

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
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## INDEPENDENT AUDITOR'S REPORT

**To the Mayor and City Council  
City of Mountainburg Water & Sewer Department  
Mountainburg, Arkansas**

### **Opinion**

We have audited the accompanying financial statements of the business-type activities of the **City of Mountainburg Water & Sewer Department** (the Department) as of and for the years ended **December 31, 2023** and **2022**, and the related notes to the financial statements, as listed in the table of contents.

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

### **Basis for Opinion**

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

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Mountainburg, Arkansas as of and for the years ended **December 31, 2023** and **2022**, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of 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.

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\*Governmental Audit Quality Center

\*Arkansas Society of Certified Public Accountants

\*Oklahoma Society of Certified Public Accountants

### **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.

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 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 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 Matters**

#### ***Required Supplementary Information***

Management has omitted the management discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The Additional Comments Required by Financing Agencies are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information listed above in this paragraph are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### *Other Information*

Management is responsible for the other information included in the report. The other information comprises the Statement of Net Position by Activity (Unaudited) and the Statement of Revenues, Expenses, and Changes in Net Position by Activity (Unaudited) but does not include the financial statements, supplementary information, and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our 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 the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated **March 8, 2024**, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Hubbs & Whitehead, CPAs  
Van Buren, Arkansas

March 8, 2024

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

**To the Mayor and City Council  
City of Mountainburg Water & Sewer Department  
Mountainburg, 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 the business-type activities of the **City of Mountainburg Water & Sewer Department** (the Department) as of and for the year ended **December 31, 2023**, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated **March 8, 2024**.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2023-001 and 2023-002 that we consider to be material weaknesses.

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**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

**City of Mountainburg Water & Sewer Department's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no such opinion on the response.

**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.

A handwritten signature in black ink that reads "Hubbs & Whitehead, CPAs". The script is cursive and fluid.

Hubbs & Whitehead, CPAs  
Van Buren, Arkansas

March 8, 2024



**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2023 AND 2022**

<b>ASSETS</b>			
		<b>2023</b>	<b>2022</b>
<b>CURRENT ASSETS</b>			
Cash		\$ 72,615	\$ 41,610
Restricted checking and savings accounts		277,892	259,728
Trade accounts receivable, less allowance for doubtful accounts of \$3,432 and \$10,696, respectively		<u>32,143</u>	<u>35,091</u>
Total Current Assets		<u>382,650</u>	<u>336,429</u>
<b>CAPITAL ASSETS</b>			
Land		20,000	20,000
Utility plant and lines		7,870,117	7,838,246
Equipment		82,537	82,537
Transportation equipment		<u>73,375</u>	<u>48,423</u>
		8,046,029	7,989,206
Less accumulated depreciation		<u>(4,109,683)</u>	<u>(3,911,596)</u>
Net Capital Assets		<u>3,936,346</u>	<u>4,077,610</u>
Total Assets		<u><u>\$ 4,318,996</u></u>	<u><u>\$ 4,414,039</u></u>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 7,740	\$ 6,138
Accrued interest		17,031	17,584
Sales tax payable		1,615	1,859
Current portion of long-term debt		<u>50,501</u>	<u>53,603</u>
Total Current Liabilities		<u>76,887</u>	<u>79,184</u>
<b>NONCURRENT LIABILITIES</b>			
Customer deposits		51,298	49,871
Long-Term Debt		<u>1,640,779</u>	<u>1,698,404</u>
Total Noncurrent Liabilities		<u>1,692,077</u>	<u>1,748,275</u>
Total Liabilities		<u>1,768,964</u>	<u>1,827,459</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt		2,245,066	2,325,603
Restricted for debt service		167,996	137,548
Restricted by law or council designated		109,896	122,180
Unrestricted		<u>27,074</u>	<u>1,249</u>
Total Net Position		<u>2,550,032</u>	<u>2,586,580</u>
Total Liabilities and Net Position		<u><u>\$ 4,318,996</u></u>	<u><u>\$ 4,414,039</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.



