

DES ARC WATER AND SEWER SYSTEM

FINANCIAL STATEMENTS

For the Years Ended December 31, 2021 and 2020

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CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

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Independent Auditors' Report

City Council
City of Des Arc, Arkansas
Des Arc, Arkansas

Opinion

We have audited the accompanying financial statements of the business-type activities of Des Arc Water and Sewer System as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Des Arc Water and Sewer System's basic 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 respective financial position of the business-type activities of the Des Arc Water and Sewer System as of December 31, 2021 and 2020, and the respective 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.

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 Des Arc Water and Sewer System 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 opinion.

Responsibilities of Management 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, 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 Des Arc Water and Sewer System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 misstatements, 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 judgement 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 Des Arc Water and Sewer System'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 judgment, there are conditions or events, considered in aggregate, that raise substantial doubt about Des Arc Water and Sewer System'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 33 be presented to supplement the basic financial statements. Such information is the

responsibility of management and, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Des Arc Water and Sewer System's basic financial statements. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are 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 basic financial statements. The 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 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 May 1, 2023 on our consideration of Des Arc Water and Sewer System'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 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 Des Arc Water and Sewer System's internal control over financial reporting and compliance.

Cobb and Sosbie, P.C.

Certified Public Accountants
May 1, 2023

DES ARC WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2021

This section presents management's analysis of the financial condition and activities of the Des Arc Water and Sewer System (the System) for the year ended December 31, 2021.

Financial Highlights

Management believes Des Arc Water and Sewer System's financial condition is stable. The System is within its debt covenants and financial policies and guidelines set by the City Council. The following are key financial highlights.

- Total assets and deferred outflows of resources at year-end were \$3,421,736 and exceeded liabilities in the amount of \$2,094,110, a decrease of 2.1% from 2020. Total assets and deferred outflows at the end of 2020 were \$3,593,034 and exceeded liabilities in the amount of \$2,139,734, a decrease of \$40,561 from 2019.
- Operating revenue was \$895,482 in 2021. This was a decrease of \$40,821 or 4.4% from 2020. Operating revenue for 2020 was \$936,303, which was an increase of \$36,832, or 4.1%, from 2019.
- Operating expenses before depreciation decreased \$36,752, or 5.2%, from 2020. In 2020, operating expenses before depreciation decreased \$22,826, or 3.1%, from the prior year.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of Des Arc Water and Sewer System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The financial statements include a statement of net position; a statement of revenue, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the System on an accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenue, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year, as well as information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The statement of cash flow presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

DES ARC WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2021

Overview of Annual Financial Report (Continued)

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses is provided.

The System adopted Government Accounting Standard Board (GASB) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27* during fiscal year ended December 31, 2015. GASB Statement 68 established accounting and financial reporting standards for employers, including reporting of the net pension asset or liability on the statement of net position, and deferred inflows and outflows associated with investment, economic and demographic gains and losses associated with pension plans. GASB Statement 68 also provides guidance related to the calculation of pension expense.

Summary of Organization and Business

The System provides retail water and wastewater collection and treatment service to approximately customers within the city limits of Des Arc, Arkansas.

The facilities of the System include water and sewage treatment plants acquired or contracted at a cost of \$7.1 million.

The System operates under the direction of the City Council of the City of Des Arc.

The operating and capital expenditures are incurred to repair, replace, or extend existing service facilities to meet customer service requirements, as well as to meet EPA requirements. The operation expenses are funded by customer revenue, and the acquisition and construction of capital assets are funded by sewer revenue bonds.

Financial Analysis

The comparative financial statements from pages 8 through 12 and other selected information listed below serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

DES ARC WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2021

Other Selected Information

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>% Change</u>
Selected data for analysis:				
Customers at year end	824	831	838	-0.8%
Revenue:				
Utility revenues	\$ 706,220	\$ 709,524	\$ 675,148	-0.5%
Total Revenues	\$ 895,482	\$ 936,303	\$ 899,471	-4.4%
Utility Expenses:				
Expenses excluding depreciation	\$ 674,467	\$ 711,219	\$ 734,045	-5.2%
Total Expenses	\$ 889,212	\$ 925,270	\$ 953,500	-3.9%
Ratio of operating revenue to:				
Operating expenses excluding depreciation	1.33	1.32	1.23	0.8%
Operating expenses including depreciation	1.00	1.01	0.94	-1.0%
Total assets	0.26	0.26	0.25	0.0%
Net position	0.42	0.44	0.42	-4.5%
Debt related ratios:				
Debt to net position	0.49	0.65	0.66	-24.6%

General Trends and Significant Events

The population of Des Arc, Arkansas remained generally constant for December 2020 and December 2021, while the number of customers serviced by the System decreased by 7 customers from 2020 to 2021.

