

**CITY OF LEACHVILLE, ARKANSAS
WATER AND SEWER DEPARTMENT**

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

**Baker Firm, P.A.
110 W. Huntington Ave., Ste A
Jonesboro, AR 72401
(870) 203-0075**

CITY OF LEACHVILLE, ARKANSAS – WATER AND SEWER DEPARTMENT

TABLE OF CONTENTS

Independent Auditor’s Report	3-5
Financial Statements	
Statement of Net Position- Modified Cash Basis	6
Statement of Revenues, Expenses and Changes in Net Position- Modified Cash Basis	7
Statement of Cash Flows - Modified Cash Basis	8
Notes to Financial Statements	9-17
Supplemental Schedules	
Schedule of Water and Sewer Rate Information	18
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20

INDEPENDENT AUDITOR'S
REPORT

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council City of Leachville, Arkansas

I have audited the accompanying modified cash basis financial statements of the **City of Leachville, Arkansas Water and Sewer Department (the Department)**, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the City of Leachville, Arkansas Water and Sewer Department as of December 31, 2021 and 2020, and the respective changes in modified cash basis financial position and cash flows thereof for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1(B).

Basis of Accounting

As disclosed in Note 1(B) to the financial statements, these financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(B); this includes determining that the modified cash basis of accounting is an acceptable basis for presentation of the financial statements in accounting the circumstances. Management is also responsible 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 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

My 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 my 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 GAAS 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 a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 GAAS and Government Auditing Standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 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.

I am 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 I identified during the audit.

Emphasis of Matter

As discussed in Note 1(A), the financial statements present only the Department and do not purport to, and do not, present fairly the financial position balances and transactions that are directly attributable to the changes in financial position, or cash flows of the City of Leachville, Arkansas. My opinion is not modified with respect to this matter.

Other Matters

Other Information


In connection with my audit of the basic financial statements, my responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If based on work performed, I conclude that an uncorrected material misstatement of other information exists, I am required to describe it in my report.

Baker Firm, P.A.
Certified Public Accountant
110 W. Huntington Ave., Ste A
Jonesboro, AR 72401
(870) 203-0075

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated October 18, 2024, on my consideration of the Department's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of 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.

BAKER FIRM, P.A.:

By:  _____

Zac Baker, CPA
Jonesboro, Arkansas
October 18, 2024

FINANCIAL STATEMENTS

**City of Leachville
Water and Sewer Department
Statement of Net Position
Modified Cash Basis
December 31, 2021 and 2020**

	2021	2020
CURRENT ASSETS		
Cash	\$ 79,071	\$ 117,050
Restricted Assets:		
Restricted cash	157,843	116,827
Total current assets	236,915	233,877
 NON-CURRENT ASSETS		
Restricted cash with fiscal agents	11,499	11,500
Capital assets		
Capital assets, net	3,054,886	2,343,358
Total non-current assets	3,066,385	2,354,858
 TOTAL ASSETS	\$ 3,303,299	\$ 2,588,735
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Customer deposits	31,931	31,424
Payroll Liabilities	1,090	1,093
Current portion of long-term debt	81,042	95,013
Total current liabilities	114,062	127,530
 NON-CURRENT LIABILITIES		
Long-term debt, net of current maturities	2,037,606	1,305,853
 TOTAL LIABILITIES	2,151,668	1,433,383
 NET POSITION		
Net investment in capital assets	947,737	953,992
Restricted for:		
Expendable		
Renewals and replacements	51,418	45,868
Unrestricted	152,476	154,258
Total net position	1,151,631	1,155,352
 TOTAL LIABILITIES AND NET POSITION	\$ 3,303,299	\$ 2,588,735