**CITY OF MOUNTAINBURG, ARKANSAS**  
**WATER & SEWER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>OPERATING REVENUE</b>		
Water and sewer revenue, net of provision for bad debts	\$ 361,865	\$ 352,339
Sales tax	<u>71,054</u>	<u>70,162</u>
Total Operating Revenue	<u>432,919</u>	<u>422,501</u>
<b>OPERATING EXPENSES</b>		
Depreciation	233,135	230,652
Insurance	12,574	5,132
Contract Labor	240	2,180
Operating supplies	7,664	8,106
Other fees and charges	13,576	29,917
Payroll taxes	3,586	3,701
Repairs and maintenance	29,042	19,027
Salaries and wages	48,871	51,856
Truck expenses	8,296	13,055
Uniforms	447	450
Utilities and telephone	45,746	41,903
Water purchases	<u>79,912</u>	<u>89,144</u>
Total Operating Expenses	<u>483,089</u>	<u>495,123</u>
<b>OPERATING (LOSS)</b>	<u>(50,170)</u>	<u>(72,622)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	4,531	811
Water user contributions	1,300	2,000
Grant income	59,701	-
Gain on sale of capital assets	300	-
Fiscal agent fees	(296)	(298)
Interest expense	<u>(51,914)</u>	<u>(70,592)</u>
Total Nonoperating Revenues (Expenses)	<u>13,622</u>	<u>(68,079)</u>
<b>CHANGE IN NET POSITION</b>	(36,548)	(140,701)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,586,580</u>	<u>2,727,281</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 2,550,032</u></u>	<u><u>\$ 2,586,580</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 364,813	\$ 348,902
Cash receipts from sales tax turn backs	71,054	70,162
Cash payments to suppliers for goods and services	(196,139)	(207,776)
Cash payments to employees for services	<u>(52,457)</u>	<u>(55,557)</u>
Net Cash Flows From Operating Activities	<u>187,271</u>	<u>155,731</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net restricted checking and savings account activity	(18,164)	(10,207)
Interest income	<u>4,531</u>	<u>811</u>
Net Cash Flows From Investing Activities	<u>(13,633)</u>	<u>(9,396)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to capital assets	(91,871)	(25,919)
Proceeds from sale of capital assets	300	-
Grant income	59,701	-
Change in meter deposit liability	1,427	2,375
Water user contributions	1,300	2,000
Interest paid on long-term debt	(52,467)	(71,104)
Fiscal agent fees	(296)	(298)
Principal paid on long-term debt	<u>(60,727)</u>	<u>(51,970)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(142,633)</u>	<u>(144,916)</u>
<b>CHANGE IN CASH</b>	<b>31,005</b>	<b>1,419</b>
<b>CASH, BEGINNING OF YEAR</b>	<u>41,610</u>	<u>40,191</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 72,615</u></u>	<u><u>\$ 41,610</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS</b>		
<b>FROM OPERATING ACTIVITIES</b>		
Operating (Loss)	\$ (50,170)	\$ (72,622)
Adjustments to reconcile operating (loss) to net cash flows from operating activities:		
Depreciation	233,135	230,652
Changes in:		
Accounts receivable	2,948	(3,437)
Accounts payable	1,602	1,118
Sales tax payable	(244)	20
	<u>237,441</u>	<u>228,353</u>
Total Adjustments		
	<u>237,441</u>	<u>228,353</u>
Net Cash Flows From Operating Activities	<u>\$ 187,271</u>	<u>\$ 155,731</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

**Note 1: Summary of Significant Accounting Policies**

***Nature of Operations***

The City of Mountainburg, Arkansas Water & Sewer Department (the Department) provides water and sewer to residential, farming and commercial operations in the City of Mountainburg, Arkansas (the City) and outlying areas. The Fund is a component unit of the City and as a municipality.

***Fund Type***

The Department accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

***Reporting Entity***

The Department's financial statements reflect only the accounts directly under control of the Department. Using the criteria of ability to exercise oversight responsibility, there are no other component units that are or should be included in the Department's reporting entity.

The financial statements present only the Water and Sewer Department of Mountainburg, Arkansas, and, accordingly, do not reflect other activities, funds and account groups of the City.

***Basis of Accounting***

The financial statements of the Department have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources management focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

***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. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.



**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

***Fair Value of Financial Instruments***

The Department's financial instruments include cash, accounts receivable, and accounts payable. The Department's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Department considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Department had no cash equivalents as of December 31, 2023 and 2022.

***Accounts Receivable***

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$3,432 and \$10,696, respectively, as of December 31, 2023 and 2022.

***Operating Revenues and Expenses***

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of water and sewer sales and fees for related services. Non-operating revenue and expenses consist of those revenues and expenses that are related to financing type activities.

