

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)

Audited Financial Statements

For the Years Ended December 31, 2022 and 2021

Thomas, Speight & Noble
CERTIFIED PUBLIC ACCOUNTANTS
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Lepanto Public Utilities Department
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Audited Financial Statements
For the Years Ended December 31, 2022 and 2021

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A Professional Association of Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Mayor and
Members of the City Council of
City of Lepanto, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lepanto Public Utilities Department (a component unit of the city of Lepanto, Arkansas) as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the Lepanto Public Utilities Department's 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 Lepanto Public Utilities Department as of December 31, 2022, and 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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; 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 the Lepanto Public Utilities Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of 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 Lepanto Public Utilities 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lepanto Public Utilities Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2024, on our consideration of Lepanto Public Utilities Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lepanto Public Utilities Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lepanto Public Utilities Department's internal control over financial reporting and compliance.

Respectfully,

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
January 5, 2024

Lepanto Public Utilities Department
Statements of Net Position
(A Component Unit of the City of Lepanto, Arkansas)
December 31, 2022 and 2021

	2022	2021
	<u>ASSETS</u>	
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 51,083	\$ 83,593
Customer accounts receivable	45,409	45,384
Due from general fund	6,240	6,240
Total current assets	102,732	135,217
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	148,421	209,765
Capital assets		
Capital assets, net of accumulated depreciation	1,299,343	1,357,263
Total non-current assets	1,447,763	1,567,028
TOTAL ASSETS	<u>\$ 1,550,496</u>	<u>\$ 1,702,245</u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 10,570	\$ 2,622
Payroll withholdings payable	594	1,414
Payable to City of Lepanto	409	489
Sales tax payable	2,002	2,375
Accrued interest	1,307	1,545
Current portion of long-term debt	30,110	31,846
Total current liabilities	44,992	40,291
LONG-TERM DEBT, net of current portion	669,430	799,616
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	64,874	58,219
TOTAL LIABILITIES	<u>779,296</u>	<u>898,126</u>
NET POSITION		
Net investment in capital assets	599,803	525,801
Restricted for debt service	46,530	111,177
Unrestricted	124,867	167,141
Total net position	771,200	804,119
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,550,496</u>	<u>\$ 1,702,245</u>

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

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Statements of Revenues, Expenses & Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water revenue	\$ 175,268	\$ 180,755
Sewer revenue	116,090	118,559
Water & sewer connection fees	1,800	175
Penalties & reconnection fees	19,610	18,228
Sales tax revenue	36,589	36,014
Other	392	670
Total operating revenue	349,749	354,401
OPERATING EXPENSES		
Salaries and wages	172,472	141,775
Payroll taxes	12,576	13,064
Sales tax	31,896	23,478
Retirement expense	10,905	15,496
Water & sewer analysis	3,363	3,162
Uniforms	1,586	961
Licenses and permits	8,367	10,728
Employee health insurance	24,119	25,597
Utilities and telephone	27,091	28,434
Vehicle & equipment expense	12,158	11,883
Workers' compensation	3,295	2,266
Lift station supplies	3,919	1,963
Plant supplies	5,346	8,055
Professional fees	11,188	10,368
Rent	8,552	8,110
Repairs and maintenance	27,016	15,758
Office supplies	20,441	20,190
Travel	1,452	917
Water connection expenses	28,054	26,689
Depreciation	57,920	57,499
Total operating expenses	471,716	426,393
OPERATING INCOME (LOSS)	(121,967)	(71,992)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	497	44
Interest expense	(36,302)	(36,450)
Federal aid	21,530	-
Sales tax - debt service	103,323	94,880
Total non-operating revenues (expenses)	89,048	58,474
CHANGE IN NET POSITION	(32,919)	(13,518)
NET POSITION AT BEGINNING OF YEAR	804,119	817,637
NET POSITION AT END OF YEAR	\$ 771,200	\$ 804,119