City of Leachville
Water and Sewer Department
Statement of Revenues, Expenditures and Changes in Net Position
Modified Cash Basis
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water service	\$ 195,261	\$ 191,039
Sewer service	205,660	197,663
Sanitation fees collected for the City of Leachville	129,272	126,076
Fire fees collected for the City of Leachville	7,132	7,096
Fees and taxes	33,091	14,844
Sales tax	29,875	38,971
Wastewater Construction Rev	-	-
Total operating revenue	<u>600,291</u>	<u>575,689</u>
OPERATING EXPENDITURES		
Salaries and wages	123,620	89,145
Payroll tax	10,516	7,635
Employee benefits	19,991	18,106
Professional fees	6,243	21,352
Remittance of sanitation fees to the City of Leachville	136,216	129,340
Supplies	81,055	33,102
Federal water tax	5,640	4,442
Fuel	5,489	3,635
Sales tax	30,254	27,059
Insurance	8,391	5,822
Uniform fees	1,161	-
Utilities	33,229	36,871
Chemicals and lab	22,323	19,337
Repairs and maintenance	48,205	21,593
Remittance of fire fees to the City of Leachville	7,321	7,229
Miscellaneous	8,870	-
Depreciation	88,772	68,138
Total operating expenditures	<u>637,297</u>	<u>492,806</u>
OPERATING INCOME (LOSS)	<u>(37,006)</u>	<u>82,883</u>
NON-OPERATING REVENUES (Expenditures)		
Interest income	222	303
Interest and fees expense	(50,919)	(33,165)
Nonoperating revenues (expenses)	(50,697)	(32,862)
Income before other revenues, expenditures, gains or losses	(87,703)	50,021
CONTRIBUTIONS TO THE CITY		
Contributions from the City of Leachville	83,980	-
CHANGE IN NET POSITION	<u>(3,722)</u>	<u>50,021</u>
NET POSITION AT BEGINNING OF YEAR	1,155,353	1,105,332
NET POSITION AT END OF YEAR	<u>\$ 1,151,631</u>	<u>\$ 1,155,353</u>

City of Leachville
Water and Sewer Department
Statement of Cash Flows
Modified Cash Basis
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 600,291	\$ 575,689
Cash payments to suppliers for goods and services	(424,904)	(335,523)
Cash payments to employees	(123,620)	(89,145)
Net cash provided/(used) by operating activities	<u>51,766</u>	<u>151,021</u>
Cash flows from non-capital financing activities:		
Contribution from the City of Leachville	83,980	-
Customer meter deposit (net)	507	2,039
Net cash provided/(used) by non-capital financing activities	<u>84,487</u>	<u>2,039</u>
Cash flows from capital and related financing activities:		
Payments for bond principal	(53,314)	(51,107)
Payments for bond interest and fees.	(28,414)	(30,621)
Payments to debt holders for principal (other than bonds)	(30,955)	(24,186)
Payments to debt holders for interest and fees (other than bonds)	(22,505)	(2,544)
Miscellaneous financing activity		1,564
Proceeds from issuance of capital debt	802,051	669,836
Purchase of capital assets	(800,300)	(803,489)
Net cash provided/(used) in financing activities	<u>(133,437)</u>	<u>(240,547)</u>
Cash flows from investing activities:		
Interest Income	222	303
Net cash provided/(used) by investing activities	<u>222</u>	<u>303</u>
NET INCREASE IN CASH AND RESTRICTED CASH	3,038	(87,184)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	233,877	321,061
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 236,915</u>	<u>\$ 233,877</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income/(Loss)	\$ (37,006)	\$ 82,883
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	88,772	68,138
Total Adjustments	88,772	68,138
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 51,766</u>	<u>\$ 151,021</u>
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION		
Unrestricted Cash	\$ 79,071	\$ 117,050
Restricted Cash	157,843	116,827
	<u>\$ 236,915</u>	<u>\$ 233,877</u>

NOTES TO THE FINANCIAL
STATEMENTS

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. Organization

The City of Leachville, Arkansas Water and Sewer provides water sales and sewer treatment services to the citizens of the City of Leachville, Arkansas (the City) and to commercial and industrial customers located within the service area. The City Council serves as the governing board of the System and approves rates for user charges.