***Income Taxes***

The Department is exempt from income taxes as a governmental agency.

***Capital Assets and Depreciation***

Capital assets of the Department are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u><b>Years</b></u>
Utility plant and lines	15-40
Equipment	10
Transportation equipment	5

It is the Department's policy to capitalize all asset purchases greater than or equal to \$1,500. Expenditures of less than \$1,500 are expensed at the time of purchase.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

The cost basis of fully depreciated assets still in use by the Department as of December 31, 2023 and 2022 were approximately \$749,000 and \$777,000, respectively.

***Net Position Classifications***

Net position is classified and displayed in the following three components:

*Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

*Unrestricted net position* – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for the purposes for which both restricted and unrestricted net position is available, the Department’s policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

***Subsequent Events***

Subsequent events are evaluated through March 8, 2024, the date the financial statements were available to be issued.

**Note 2: Deposits and Restricted Cash**

The Department maintains its operating bank accounts in a local financial institution. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial credit risk is the risk that in the event of bank failure, the Department’s deposits may not be returned to the Department. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with Federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas. At December 31, 2023, all of the Department's deposits were insured or collateralized.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Restricted cash and cash equivalents and restricted certificates of deposit are restricted by the various ordinances of the Department, and laws. Expenditures from these accounts are restricted to improvements and betterments to the utility plant, debt service and related fees, and refunds of customer deposits. At December 31, 2023 and 2022, restricted cash and cash equivalents and restricted certificates of deposit consisted of the following:

<b>Water and sewer cash accounts</b>	<b>2023</b>	<b>2022</b>
Restricted for debt service	\$ 167,996	\$ 137,548
Restricted by law or ordinance	109,896	122,180
Total restricted cash	<u>\$ 277,892</u>	<u>\$ 259,728</u>

**Note 3: Capital Assets**

Capital asset activity for the years ended December 31, 2023 and 2022 are as follows:

	<b>January 1, 2023</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2023</b>
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Utility plant and lines	7,838,246	31,871	-	7,870,117
Equipment	82,537	-	-	82,537
Transportation equipment	48,423	60,000	35,048	73,375
Total	<u>\$ 7,989,206</u>	<u>\$ 91,871</u>	<u>\$ 35,048</u>	<u>\$ 8,046,029</u>

	<b>January 1, 2022</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2022</b>
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Utility plant and lines	7,812,327	25,919	-	7,838,246
Equipment	82,537	-	-	82,537
Transportation equipment	48,423	-	-	48,423
Total	<u>\$ 7,963,287</u>	<u>\$ 25,919</u>	<u>\$ -</u>	<u>\$ 7,989,206</u>

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

**Note 4: Long-Term Debt**

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
USDA Rural Development (91-12) - original balance of \$428,000 payable in monthly installments of \$1,430, inclusive of 2.375% interest. Matures August 2050. Secured by property of water system and fund revenues.	\$ 337,139	\$ 346,176
USDA Rural Development (92-14) - original balance of \$185,000 payable in monthly installments of \$559, inclusive of 1.875% interest. Matures May 2054. Secured by property of water system and fund revenues.	155,181	158,941
ANRC Loan # Bond-95B-15 - original balance of \$70,782 payable in semi-annual installments of \$2,517, inclusive of 4.15% interest. Matures June 1, 2025. Secured by property of water system and fund revenues.	-	11,718
Citizens Bank and Trust Company Series 2020 Refunding Revenue Bond - original balance of \$1,299,530 payable in semi-annual installments of varying principal and interest payments, inclusive of 3.30% interest. Matures August 1, 2046. Secured by property of water system and fund revenues	<u>1,198,960</u>	<u>1,235,172</u>
	<u>1,691,280</u>	<u>1,752,007</u>
Less: current maturity	<u>(50,501)</u>	<u>(53,603)</u>
Total long-term debt	<u>\$ 1,640,779</u>	<u>\$ 1,698,404</u>

Debt is scheduled to be repaid as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 50,501	\$ 50,043	\$ 100,544
2025	52,041	48,504	100,545
2026	53,628	46,916	100,544
2027	55,267	45,278	100,545
2028	56,955	43,590	100,545
2029-2033	312,013	190,709	502,722
2034-2038	362,916	139,805	502,721
2039-2043	422,345	80,377	502,722
2044-2048	266,367	20,172	286,539
2049-2053	56,876	2,232	59,108
2054	2,371	10	2,381
Total	<u>\$ 1,691,280</u>	<u>\$ 667,636</u>	<u>\$ 2,358,916</u>