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

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 356,379	\$ 362,618
Cash payments to suppliers for goods and services	(221,252)	(211,827)
Cash payments to employees	(185,868)	(155,014)
Net cash provided by (used in) operating activities	(50,741)	(4,223)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(131,923)	(57,365)
Interest payments on long-term debt	(36,540)	(36,548)
Federal aid received	21,530	-
Sales tax debt service	103,323	94,880
Net cash provided by (used in) financing activities	(43,610)	967
Cash flows from investing activities:		
Interest received	497	44
Net cash provided by (used in) investing activities	497	44
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(93,854)	(3,212)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	293,358	296,570
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 199,504</u>	<u>\$ 293,358</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (121,967)	\$ (71,992)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	57,920	57,499
(Increase)/Decrease In:		
Customer accounts receivable	(25)	996
Increase/(Decrease) In:		
Accounts payable	7,949	2,622
Sales tax payable	(373)	83
Payroll taxes payable	(820)	(175)
Payable to City of Lepanto	(80)	(478)
Customer deposits	6,655	7,222
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (50,741)</u>	<u>\$ (4,223)</u>

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

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

Lepanto Public Utilities Department (the “Department”) is a component unit of the City of Lepanto, Arkansas. The Department provides water and sewer services to residents and establishments of the City and surrounding areas. These financial statements present only the Lepanto Public Utilities Department and do not include any other City funds.

Basis of Presentation and Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following type of fund is recognized in the accompanying financial statements.

Enterprise fund – These types of funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Department uses the accrual method of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Department considers unrestricted cash and temporary cash investments with a maturity of three months or less when purchased to be cash equivalents.

Customer Accounts Receivable

The Department uses the direct write-off method for accounting for bad debt. Water charges receivable as shown in the statements of net position are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

Cash and Cash Equivalents - Restricted

Certain proceeds of the Department’s revenue, as well as certain resources set aside for bond repayment and agreement requirements are classified as cash and cash equivalents – restricted on the statements of net position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or city ordinances. Funds set aside to refund customer deposits are classified as cash and cash equivalents – restricted since their use is limited for that purpose.

Non-Taxable Status

The Department is exempt from federal income taxes under various provisions of the Internal Revenue Code.

Customer Deposits

Customer deposits are non-interest bearing and are held until the customer’s service is terminated, at which time the deposit is applied to the final bill.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

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

Capital Assets

The cost of additions and major replacements of retired units of property are stated at cost. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense 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:

Buildings	15 – 31 ½ Years
Equipment & Vehicles	5-7 Years
Office Equipment	3-5 Years
Pumps, motors, meters	7 – 15 Years
Line Improvements	10 Years
Water Tank	25 Years
Water & Sewer System	40 – 50 Years

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position 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 is both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Unrestricted net position – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. However, amounts accumulated as of the years ended December 31, 2022 and 2021 were not considered material and have not been recorded in the accompanying financial statements.

Credit Risk

Financial instruments, which potentially subject the Department to concentrations of credit risk, consist principally of temporary cash investments. The Department places its temporary cash investments with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the Departments large number of customers.

Budgets and Budgetary Accounting

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

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department's deposit policy for custodial risk is compliant with bond requirements. At year end December 31, 2021, the Department had bank deposits in the amount of \$301,331. At year end December 31, 2022, the Department had bank deposits in the amount of \$201,466. All deposited funds are secured under FDIC insurance.

NOTE 3: CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 50,252	\$ -	\$ -	\$ 50,252
Total capital assets not being depreciated	<u>50,252</u>	<u>-</u>	<u>-</u>	<u>50,252</u>
Other capital assets				
Office furniture & fixtures	22,188	-		22,188
Office buildings & pump houses	18,709	-	-	18,709
Equipment & Tools	286,674	-	-	286,674
Lines & storage tanks	<u>2,786,258</u>	<u>-</u>	<u>-</u>	<u>2,786,258</u>
Total other assets at historical cost	<u>3,113,829</u>	<u>-</u>	<u>-</u>	<u>3,113,829</u>
Less accumulated depreciation for:				
Office furniture & fixtures	(19,058)	(1,074)	-	(20,132)
Office buildings & pump houses	(11,315)	(437)	-	(11,752)
Equipment & Tools	(245,969)	(12,266)	-	(258,235)
Lines & storage tanks	<u>(1,530,476)</u>	<u>(44,143)</u>	<u>-</u>	<u>(1,574,619)</u>
Total accumulated depreciation	<u>(1,806,818)</u>	<u>(57,920)</u>	<u>-</u>	<u>(1,864,738)</u>
Total capital assets, being depreciated, net	<u>1,307,011</u>	<u>(57,920)</u>	<u>-</u>	<u>1,249,091</u>
Total capital assets, net	<u><u>\$ 1,357,263</u></u>	<u><u>\$ (57,920)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,299,343</u></u>