These financial statements include the City's Water and Sewer Fund (the Department) and present only balances and transactions that are directly attributable to the Water and Sewer Funds. They are not intended to present, and do not present, the financial position and changes therein of the City or its proprietary funds. The Department has no potential component units required to be evaluated for inclusion in its reporting entity.

B. Measurement Focus and Basis of Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (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 basis of accounting determines when transactions and economic events are reflected in financial statements and measurement focus identifies which transactions and events should be recorded. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of an operating income, changes in financial position and cash flow. Under an economic resource measurement focus, all assets, deferred inflows (outflows) of resources and liabilities are reported. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department records all transactions on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the modified cash basis of accounting, the Department generally recognizes assets, liabilities, deferred inflows (outflows) of resources, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivables and revenues for services billed or provided, but not collected. In addition,

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES
(Continued)**

these financial statements do not reflect liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported on these financial statements that are not directly attributable to the receipts or disbursements of cash are depreciation of the Department's capital assets over the estimated useful lives of the assets.

C. Basis of Presentation

The presentation of the Department's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the usage of water and sewer are distinguished from non-operating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenditures and changes in net position—modified cash basis. Operating revenues consist primarily of user charges and operating expenditures include the costs of maintaining and operating the water and sewer system. Non-operating revenues and expenditures consist of those revenues and expenditures that are related to financing and investing type activities. When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to apply the expenditure to restricted net position to the extent such are available and then to unrestricted net position.

D. Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Department considers all cash balance on hand, demand deposits, money market accounts and highly liquid investments with an original maturity of three months or less to be cash equivalents.

E. Capital Assets

Capital assets consist of property, plant and equipment which are stated at historical cost or at estimated cost if actual historical cost information is not available. Contributed assets are recorded at their estimated fair value at the time of contribution. The cost of financed additions and replacements is capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. 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 reported as non-operating revenues or expenses. The cost of current repairs, maintenance, and minor

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES
(Continued)**

replacements is charged to expense when incurred.

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

System, Plants and Wells	10-50 Years
Equipment	5-10 Years

F. Estimates

The preparation of financial statements in accordance with the modified cash basis required management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the notes. Actual results may differ from those estimates.

G. Net Position

Net position is classified in the following three components:

Net investment in capital assets – This component of net assets 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.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Department’s policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Unrestricted net assets – This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets”.

H. Taxes

The City, and thus the Department, is exempt from federal income taxes under Code Section 115 of the Internal Revenue Code and is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES
(Continued)**

I. Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City Council adopts an annual budget for the Department. The budget is adopted under a cash basis and does not include depreciation, certain capital expenses, and certain non-operating income and expense items. All annual appropriations lapse at year-end and budgets are amended as needed.

J. Customer Deposits

Customer deposits are held until the customer's service is terminated, at which time the deposit is applied to the final bill. In addition to a deposit from new customers, the Department requires a non-refundable connection fee. The Department has a liability for the customer deposits on hand.

NOTE 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to the Department. In accordance with Arkansas State statutes, the Department requires full collateralization of cash balances above the Federal Deposit Insurance Corporation insurance limits. At December 31, 2021 and 2020, none of the Department's carrying or bank balance were exposed to custodial credit risk. The Department's carrying balance and bank balance were fully insured by FDIC.

Restricted cash:

Customer Meter Deposit Fund

Represents funds required to have a balance equal to or greater than the outstanding customer meter/service deposit liability.

Debt Service Reserve

Represents funds required to be maintained as stipulated by the underlying bond agreements to ensure the Department's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service requirement is typically based on a percentage of the maximum annual debt service requirement.

Asset Management Reserve

Represents funds required to be reserved per the debt covenant agreement with the United States Department of Agriculture (USDA) for management of short-lived assets obtained with USDA funding.