**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

Activity of long-term debt consists of the following:

	<b>January 1, 2023</b>	<b>Debt Additions</b>	<b>Debt Retirements</b>	<b>December 31, 2023</b>
USDA Rural Development (91-12)	\$ 346,176	-	\$ 9,037	\$ 337,139
USDA Rural Development (92-14)	158,941	-	3,760	155,181
ANRC Loan # Bond-95B-15	11,718	-	11,718	-
Series 2020 Refunding Revenue Bond	1,235,172	-	36,212	1,198,960
Total	<u>\$ 1,752,007</u>	<u>\$ -</u>	<u>\$ 60,727</u>	<u>\$ 1,691,280</u>

	<b>January 1, 2022</b>	<b>Debt Additions</b>	<b>Debt Retirements</b>	<b>December 31, 2022</b>
USDA Rural Development (91-12)	\$ 355,000	-	\$ 8,824	\$ 346,176
USDA Rural Development (92-14)	162,631	-	3,690	158,941
ANRC Loan # Bond-95B-15	16,128	-	4,410	11,718
Series 2020 Refunding Revenue Bond	1,270,218	-	35,046	1,235,172
Total	<u>\$ 1,803,977</u>	<u>\$ -</u>	<u>\$ 51,970</u>	<u>\$ 1,752,007</u>

Interest paid on long-term debt for the years ended December 31, 2023 and 2022 totaled \$52,467 and \$71,104, respectively.

Rural Development and Citizens Bank and Trust Company require certain reserve accounts be established for all the loans listed above. The Department has set up individual bank accounts with a local bank which hold deposits to satisfy these debt covenants. The table below indicates the amount of debt covenant that should be on deposit as specified by Rural Development and Citizens Bank and Trust Company and the amounts the Department has on deposit to satisfy the debt covenants:

<b>Loan</b>	<b>Debt Covenant</b>	<b>Reserve</b>	<b>(Deficit)/Surplus</b>
RD 91-12	\$ 17,160	\$ 32,526	\$ 15,366
RD 92-14	6,708	17,960	11,252
Series 2020 Refunding Revenue Bond	76,973	77,663	690
	<u>\$ 100,841</u>	<u>\$ 128,149</u>	<u>\$ 27,308</u>

**Note 5: Concentrations of Risk**

***Revenues and Receivables***

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The Department sells only to its customers within a defined geographic region.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

**Note 6: Subsequent Events**

Subsequent to year end, Rural Development approved a water user expansion project in the North Crawford County region of the Department. The total grant funds and loans approved for this project are estimated to be \$2.5 Million for the expansion of water lines to users in this region.

## **SUPPLEMENTARY INFORMATION**

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
ADDITIONAL COMMENTS REQUIRED BY FINANCING AGENCIES  
YEAR ENDED DECEMBER 31, 2023**

**WATER RATE SCHEDULE**

The number of users was 418. The rate structure is as follows:

**Residential and Small Business**

**Inside City limits:**

- 0-1,000 gallons: \$31.00 minimum
- 1,000-2,000 gallons: \$5.06 per 1,000 gallons
- >2,000 gallons: \$5.06 per 1,000 gallons

**Outside City limits (except Rackley Mountain Extension):**

- 0-1,000 gallons: \$41.00 minimum
- >1,000 gallons: \$5.06 per 1,000 gallons

**Rackley Mountain Extension**

- 0-1,000 gallons: \$49.00 minimum
- >1,000 gallons: \$6.19 per 1,000 gallons

**East Lake**

- 0-1,000 gallons: \$33.00 minimum
- 1,000-2,000 gallons: \$5.63 per 1,000 gallons
- >2,000 gallons: \$5.63 per 1,000 gallons

**Commercial**

**Rackley Mountain Extension**

- 0-1,000 gallons: \$165.50 minimum
- >1,000 gallons: \$4.64 per 1,000 gallons

**Large water users (50,001 to 100,000 gallons per month)**

**Inside City limits:**

- 0-100,000 gallons: \$165.50 minimum
- >100,000 gallons: \$4.64 per 1,000 gallons

**Outside City limits (except Rackley Mountain Extension):**

- 0-100,000 gallons: \$183.75 minimum
- >100,000 gallons: \$3.50 per 1,000 gallons

**Large water users (100,001 to 200,000 gallons per month)**

**Inside City limits:**

- 0-200,000 gallons: \$183.75 minimum
- >200,000 gallons: \$3.50 per 1,000 gallons

**Outside City limits (except Rackley Mountain Extension):**

- 0-200,000 gallons: \$210.00 minimum
- >200,000 gallons: \$3.78 per 1,000 gallons

See Independent Auditor's Report.