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 50,252	\$ -	\$ -	\$ 50,252
Total capital assets not being depreciated	50,252	-	-	50,252
Other capital assets				
Office furniture & fixtures	22,188	-		22,188
Office buildings & pump houses	18,709	-	-	18,709
Equipment & Tools	286,674	-	-	286,674
Lines & storage tanks	2,786,258	-	-	2,786,258
Total other assets at historical cost	3,113,829	-	-	3,113,829
Less accumulated depreciation for:				
Office furniture & fixtures	(18,234)	(824)	-	(19,058)
Office buildings & pump houses	(10,878)	(437)	-	(11,315)
Equipment & Tools	(233,831)	(12,138)	-	(245,969)
Lines & storage tanks	(1,486,376)	(44,100)	-	(1,530,476)
Total accumulated depreciation	(1,749,319)	(57,499)	-	(1,806,818)
Total capital assets, being depreciated, net	1,364,510	(57,499)	-	1,307,011
Total capital assets, net	<u>\$ 1,414,762</u>	<u>\$ (57,499)</u>	<u>\$ -</u>	<u>\$ 1,357,263</u>

NOTE 4: RESTRICTED CASH DEPOSITS

City ordinances and debt agreements mandate certain cash funds be set aside for bond debt retirement and emergency (depreciation) reserves. At December 31, 2022 and 2021, restricted cash was as follows:

	<u>2022</u>	<u>2021</u>
Meter Deposit Fund	\$ 81,832	\$ 75,162
Debt Service	46,530	104,333
Expansion Fund (2003)	1,870	1,846
Depreciation Fund	18,189	28,424
Total	<u>\$ 148,421</u>	<u>\$ 209,765</u>

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 5: EMPLOYEE'S RETIREMENT SYSTEM

All eligible employees participate in the Arkansas Employees Retirement System (APERS), a statewide cost-sharing multiple employer pension plan established by the authority of the Arkansas General Assembly. APERS provides retirement, disability, and survivor benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. Contribution requirements are set forth by Arkansas Statute, and the Department is required to contribute at an actuarially determined rate. For the years ended December 31, 2022 and 2021, the Department's contribution was \$10,905 and \$15,496, respectively.

Because the plan is a multi-employer defined benefit pension plan, accounting principles generally accepted in the United States of America require the cost of employee's pensions to be recognized over the employee's respective service periods and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of assets. APERS has provided the necessary information for the entire City of Lepanto. We were unable to determine the specific amounts allocable to the Lepanto Public Utilities Department.

NOTE 6: LONG-TERM DEBT

	<u>2022</u>	<u>2021</u>
2014 - Water Revenue Bond issue – ANRC, 4.25%, \$30,793; principal and interest payable semiannually beginning August 22, 2003; matures June 1, 2015; matures 2044	\$ 685,521	\$ 811,375
2003 - Water Revenue Bond issue – USDA, 4.25%, \$16,020; principal and interest payable monthly beginning August 22, 2003; matures July 22, 2043	11,253	11,619
2018 Dodge Ram Truck - FCB, 5.50% \$25,803; principal and interest payable monthly beginning June 27, 2018; Matures June 27, 2023	2,766	8,468
	<u>\$ 699,540</u>	<u>\$ 831,462</u>

All bonds are secured by revenues, the water system, or pledged sales and use tax of the Department.