Financial Condition

The System's financial condition remained stable. Total unrestricted assets at the end of 2021 increased \$420,722 or 15.4%. Restricted Assets, which include the proceeds of the capital improvement bond issues for expansion of the water and sewer systems, decreased by \$103,480. Total unrestricted assets at the end of 2020 increased \$108,115, or 42%. Restricted assets at that date decreased by \$5,391 from 2019.

Operating revenues were 4.3% lower than 2020 while accounts receivable at year-end increased by 24% from 2020. In 2019 operating revenues were 4.1% higher than 2019 while accounts receivable at year-end decreased by 23.4% from 2019.

DES ARC WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2021

Results of Operations

Net Operating Income:

The net operating income (loss) was \$6,270 in 2021 and \$11,033 in 2020, while in 2020 the net operating income was a increase resulted from an decrease in operating expenses.

Expenses:

The utility operating expense before depreciation decreased from \$711,219 in 2020 to \$674,467 or 4.1% of operating revenue. In 2020 utility operating expense decreased by \$22,826 from 2019, which amounted to 3.1% of operating revenue.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2020-2021</u> <u>Variance %</u>
Wages and Benefits	\$ 182,639	\$ 241,110	\$ 228,661	-24.3%
Utilities	66,103	60,731	65,035	8.8%
Maintenance, Repairs, and Supplies	240,149	200,194	201,692	20.0%
Insurance	45,197	47,442	47,659	-4.7%
Administrative Overhead	96,274	78,148	74,755	23.2%
Other Operating	44,105	83,594	116,243	-47.2%
Total Operating Expense	<u>\$ 674,467</u>	<u>\$ 711,219</u>	<u>\$ 734,045</u>	-5.2%

Capital Assets and Long-Term Debt

The investment in plant and equipment increased by \$6,270 in capital acquisitions during 2021 and \$19,128 in 2020. Total debt to capital assets was 43.5% at the end of 2021 and 57.3% at the end of 2020.

Final Comments

The System has maintained its mission of providing affordable, efficient, and reliable utility services.

Contacting the System's Financial Management

This financial report is designed to provide our citizens, taxpayers, and granting agencies with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If there are questions about this report or need for additional financial information arises, contact the Des Arc Water and Sewer System, P.O. Box 389, Des Arc, Arkansas, 72040-0389.

DES ARC WATER AND SEWER SYSTEM
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2021 AND 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 419,694	\$ 404,013
Certificates of Deposit	49,262	48,930
Accounts Receivable, Less Allowance for Uncollectibles of \$37,421 and \$37,421	71,125	57,350
Other Receivables	368	368
Inventory	87,461	87,461
Prepaid Insurance	2,439	2,439
Total Current Assets	630,349	600,561
 <u>RESTRICTED ASSETS</u>		
Cash	7,917	7,511
Certificates of Deposit	238,773	237,984
Debt Service Accounts	126,073	126,157
Accrued Interest Receivable	223	223
Total Restricted Assets	372,986	371,875
 <u>CAPITAL ASSETS</u>		
Land	79,645	79,645
Water System	4,874,539	4,817,926
Sewer System	2,146,817	2,146,817
	7,101,001	7,044,388
Less Accumulated Depreciation	4,730,511	4,515,766
Net Capital Assets	2,370,490	2,528,622
Total Assets	3,373,825	3,501,058
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pensions	47,911	91,976
Total Deferred Outflows of Resources	47,911	91,976
 <u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
	\$ 3,421,736	\$ 3,593,034