**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
ADDITIONAL COMMENTS REQUIRED BY FINANCING AGENCIES  
YEAR ENDED DECEMBER 31, 2023**

**Large water users (over 200,000 gallons per month)**

Inside City limits:

0-200,000 gallons: \$210.00 minimum  
>200,000 gallons: \$3.50 per 1,000 gallons

Outside City limits (except Rackley Mountain Extension):

0-200,000 gallons: \$262.50 minimum  
>200,000 gallons: \$3.78 per 1,000 gallons

**SEWER RATE SCHEDULE**

**Residential and Small Business**

Inside City limits:

0-1,000 gallons: \$21.50 minimum  
1,000-2,000 gallons: \$3.50 per 1,000 gallons  
>2,000 gallons: \$3.50 per 1,000 gallons

Outside City limits (except Rackley Mountain Extension):

0-1,000 gallons: \$21.50 minimum  
1,001-50,000 gallons: \$3.50 per 1,000 gallons

**Commercial**

Inside City limits:

0-1,000 gallons: \$165.50 minimum  
1,001-50,000 gallons: \$3.50 per 1,000 gallons

Outside City limits:

Commercial rates are 20% higher than inside City limits.

Rackley Mountain Extension

0-1,000 gallons: \$165.50 minimum  
1,000-2,000 gallons: \$3.50 per 1,000 gallons  
>2,000 gallons: \$3.50 per 1,000 gallons

**CITY GOVERNMENT**

Mayor: Susan Wilson

Rec./Treas.: Tina Moore

Office Staff: Melany McKenzie

City Council: Rick Kimes, Susan (Sue) Sharp, Michelle Henson, Lori Rogers, Elijah Wilson, Mary Heginger

**ACCOUNTING RECORDS AND CONTROL OVER PHYSICAL ASSETS**

The Department's accounting records, with the exception of normal adjusting entries, are in agreement with these financial statements. The accounting records of the Department are adequate. The Department's control over physical assets is adequate.

**MATERIAL OR UNUSUAL ADJUSTMENTS**

The accounting records of the Department incurred no unusual adjustment. Material adjustments, however not unusual in nature, included adjusting for depreciation and interest expense of long-term debt.

See Independent Auditor's Report.

## **OTHER INFORMATION**

**CITY OF MOUNTAINBURG, ARKANSAS**  
**WATER & SEWER DEPARTMENT**  
**STATEMENT OF NET POSITION BY ACTIVITY (UNAUDITED)**  
**DECEMBER 31, 2023**

	<b>ASSETS</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash	\$ 55,187	17,428	\$ 72,615
Restricted checking and savings accounts	240,207	37,685	277,892
Trade accounts receivable, less allowance for doubtful accounts of \$10,696 and \$8,917, respectively	25,029	7,114	32,143
<b>Total Current Assets</b>	<b>320,423</b>	<b>62,227</b>	<b>382,650</b>
<b>CAPITAL ASSETS</b>			
Land	15,200	4,800	20,000
Utility plant and lines	5,981,289	1,888,828	7,870,117
Equipment	62,728	19,809	82,537
Transportation equipment	55,765	17,610	73,375
	6,114,982	1,931,047	8,046,029
Less accumulated depreciation	(3,123,359)	(986,324)	(4,109,683)
<b>Net Capital Assets</b>	<b>2,991,623</b>	<b>944,723</b>	<b>3,936,346</b>
<b>Total Assets</b>	<b>\$ 3,312,046</b>	<b>\$ 1,006,950</b>	<b>\$ 4,318,996</b>
	<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 7,740	\$ -	\$ 7,740
Accrued interest	16,485	546	17,031
Sales tax payable	1,227	388	1,615
Current portion of long-term debt	37,417	13,084	50,501
<b>Total Current Liabilities</b>	<b>62,869</b>	<b>14,018</b>	<b>76,887</b>
<b>NONCURRENT LIABILITIES</b>			
Customer deposits	38,986	12,312	51,298
Long-Term Debt	1,161,543	479,236	1,640,779
<b>Total Noncurrent Liabilities</b>	<b>1,200,529</b>	<b>491,548</b>	<b>1,692,077</b>
<b>Total Liabilities</b>	<b>1,263,398</b>	<b>505,566</b>	<b>1,768,964</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	1,792,663	452,403	2,245,066
Restricted for debt service	150,036	17,960	167,996
Restricted by law or council designated	90,171	19,725	109,896
Unrestricted	15,778	11,296	27,074
<b>Total Net Position</b>	<b>2,048,648</b>	<b>501,384</b>	<b>2,550,032</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 3,312,046</b>	<b>\$ 1,006,950</b>	<b>\$ 4,318,996</b>