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The following is a summary of the cash and cash equivalents maintained in the restricted and unrestricted fund as of December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Unrestricted Cash	\$ 79,071	\$ 117,050
Current restricted cash and cash equivalents		
Customer Meter Deposit Fund	\$ 31,931	\$ 31,424
Asset management reserve funds	<u>114,414</u>	<u>73,903</u>
	146,345	105,327
Non-current restricted cash and cash equivalents		
Debt service reserve funds	11,499	11,500
Total Restricted Cash	<u>157,843</u>	<u>116,827</u>
Total Cash Balance	<u><u>\$ 236,915</u></u>	<u><u>\$ 233,877</u></u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 3: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the year ended December 31, 2021 and 2020 follows:

	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
Non-depreciable:				
Land	\$ 111,500	\$ -	\$ -	\$ 111,500
Depreciable:				
System Plant, Wells & Lines	2,952,896	800,300	-	3,753,196
Equipment	235,695	-	-	235,695
	<u>3,188,591</u>	<u>800,300</u>	<u>-</u>	<u>3,988,891</u>
Less accumulated depreciation	(956,733)	(88,772)	-	(1,045,505)
	<u>2,231,858</u>	<u>711,528</u>	<u>-</u>	<u>2,943,386</u>
Capital assets, net	<u>\$ 2,343,358</u>	<u>\$ 711,528</u>	<u>\$ -</u>	<u>\$ 3,054,886</u>

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
Non-depreciable:				
Land	\$ 111,500	\$ -	\$ -	\$ 111,500
Depreciable:				
System Plant, Wells & Lines	2,149,407	803,489	-	2,952,896
Equipment	235,695	-	-	235,695
	<u>2,385,102</u>	<u>803,489</u>	<u>-</u>	<u>3,188,591</u>
Less accumulated depreciation	(888,595)	(68,138)	-	(956,733)
	<u>1,496,507</u>	<u>735,351</u>	<u>-</u>	<u>2,231,858</u>
Capital assets, net	<u>\$ 1,608,007</u>	<u>\$ 735,351</u>	<u>\$ -</u>	<u>\$ 2,343,358</u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 4: COMMITMENTS

Long-Term Debt as of December 31, 2021:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2021	Maturities To December 31, 2021
6/1/2001	6/1/2026	5-5.85%	\$ 502,579	\$ 142,093	\$ 360,486
3/14/2006	10/15/2037	2.50%	850,000	559,808	290,192
6/12/2020	6/12/2060	1.87%	1,471,888	1,416,746	55,141
			<u>\$2,824,467</u>	<u>\$ 2,118,648</u>	<u>\$ 705,819</u>

Long-Term Debt as of December 31, 2020:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2020	Maturities To December 31, 2020
6/1/2001	6/1/2026	5-5.85%	\$ 502,579	\$ 169,687	\$ 332,892
3/14/2006	10/15/2037	2.50%	850,000	585,528	264,472
6/12/2020	6/12/2034	1.87%	669,836	645,650	24,186
			<u>\$2,022,415</u>	<u>\$ 1,400,865</u>	<u>\$ 621,550</u>

Long-term liability activity for the years ended December 31, 2021 and 2020, was as follows:

December 31, 2021					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond Payable	\$ 1,400,866	\$ 802,051	\$ 84,269	\$ 2,118,648	\$ 81,042
Notes Payable	-	-	-	-	-
	<u>\$ 1,400,866</u>	<u>\$ 802,051</u>	<u>\$ 84,269</u>	<u>\$ 2,118,648</u>	<u>\$ 81,042</u>

December 31, 2020					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond Payable	\$ 806,323	\$ 669,836	\$ 75,293	\$ 1,400,866	\$ 95,013
Notes Payable	-	-	-	-	-
	<u>\$ 806,323</u>	<u>\$ 669,836</u>	<u>\$ 75,293</u>	<u>\$ 1,400,866</u>	<u>\$ 95,013</u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 4: COMMITMENTS (continued)

Pledged Revenue-Bonds:

For the year ending December 31, 2021 the Department has pledged future customer revenues, net of specified operating expenditures, to repay bonds. The bonds were issued for various water and sewer capital projects. Total principal and interest remaining on the bonds is \$2,118,648. Principal and interest paid for the current year and total customer revenue pledged for debt service were \$84,269 and \$50,919, respectively. The percentage of customer revenue pledged for the current year for principal, interest, and service fees was 17.78%. Service fees are included in the interest amount.