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

DES ARC WATER AND SEWER SYSTEM
 STATEMENTS OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES</u>		
Water Sales	\$ 490,578	\$ 504,991
Sewer Sales	215,650	204,533
Other Operating Revenue	<u>189,254</u>	<u>226,779</u>
TOTAL OPERATING REVENUES	<u>895,482</u>	<u>936,303</u>
<u>OPERATING EXPENSES</u>		
Salaries and Wages	170,018	224,558
Payroll Taxes	12,621	16,552
Utilities	66,103	60,731
Maintenance, Repair and Supplies	240,149	200,194
Office	8,688	8,740
Insurance	45,197	47,442
Vehicles	13,413	10,206
Professional Services	18,513	12,559
Rent	6,000	6,000
Bad Debts	-	87
Administrative Overhead Charges	96,274	78,148
Other Operating Expenses	<u>(2,509)</u>	<u>46,002</u>
TOTAL OPERATING EXPENSES	<u>674,467</u>	<u>711,219</u>
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	221,015	225,084
DEPRECIATION EXPENSE	<u>214,745</u>	<u>214,051</u>
NET OPERATING INCOME (LOSS) AFTER DEPRECIATION	<u>6,270</u>	<u>11,033</u>

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

DES ARC WATER AND SEWER SYSTEM
 STATEMENTS OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Income	\$ 3,376	\$ 6,556
Interest Expense	<u>(55,210)</u>	<u>(58,150)</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>(51,834)</u>	<u>(51,594)</u>
 NET INCREASE (DECREASE) IN NET POSITION	 (45,564)	 (40,561)
 NET POSITION - BEGINNING OF YEAR	 <u>2,139,734</u>	 <u>2,180,295</u>
 NET POSITION - END OF YEAR	 <u>\$ 2,094,170</u>	 <u>\$ 2,139,734</u>

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

DES ARC WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 692,453	\$ 709,524
Cash Payments to Suppliers for Goods and Services	(519,812)	(462,864)
Cash Payments to Employees for Services	(182,639)	(252,105)
Other Operating Income	189,254	226,779
Net Cash Provided - Operating Activities	<u>179,256</u>	<u>221,334</u>
<u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Transfer from (to) Debt Service Funds	-	7,503
Bond Principal Paid	(54,366)	(51,638)
Bond Interest Paid	(55,210)	(58,150)
Plant Acquisition, Net	(56,613)	(19,128)
Net Cash Provided - Capital and Related Financing	<u>(166,189)</u>	<u>(121,413)</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Investment Income Received	<u>3,376</u>	<u>6,556</u>
Net Cash Provided - Investing Activities	<u>3,376</u>	<u>6,556</u>
<u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits, Net	<u>775</u>	<u>265</u>
Cash Provided - Other Activities	<u>775</u>	<u>265</u>
Net Increase (Decrease) in Cash	17,218	106,742
Cash, Beginning of Year	<u>698,438</u>	<u>591,696</u>
Cash, End of Year	<u>\$ 715,656</u>	<u>\$ 698,438</u>

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

DES ARC WATER AND SEWER SYSTEM
 STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES		
Operating Income (Loss) Before Depreciation Adjustments	\$ 221,015	\$ 225,084
Accounts Receivable (Increase) Decrease	(13,775)	10,908
Inventory (Increase) Decrease	-	-
Operating Liabilities Increase (Decrease)	<u>(4,139)</u>	<u>(14,658)</u>
Net Cash Provided From Operating Activities	<u>\$ 203,101</u>	<u>\$ 221,334</u>

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

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information

The Des Arc Water and Sewer System (the System) is a component unit of the City of Des Arc, Arkansas (the City). The System provides water and/or sewer services to the residential and commercial operations in the city of Des Arc. These financial statements are prepared from the books and records of the Des Arc Water and Sewer System. These financial statements are not intended to present fairly the financial position of the City of Des Arc, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles. Transactions with the City of Des Arc are more fully described in Note 9.

(b) Basis of Accounting

The System utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

(c) Cash and Cash Equivalents

Deposits (cash and certificates of deposit) are carried at cost, which approximates fair value. For the purpose of the statements of cash flows, the System considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

(d) Investments

Investments are stated at fair value.

(e) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and the related valuation account as of December 31, 2021 and 2020 are more fully explained in Note 4.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Inventory
Inventory is calculated at cost, utilizing the cost of the last item purchased for that group as unit cost.

(g) Restricted Assets
Restricted cash consists of checking accounts, certificates of deposit, and investments, restricted to use as indicated by its fund title.

(h) Capital Assets
Purchased capital assets are stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

Waterworks and Sewer Plant	10-40 1/3 years
Operating Equipment	3-10 years
Office Building	20 years
Furniture and Fixtures	5-10 years

Details of changes in the capital assets accounts for the years ended December 31, 2021 and 2020, respectively, are more fully summarized in Note 6.