See Independent Auditor's Report.

**CITY OF MOUNTAINBURG, ARKANSAS**  
**WATER & SEWER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY ACTIVITY (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2023**

	Water	Sewer	Total
<b>OPERATING REVENUE</b>			
Water and sewer revenue, net of provision for bad debts	\$ 276,002	\$ 85,863	\$ 361,865
Sales tax	54,001	17,053	71,054
	<u>330,003</u>	<u>102,916</u>	<u>432,919</u>
<b>OPERATING EXPENSES</b>			
Depreciation	177,183	55,952	233,135
Insurance	12,574	-	12,574
Contract Labor	240	-	240
Operating supplies	6,891	773	7,664
Other fees and charges	9,376	4,200	13,576
Payroll taxes	3,586	-	3,586
Repairs and maintenance	19,895	9,147	29,042
Salaries and wages	48,871	-	48,871
Truck expenses	8,296	-	8,296
Uniforms	447	-	447
Utilities and telephone	24,528	21,218	45,746
Water purchases	79,912	-	79,912
	<u>391,799</u>	<u>91,290</u>	<u>483,089</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(61,796)</u>	<u>11,626</u>	<u>(50,170)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	4,497	34	4,531
Water user contributions	1,300	-	1,300
Grant income	27,442	32,259	59,701
Gain on sale of capital assets	300	-	300
Fiscal agent fees	(296)	-	(296)
Interest expense	(40,843)	(11,071)	(51,914)
	<u>(7,600)</u>	<u>21,222</u>	<u>13,622</u>
<b>CHANGE IN NET POSITION</b>	<u>(69,396)</u>	<u>32,848</u>	<u>(36,548)</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,118,044</u>	<u>468,536</u>	<u>2,586,580</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,048,648</u>	<u>\$ 501,384</u>	<u>\$ 2,550,032</u>

See Independent Auditor's Report.



**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2023**

**SECTION I - SUMMARY OF AUDITOR'S FINDINGS**

1. The auditor's report expresses an unmodified opinion on the financial statements of **City of Mountainburg Water & Sewer Department**
2. Two material weaknesses in internal control disclosed during the audit of the financial statements are reported in Section II of the Schedule of Findings and Questioned Costs, as required to be reported in accordance with *Government Auditing Standards*.

**SECTION II – FINDINGS RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS***

**2023-001 - Segregation of Duties**

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Department's assets and ensure accurate financial reporting.

Condition: The Department has a limited number of employees which effectively preclude an adequate segregation of duties relating to the recording, processing, reconciling and reporting of cash and other transactions in the accounting records, as well as the safeguarding of assets.

Cause: The Department's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend management should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official's Response: Management concurs with the recommendation.

**CITY OF MOUNTAINBURG, ARKANSAS  
WATER & SEWER DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2023**

**2023-002 - Internal Control over Financial Reporting - Financial Statements**

Criteria: The Department's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Department's annual financial statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing and summarizing accounting data and (2) reporting governmental financial statements, including the related footnotes. Professional audit standards clearly state that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As is the case with many smaller and medium-sized entities, the Department has historically relied extensively on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the Department's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Department's internal controls.

Cause: The Department lacks the necessary knowledge, expertise and education relative to preparing GAAP financial statements. As a result, management has elected to use outside assistance from the external auditors to assist in meeting its responsibilities relative to preparing its annual financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the Department lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of performing part of management's functions.

Recommendation: We recommend that the Department consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with GAAP without reliance on the external financial auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: Management concurs with the recommendation.

**SECTION III – DEFICIENCY – PRIOR YEAR**

2022-001 and 2022-002 – Prior year findings same as current year findings.

**SECTION IV – COMPLIANCE**

No findings