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6: LONG-TERM DEBT (Continued)

Maturities and analysis of long-term debt changes to the Department's long-term debt are as follows:

	<u>2022</u>	<u>2021</u>
Total long-term debt at beginning of year	\$ 831,462	\$ 888,827
Note payable proceeds	-	-
Bond payable retirements	(131,922)	(57,365)
Total long-term debt at the end of the year	699,540	831,462
Less current portion of long-term debt	(30,110)	(31,846)
Long-term debt, net of current portion	<u>\$ 669,430</u>	<u>\$ 799,616</u>

Maturities of long-term debt at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 30,110	\$ 35,125	\$ 65,235
2024	28,520	33,918	62,438
2025	29,745	32,693	62,438
2026	31,023	31,415	62,438
2027	32,356	30,082	62,438
Thereafter	547,786	237,815	785,601
	<u>\$ 699,540</u>	<u>\$ 401,048</u>	<u>\$ 1,100,588</u>

The Department's outstanding loans from direct borrowings are secured by revenues of the water system. The outstanding loan balance of \$685,521 for the 2014 Revenue Bond contains a provision that in the event of a default of the loan, including a failure to comply with any covenant, term, or condition therein, Arkansas Natural Resources Commission, may exercise any remedy available at law or in equity in order to cause the Commission to comply with the provisions of the loan.

The Department's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and execute or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

The Department's outstanding note with First Community Bank states the following constitutes an event of default under this note: (a) payment default, (b) other defaults, (c) false statements, (d) insolvency, and (e) creditor or forfeiture proceedings. Upon default, including failure to pay upon final maturity, the total sum due under this note will continue to accrue interest at the interest rate under this note.

Lepanto Public Utilities Department
(A Component Unit of the City of Lepanto, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 7: BOND REQUIREMENTS

The Department must maintain certain requirements after receiving bonds from Arkansas Natural Resources Commission (ANRC) and the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The USDA issued the 4.25% 2003 Water Revenue Bond Fund in the amount of \$16,020 on August 22, 2003. The Department is required to deposit a sum equal to the installment of the principal and interest due on the next monthly installment payment plus the sum of \$8 into the Revenue Bond Fund.

The Arkansas Natural Resources Commission issued the 4.25% 2014 Water Bond in the amount of \$1,030,000 on December 16, 2014. The Department is required to maintain a sinking fund with Regions Bank for servicing debt.

NOTE 8: 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. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 9: DUE TO GENERAL FUND

Billing of garbage, animal control, and mosquito control fees is accomplished through the Department's monthly billing process and remitted to the City of Lepanto General Fund when received. The Department also reimburses the general fund for insurance and rent expense. The Department owed the City of Lepanto General Fund \$409 and \$489 as of December 31, 2022 and 2021, respectively.

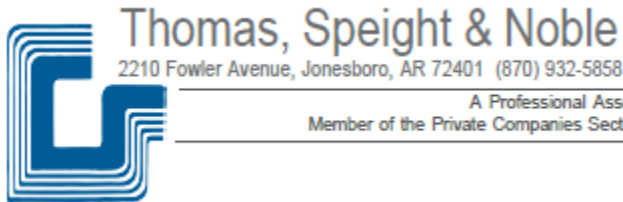
NOTE 10: MONTHLY WATER RATES

Current rates were established by ordinance number 468 dated February 1, 2017 and are as follows:

		<u>Water</u>	<u>City</u>	<u>Rural</u>
First	2,000 gallons (minimum)		8.75	16.50
Next	3,000 gallons @ amt. per 1,000 gallons		1.75	2.75
Next	5,000 gallons @ amt. per 1,000 gallons		1.25	1.75
Over	10,000 gallons @ amt. per 1,000 gallons		1.10	1.25
		<u>Sewer</u>		
First	2,000 gallons (minimum)		8.50	N/A
Next	3,000 gallons @ amt. per 1,000 gallons		2.00	N/A
Next	5,000 gallons @ amt. per 1,000 gallons		1.25	N/A
Next	10,000 gallons @ amt. per 1,000 gallons		1.10	N/A

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 5, 2024, the date on which the financial statements were available to be issued.



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INDEPENDENT AUDITORS' 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 City Council
City of Lepanto, 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 Lepanto Public Utilities Department (a component unit of the City of Lepanto, Arkansas), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Lepanto Public Utilities Department's basic financial statements, and have issued our report thereon dated January 5, 2024.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described below, that we consider to be a material weakness.

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. Lepanto Public Utilities Department's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend that the financial accounting duties be segregated among employees to the extent possible.

Management responded and indicated that accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lepanto Public Utilities 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 that are required to be reported under *Government Auditing Standards*.

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Lepanto Public Utilities Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Lepanto Public Utilities Department's response to the findings identified in our audit as described above. Lepanto Public Utilities Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
January 5, 2024