(i) Contributed Assets
Contributed assets are recorded at estimated fair value at the time of receipt or based on cost of construction.

(j) Unamortized Bond Issuance Costs
Costs associated with the issuance of bonds are reported as current prepaid expenses.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue Recognition

The accounts receivable and revenue recognized are based on meter readings by System personnel. The meter readings are made at various times of the month, and approximately twenty days of water consumption during any month remain unbilled at the end of the month.

(l) Basis for Estimates

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

(m) Government Accounting Standards Board (GASB) Statement no. 68

The GASB issued the following three statements which became effective for the fiscal year ended December 31, 2015: Statement no. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement no. 27, Statement no. 69, Government Combinations and Disposals of Government Operations, and Statement no. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement no. 68. Management has determined that Statement no. 69 does not affect the Des Arc Water and Sewer System. Statements no. 68 and no. 71 established standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions. Details of the effect of implementing these statements are discussed in detail in footnote 8.

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statement of cash flows to the statements of net assets as of December 31, 2021 and 2020, respectively, follows:

	<u>2021</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 452,943	\$ 245,495	\$ 698,438
Net Increase (Decrease)	<u>16,013</u>	<u>1,195</u>	<u>17,208</u>
Cash at End of Year	<u>\$ 468,956</u>	<u>\$ 246,690</u>	<u>\$ 715,646</u>
	 <u>2020</u> 		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 348,578	\$ 243,118	\$ 591,696
Net Increase (Decrease)	<u>104,365</u>	<u>2,377</u>	<u>106,742</u>
Cash at End of Year	<u>\$ 452,943</u>	<u>\$ 245,495</u>	<u>\$ 698,438</u>

The System's funds are combined with the departmental bank accounts of the City of Des Arc in determining the appropriateness of collateralization from financial institutions.

The Utility's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. agencies.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Included in the Utility's total cash balances of \$715,646 and \$698,438 at December 31, 2021 and 2020, respectively, are deposits with financial institutions which are categorized as to credit risk as follows:

	<u>2021</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC and Collateralized)	\$ 715,646	\$ 715,968
Uninsured, Uncollateralized	-	-
Total	<u>\$ 715,646</u>	<u>\$ 715,968</u>

	<u>2020</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC and Collateralized)	\$ 698,438	\$ 698,631
Uninsured, Uncollateralized	-	-
Total	<u>\$ 698,438</u>	<u>\$ 698,631</u>

NOTE 3: INVESTMENTS

All of the System's investments carry the explicit guarantee of the U.S. Government. The Utility does not have a specific policy to manage its exposure to fair value losses arising from increasing interest rates.

Investments are categorized as follows to give an indication of the level of credit risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or by its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. All of the System's investments at December 31, 2021 are categorized as Category 1.

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Trade Receivables, Current	\$ 69,651	\$ 57,025
Trade Receivables, Past Due	<u>36,245</u>	<u>37,746</u>
Total	<u>105,896</u>	<u>94,771</u>
Allowance for Uncollectibles, Beginning of Year	(37,421)	(37,334)
Provision for Bad Debt Expense	<u>-</u>	<u>(87)</u>
Allowance for Uncollectibles, End of Year	<u>(37,421)</u>	<u>(37,421)</u>
Accounts Receivable, Net of Allowance for Uncollectibles	<u>\$ 68,475</u>	<u>\$ 57,350</u>

NOTE 5: RESTRICTED ASSETS

An analysis of restricted assets is as follows:

	<u>2021</u>	<u>2020</u>
Meter Deposit Account:		
Cash	\$ 7,917	\$ 7,511
Certificate of Deposit	<u>238,773</u>	<u>237,984</u>
	<u>246,690</u>	<u>245,495</u>
Accrued Interest Receivable	<u>223</u>	<u>223</u>
	<u>223</u>	<u>223</u>
Debt Service Accounts:		
Investments Held By Fiscal Agent	<u>126,073</u>	<u>126,157</u>
TOTAL RESTRICTED ASSETS	<u>\$ 372,986</u>	<u>\$ 371,875</u>

Debt service accounts as of December 31, 2021 and 2020 consist of money market investments held in trust by a financial institution. These investments are stated at fair value and represent the unexpended portion of \$1,665,091 in proceeds from the bond issues referred to in Note 7.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6: CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2021 and 2020 is as follows:

	2021			Balance 12/31/2021
	Balance 12/31/2020	Additions	Deletions	
Capital Assets Not Being Depreciated:				
Land	\$ 79,645	\$ -	\$ -	\$ 79,645
Total Capital Assets Not Being Depreciated	<u>79,645</u>	<u>-</u>	<u>-</u>	<u>79,645</u>
Capital Assets Being Depreciated:				
Water System:				
General Plant	2,906,514	-	-	2,906,514
Equipment	1,024,235	56,613	-	1,080,848
Lines and Storage	746,141	-	-	746,141
Office Equipment	141,036	-	-	141,036
Subtotal	<u>4,817,926</u>	<u>56,613</u>	<u>-</u>	<u>4,874,539</u>
Sewer Plant	2,146,817	-	-	2,146,817
Total Capital Assets Being Depreciated	<u>6,964,743</u>	<u>56,613</u>	<u>-</u>	<u>7,021,356</u>
Less Accumulated Depreciation for:				
Water System:				
General Plant	1,670,734	74,940	-	1,745,674
Equipment	705,050	43,731	-	748,781
Lines and Storage	690,180	18,654	-	708,834
Office Equipment	134,206	24,005	-	158,211
Subtotal	<u>3,200,170</u>	<u>161,330</u>	<u>-</u>	<u>3,361,500</u>
Sewer Plant	1,315,596	53,415	-	1,369,011
Total Accumulated Depreciation	<u>4,515,766</u>	<u>214,745</u>	<u>-</u>	<u>4,730,511</u>
Capital Assets, Net	<u>\$ 2,528,622</u>	<u>\$ (158,132)</u>	<u>\$ -</u>	<u>\$ 2,370,490</u>

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6: CAPITAL ASSETS (CONTINUED)

	2020			Balance 12/31/2020
	Balance 12/31/2019	Additions	Deletions	
Capital Assets Not Being Depreciated:				
Land	\$ 79,645	\$ -	\$ -	\$ 79,645
Total Capital Assets Not Being Depreciated	79,645	-	-	79,645
Capital Assets Being Depreciated:				
Water System:				
General Plant	2,906,514	-	-	2,906,514
Equipment	1,005,107	19,128	-	1,024,235
Lines and Storage	746,141	-	-	746,141
Office Equipment	141,036	-	-	141,036
Subtotal	4,798,798	19,128	-	4,817,926
Sewer Plant	2,146,817	-	-	2,146,817
Total Capital Assets Being Depreciated	6,945,615	19,128	-	6,964,743
Less Accumulated Depreciation for:				
Water System:				
General Plant	1,595,796	74,938	-	1,670,734
Equipment	640,698	64,352	-	705,050
Lines and Storage	671,527	18,653	-	690,180
Office Equipment	131,513	2,693	-	134,206
Subtotal	3,039,534	160,636	-	3,200,170
Sewer Plant	1,262,181	53,415	-	1,315,596
Total Accumulated Depreciation	4,301,715	214,051	-	4,515,766
Capital Assets, Net	\$ 2,723,545	\$ (194,923)	\$ -	\$ 2,528,622

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$214,745 and \$214,051 respectively.

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 7: LONG-TERM DEBT

Long-term debt at December 31, 2021 and 2020 consisted of the following bonds payable:

	<u>2021</u>	<u>2020</u>
1. Water System Revenue Bonds	\$ 833,846	\$ 877,150
2. Sewer System Revenue Bonds	<u>199,147</u>	<u>210,209</u>
Subtotal	1,032,993	1,087,359
Less Current Maturities	<u>57,240</u>	<u>54,366</u>
	<u>\$ 975,753</u>	<u>\$ 1,032,993</u>

On November 1, 2004, the City issued \$1,331,070 in Capital Improvement Revenue Bonds for the Water System Project. Annual payments are \$90,094 with interest at a rate of 5.4%. The City also issued \$334,021 in Capital Improvement Revenue Bonds for the Sewer System Project. Annual payments are \$20,398 with interest at 4.5%. These two bond issues totaled \$1,665,091 for 2004.

