributed \$26,259 and \$23,812 in 2023 and 2022, respectively, to the employees' plan.

(7) DEFERRED GRANT FUNDING

During 2014, the Department received a grant to install fluoridating equipment in its water treatment plant. The terms of the grant include a provision whereby if the Department elects to voluntarily discontinue the use of such equipment within ten years of the date of the grant agreement, a proportional balance of the grant will be refundable to the grantor. Management has elected to recognize the grant over the ten year conditional period based on the terms of the grant. Grant revenue recognized during 2023 and 2022 totaled \$8,010 in each year.

(8) OTHER OPERATING INCOME

At December 31, 2023 and 2022, the Department had other operating income as follows:

	2023	2022
Sanitation fees from the City of Booneville	\$ 6,256	9,089
Water development	85,464	89,575
Meter fees	117,149	117,765
Service charges	8,048	11,295
Late charges	22,215	22,386
Other	17,554	16,605
	<u>256,686</u>	<u>266,715</u>
Total other operating income	\$ 256,686	266,715

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(9) INDUSTRY PARTICIPATION AND PROMOTION

In an effort to promote area industry growth, the City of Booneville and the Department will combine resources to assist in the promotion of community development for infrastructure utilized by private industry and commercial enterprises. The Department contributed \$2,500 funding to the area chamber of commerce in support of local promotional activities for both 2023 and 2022.

During 2022, the Department also contributed \$7,500 to the Petit Jean Regional Foundation in support of community infrastructure and improvements. No similar contribution was made in 2023.

(10) REVENUE RECOGNITION, CONTRACT ASSETS AND CONTRACT LIABILITIES

The Department recognizes revenue when performance obligations are satisfied. Generally, the Department's performance obligations are satisfied, control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the Department's right to consideration is unconditional at the time, the Department currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities). Effective January 1, 2021, the Department adopted ASC 606, which provides accounting guidance on the recognition of revenues from contracts. The adoption of ASC 606 did not result in a change of timing of the Department's revenue recognition.

(11) RECENT ACCOUNTING GUIDANCE

The Department adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires lessees to recognize leases on the statement of net position and disclose key information about leasing arrangements. As a result of implementing ASU No. 2016-02, the Department recognized ROU assets of \$10,483 and lease liabilities totaling \$10,483 in its statement of net position at lease inception in 2023.

(12) LEASES

The Department evaluated office copier contracts to determine which met the criteria of a lease. The ROU assets represent the Department's right to use underlying assets for the lease term, and the lease liabilities represent the Department's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Department has made an accounting policy election to use an incremental borrowing rate to discount future lease payments. The incremental rate used to calculate lease liabilities as of December 31, 2023, was 6%. The Department's operating lease consists of leases for office equipment. For the year ended December 31, 2023, total operating lease cost was \$2,318. As of December 31, 2023, the remaining lease term for the Department's operating leases was approximately 4 years.

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Notes to Financial Statements, Continued

(12) LEASES (Continued)

Cash paid for operating leases for the year ended December 31, 2023 was \$2,033. There were no noncash investing and financing transactions related to leasing. Future maturities of lease liabilities are presented in the following table, for the fiscal years ended December 31:

2024	\$ 2,440
2025	2,440
2026	2,440
2027	2,440
2028	<u>407</u>
Total lease payments	10,167
Less present value discount	<u>(1,192)</u>
Total lease obligations	<u>\$ 8,975</u>

(13) RECLASSIFICATION

Certain amounts were reclassified in the prior year financial statement presentation to conform to the current period presentation.

(14) SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2024, which is the date the financial statements were available to be issued.

(15) PRIOR PERIOD ADJUSTMENT

During the period, management discovered that when the new billing system was implemented in 2019 a customer was billed for sewer charges when such use was determined to be exempt from sewer service fees. Upon discovery of the accumulated fees collected, management and the customer agreed that the account overpayments would be applied to prospective water usage charges until absorbed. The accumulated overpayments totaled \$116,506 at December 31, 2023.

CITY OF BOONEVILLE
WATER AND SEWER DEPARTMENT
Supplemental Information

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Supplemental Information

Years ended December 31, 2023 and 2022

Insurance Coverage

<u>Company</u>	<u>Coverage</u>	<u>Amount</u>
American Alternative Insurance Corporation (July 6, 2023 to July 6, 2024)	Water and sewer treatment plant, water tanks, transmitter equipment, office building, and contents	\$ 5,741,312
State Auto Insurance Companies Insurance Company (December 1, 2023 to December 1, 2024)	Auto Coverage	500,000
Arkansas Fidelity Bond Trust Fund, Arkansas Governmental Bonding board (December 1, 2023 to December 1, 2024)	City-wide policy - surety bond	300,000
Western Surety (January 16, 2021 to January 16, 2024)	Right-of-way bond	5,000
Arkansas Municipal League (January 1, 2023 to January 1, 2024)	Workers' compensation	Statutory

Accounts Receivable

Accounts receivable at December 31, 2023 and 2022, are considered to be current. Accounts estimated to be uncollectible at December 31, 2023 and 2022, have been reserved as an allowance for credit losses.

Unsatisfactory Condition

Our examination revealed no condition we considered to be unsatisfactory.

Deposits with Financial Institutions

All funds are deposited in financial institutions insured by the FDIC. Deposits in excess of the insured amount are collateralized by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Dallas.

CITY OF BOONEVILLE WATER AND SEWER DEPARTMENT

Supplemental Information, Continued

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

First Western Bank note payable No. 161742760:

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2024	\$ 19,184	18,898	286	-

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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*

Waterworks and Sewer Commission
City of Booneville
Booneville, 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 Booneville Water and Sewer Department (a component unit of the City of Booneville, Arkansas), which comprise the statement of net position as of December 31, 2023, and the related statements of income and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 24, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Booneville Water and Sewer 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Booneville Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Booneville Water and Sewer 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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Booneville Water and Sewer 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shugart, Zabala & Company, P.A.

July 24, 2024