For the year ending December 31, 2020 the Department has pledged future customer revenues, net of specified operating expenditures, to repay bonds. The bonds were issued for various water and sewer capital projects. Total principal and interest remaining on the bonds is \$1,400,866. Principal and interest paid for the current year and total customer revenue pledged for debt service were \$75,293 and \$33,165, respectively. The percentage of customer revenue pledged for the current year for principal and interest payments was 18.78%. Service fees are included in the interest amount.

Pledged Revenue- Notes:

For the year ending December 31, 2021 and 2020, the Department's outstanding notes from direct borrowing is secured with the collateral of equipment.

Maturities of long-term debt at December 31, 2021 are as follows:

Year Ended December 31	Principal	Interest	Service Fees	Total
2022	\$ 81,042	\$ 46,923	\$ 5,792	\$ 133,756
2023	83,930	44,303	5,532	133,766
2024	86,935	41,576	5,263	133,775
2025	90,062	38,737	4,985	133,785
2026	75,014	35,792	4,697	115,503
2027-2031	314,922	156,728	21,544	493,194
2032-2036	361,355	119,494	7,946	488,795
2037-2041	219,697	84,838	337	304,872
2042-2046	192,022	66,823		258,845
2047-2051	210,879	47,965		258,844
2052-2056	231,589	27,256		258,845
2057-2060	171,201	5,676		176,877
Totals	<u>\$ 2,118,648</u>	<u>\$ 716,112</u>	<u>\$ 56,097</u>	<u>\$ 2,890,857</u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2021 and 2020**

NOTE 5: RISK MANAGEMENT AND LITIGATION

The Department is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department has purchased insurance to address these risks. There has been no significant reduction in the Department's coverage during the years ended December 31, 2021 and 2020. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three years.

OTHER INFORMATION

**City of Leachville
Water and Sewer Department
Other Information
Schedule of Water and Sewer Rates
December 31, 2021**

Water Usage Rates

Residential Users

Rates

First 1,000 gallons	\$12.85
All over 1,000 gallons	\$2.35 per thousand

Sewer Usage Rates

Residential Users

Rates

First 1,000 gallons	\$9.00
All over 1,000 gallons	\$1.35 per thousand

OTHER REQUIRED REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Honorable Mayor and City Council of
the City of Leachville, Arkansas**

Baker Firm, P.A. (the "Firm") has audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Leachville, Arkansas, Water and Sewer Department (the "Department"), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, and has issued its report thereon dated October 18, 2024.

Internal Control over Financial Reporting

In planning and performing its audit of the financial statements, the Firm considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing its opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, the Firm does 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 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.

The Firm's 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. However, as described below the Firm did identify certain deficiencies in internal control that it considers to be a material weakness. The Firm considered the deficiency described below to be a material weakness:

2021-001

Criteria: Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements.

Condition: The Department has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the Department's objectives with regard to reliability of financial reporting.

Cause: Cost/benefit implication hinder the Department's ability to adequately segregate financial accounting duties among employees.

Effect or Potential Effect: Financial accounting duties are not distributed among the Department's employees to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected.

Recommendation: To achieve effective internal control over financial reporting, accounting duties should be distributed among appropriate employees.

Response: The Department is aware of the deficiency and plans to mitigate the deficiency with increased oversight by the governing body.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, the Firm performed tests of the Department's 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 the Firm's audit, and accordingly, the Firm does not express such an opinion. The results of the Firm's test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.


The District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the forementioned finding. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, the Firm expresses no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of the Firm's 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.

BAKER FIRM, P.A.:

By: 

Zac Baker, CPA
Jonesboro, Arkansas
October 18, 2024