These proceeds, which were held in trust by a fiscal agent at December 31, 2021 and 2020 (as explained in Note 5), are used to finance the expansion of the System's utility plant.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 7: LONG-TERM DEBT (CONTINUED)

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

	Balance			Balance	Amount Due
	<u>12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2021</u>	<u>Within</u>
					<u>One Year</u>
Water System Revenue Bonds	\$ 877,150	\$ -	\$ 43,304	\$ 833,846	\$ 45,675
Sewer System Revenue Bonds	210,209	-	11,062	199,147	11,565
Totals	<u>\$ 1,087,359</u>	<u>\$ -</u>	<u>\$ 54,366</u>	<u>\$ 1,032,993</u>	<u>\$ 57,240</u>

	Balance			Balance	Amount Due
	<u>12/31/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2020</u>	<u>Within</u>
					<u>One Year</u>
Water System Revenue Bonds	\$ 918,208	\$ -	\$ 41,058	\$ 877,150	\$ 43,304
Sewer System Revenue Bonds	220,789	-	10,580	210,209	11,062
Totals	<u>\$ 1,138,997</u>	<u>\$ -</u>	<u>\$ 51,638</u>	<u>\$ 1,087,359</u>	<u>\$ 54,366</u>

The following presents the annual principal and interest payments for bonds payable outstanding at December 31, 2021.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 57,240	\$ 53,252	\$ 110,492
2023	60,266	50,226	110,492
2024	63,453	47,039	110,492
2025	66,809	43,683	110,492
2026	70,343	40,149	110,492
2027-2031	411,671	140,789	552,460
2032-2034	303,211	28,367	331,578
	<u>\$ 1,032,993</u>	<u>\$ 403,505</u>	<u>\$ 1,436,498</u>

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN

GASB Statement No. 68, adopted for the fiscal year ended December 31, 2015, established standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions. Details of the effect of implementing these statements are discussed in detail below:

Arkansas Public Employees Retirement System (APERS) Plan Description

The System participates in a cost-sharing multiple-employer pension plan, administered by the Arkansas Public Employees Retirement System (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the system is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

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

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

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

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

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service. Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost – of – living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). The System contributed 15.32% of compensation from January 1, 2021 until December 31, 2021. The System's contributions for the year ended December 31, 2021 amounted to \$25,888 and were equal to the required contribution for the year.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2021 the System reported a liability of \$89,754 for its proportionate share of the net pension liability. The collective Net Pension Liability was measured as of June 30, 2021, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Utility's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The Utility's proportion was .011674%.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

For the year ended December 31, 2021, the System recognized a pension expense of \$11,949. At December 31, 2021 the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,054	\$ (5,756)
Changes of Assumptions	-	(629)
Net difference between projected and Actual Investment Earnings on Pension Plan Investments	32,913	(157,549)
Change in Proportion and Differences between Employer Contributions and Share of Contributions	-	-
Contributions Made subsequent to the measurement date	12,944	-
Total	<u>\$ 47,911</u>	<u>\$ (163,934)</u>

\$47,911 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

2022	\$ (24,440)
2023	\$ (21,890)
2024	\$ (34,825)
2025	\$ (47,812)
2026	\$ -
Thereafter	\$ -

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 - 9.85% including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.9676

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates are arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2020 are summarized in the table below:

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>LONG-TERM EXPECTED REAL RATE OF RETURN</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	
Total Rate of Return		4.93%
Plus: Price Inflation - Actuarial Assumption		<u>2.50%</u>
		<u>7.43%</u>

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

DES ARC WATER AND SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Lower	Discount Rate	1% Higher
<u>6.15</u>	<u>7.15</u>	<u>8.15</u>
<u>\$ 268,490</u>	<u>\$ 89,754</u>	<u>\$ (57,856)</u>

NOTE 9: RELATED PARTY TRANSACTIONS

As mentioned in Note 1, the System is a component unit of the City of Des Arc. During the year ended, December 31, 2021 and 2020, the System was involved with the City of Des Arc and its related entities in the following matters:

- (a) The System's water sales of \$490,578 for the year ended December 31, 2021 included \$93,168 in sales to North Prairie County Water Extension System, which is also a component unit of the City of Des Arc. Additionally, during the year ended December 31, 2021, the North Prairie County Water Extension System reimbursed the Des Arc Water and Sewer System \$29,923 for connection expense and billing services. In the year ended December 31, 2020, the System's water sales of \$504,991 included \$112,371 in sales to the North Prairie County Water Extension System; and it received \$31,010 in reimbursements from North Prairie County Water Extension System for connection expense and billing services.
- (b) The System rented space from the City of Des Arc for \$500 per month and reimbursed the City General Fund \$6,000 each year in the years ended December 31, 2021 and 2020, respectively.

DES ARC WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 10: RISK MANAGEMENT

The System has purchased insurance policies from the Arkansas Municipal League as well as commercial carriers for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Payments and premiums for these policies are recorded as expenses of the System. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant changes in coverage compared to the prior year.

NOTE 11: RISKS AND UNCERTAINTIES

In February 2020, the COVID-19 virus began spreading in the United States, including areas in which the System operates. Business continuity and social activities have been severely impacted as government and citizens take significant and unprecedented measures to mitigate the consequences of the epidemic. Management has carefully monitored the situation and evaluated its options during this time. Although the effect of the outbreak is expected to be temporary, there is considerable uncertainty about its outcome, and the impact and duration cannot be reasonably estimated at this time.

NOTE 12: SUBSEQUENT EVENTS

The Des Arc Water and Sewer System did not have any recognized or nonrecognized subsequent events occur after December 31, 2021, the date of the statement of net position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through May 1, 2023, the date the financial statements were available to be issued.

DES ARC WATER AND SEWER SYSTEM
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original Budget	Amended and Final Budget	Actual (Budgetary Basis) (See Note A)	Variance
<u>Receipts</u>				
Water Sales	\$ 520,000	\$ 485,543	\$ 490,578	\$ 5,035
Sewer Sales	205,000	207,720	215,650	7,930
Other Operating Revenue	80,450	96,724	63,772	(32,952)
Late Charges	10,000	7,372	6,801	(571)
Transfers	146,000	115,118	117,258	2,140
Interest	1,150	642	3,376	2,734
Other	6,000	1,403	1,423	20
	<u>968,600</u>	<u>914,522</u>	<u>898,858</u>	<u>(15,664)</u>
<u>Disbursements</u>				
Salaries and Wages	180,000	170,095	170,018	77
Payroll Taxes	16,750	13,025	12,621	404
Utilities	65,000	62,315	66,103	(3,788)
Maintenance, Repairs, & Supplies	187,927	226,894	240,149	(13,255)
Office	8,750	7,689	8,688	(999)
Insurance	49,500	46,687	45,197	1,490
Vehicles	12,000	13,413	13,413	-
Professional Services	13,000	17,994	18,513	(519)
Rent	6,000	6,000	6,000	-
Bad Debts	-	-	-	-
Legal and Accounting	4,500	4,300	8,150	(3,850)
Purchased Investments	20,000	72,906	-	72,906
Capital Expenditures - Equipment	66,000	69,566	56,613	12,953
Loan	110,000	110,493	54,366	56,127
Transfers	55,000	90,421	88,124	2,297
Retirement	35,000	23,780	25,888	(2,108)
Other Operating Expenses	46,000	43,692	(28,397)	72,089
Total Operating Expenses	<u>875,427</u>	<u>979,270</u>	<u>785,446</u>	<u>193,824</u>
Revenue in Excess of Expenses	<u>\$ 93,173</u>	<u>\$ (64,748)</u>	<u>\$ 113,412</u>	<u>\$ 178,160</u>

See independent auditors' report on required supplementary information.

DES ARC WATER AND SEWER SYSTEM
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE A - BUDGET-TO-ACTUAL RECONCILIATION

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Uses/outflows of resources:

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 113,412
Differences - budget to GAAP:	
Budget for capital expenditures as an outflow of budgetary resources	56,613
Depreciation of capital items for GAAP purposes	(214,745)
Budget for debt service on loan as an outflow of budgetary revenue	54,366
Interest expense on indebtedness for GAAP purposes	<u>(55,210)</u>
Net Increase (Decrease) in Net Position	<u>\$ (45,564)</u>

See independent auditors' report on required supplementary information.

COBB AND SUSKIE, LTD.

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Michael L. Cobb

Anne Suskie Pinyan

Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City Council
City of Des Arc, Arkansas
Des Arc, 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 business-type activities of the City of Des Arc Water and Sewer System as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City of Des Arc Water and Sewer System's basic financial statements, and have issued our report thereon dated May 1, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Des Arc Water and Sewer System'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 City of Des Arc Water and Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Des Arc Water and Sewer System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 the Des Arc Water and Sewer System'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 financial statements. 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cobb and Suskie, Ltd.

Certified Public Accountants
May 1, 2023