

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

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018**

(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	3-4
Financial Statements	
Statement of Net Position- Modified Cash Basis	5
Statement of Revenues, Expenses and Changes in Net Position- Modified Cash Basis	6
Statement of Cash Flows - Modified Cash Basis	7-8
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 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, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion on the Department

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, 2019 and 2018, and the respective changes in modified cash basis financial position and modified cash basis cash flows for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1(B) to the financial statements.

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.

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

My audit was conducted for the purpose of forming an opinion on the modified cash basis financial statements. The accompanying other information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the modified cash basis financial statements and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 23, 2023 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
January 23, 2023**

FINANCIAL STATEMENTS

**City of Leachville
Water and Sewer Department
Statement of Net Position
Modified Cash Basis
December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 243,759	\$ 88,403
Restricted Assets:		
Restricted cash	<u>77,302</u>	<u>68,265</u>
Total current assets	<u>321,061</u>	<u>156,668</u>
NON-CURRENT ASSETS		
Restricted cash with fiscal agents	13,064	11,602
Capital assets		
Capital assets, net	<u>1,608,007</u>	<u>1,604,145</u>
Total non-current assets	<u>1,621,071</u>	<u>1,615,747</u>
TOTAL ASSETS	<u><u>\$ 1,942,132</u></u>	<u><u>\$ 1,772,415</u></u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Customer deposits	29,385	31,575
Payroll Liabilities	1,092	-
Current portion of long-term debt	<u>51,107</u>	<u>61,690</u>
Total current liabilities	<u>81,584</u>	<u>93,265</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current maturities	755,216	806,322
TOTAL LIABILITIES	<u>836,800</u>	<u>899,587</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows		
NET POSITION		
Net investment in capital assets	813,294	747,734
Restricted for:		
Expendable		
Renewals and replacements	44,592	36,689
Unrestricted	<u>247,446</u>	<u>88,405</u>
Total net position	<u>1,105,332</u>	<u>872,828</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,942,132</u></u>	<u><u>\$ 1,772,415</u></u>

City of Leachville
Water and Sewer Department
Statement of Revenues, Expenditures and Changes in Net Position
Modified Cash Basis
December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water service	\$ 200,052	\$ 204,758
Sewer service	194,200	116,534
Sanitation fees collected for the City of Leachville	125,024	127,759
Fire fees collected for the City of Leachville	7,142	7,375
Fees and taxes	19,976	25,502
Sales tax	44,243	45,116
Wastewater Construction Rev	150,100	-
Total operating revenue	740,737	527,044
OPERATING EXPENDITURES		
Salaries and wages	83,375	70,560
Payroll tax	6,437	5,542
Employee benefits	13,412	10,879
Professional fees	7,340	7,312
Remittance of sanitation fees to the City of Leachville	131,727	104,441
Sanitation	-	2,933
Supplies	28,925	18,287
Federal water tax	1,951	4,230
Fuel	5,750	4,052
Sales tax	27,002	27,223
Insurance	6,486	4,778
Uniform fees	500	674
Utilities	40,098	32,001
Chemicals and lab	15,982	18,441
Repairs and maintenance	20,886	24,245
Remittance of fire fees to the City of Leachville	7,198	7,143
Miscellaneous	16,165	4,414
Depreciation	62,593	66,284
Total operating expenditures	475,827	413,439
OPERATING INCOME (LOSS)	264,910	113,605
NON-OPERATING REVENUES (Expenditures)		
Interest income	315	442
Interest and fees expense	(32,721)	(35,275)
Nonoperating revenues (expenses)	(32,406)	(34,833)
Income before other revenues, expenditures, gains or losses	232,504	78,772
Adjustments to capital assets		
Transfer to City of Leachville Sanitation Fund	-	11,232
CHANGE IN NET POSITION	232,504	90,004
NET POSITION AT BEGINNING OF YEAR	872,828	782,824
RESTATEMENT OF NET POSITION-NOTE 1(K)		
NET POSITION AT END OF YEAR	\$ 1,105,332	\$ 872,828

**City of Leachville
Water and Sewer Department
Statement of Cash Flows
Modified Cash Basis
December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers	\$ 740,737	\$ 527,044
Cash payments to suppliers for goods and services	(329,859)	(276,595)
Cash payments to employees	(83,375)	(70,560)
Net cash provided/(used) by operating activities	<u>327,503</u>	<u>179,889</u>
Cash flows from non-capital financing activities:		
Customer meter deposit (net)	(2,190)	(3,116)
Net cash provided/(used) by non-capital financing activities	<u>(2,190)</u>	<u>(3,116)</u>
Cash flows from capital and related financing activities:		
Payments for bond principal	(48,994)	(46,972)
Payments for bond interest and fees.	(32,733)	(34,611)
Payments to debt holders for principal (other than bonds)	(12,944)	(16,343)
Payments to debt holders for interest and fees (other than bonds)	(109)	(519)
Proceeds from issuance of capital debt	-	-
Purchase of capital assets	(66,455)	-
Net cash provided/(used) in financing activities	<u>(161,235)</u>	<u>(98,445)</u>
Cash flows from investing activities:		
Interest Income	315	242
Net cash provided/(used) by investing activities	<u>315</u>	<u>242</u>
NET INCREASE IN CASH AND RESTRICTED CASH	164,393	78,570
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	156,668	78,098
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 321,061</u></u>	<u><u>\$ 156,668</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income/(Loss)	\$ 264,910	\$ 113,605
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	62,593	66,284
Total Adjustments	62,593	66,284
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 327,503</u></u>	<u><u>\$ 179,889</u></u>
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION		
Unrestricted Cash	\$ 243,759	\$ 88,403
Restricted Cash	77,302	68,265
	<u><u>\$ 321,061</u></u>	<u><u>\$ 156,668</u></u>

City of Leachville
Water and Sewer Department
Statement of Cash Flows
Modified Cash Basis
December 31, 2019 and 2018

NONCASH TRANSACTIONS

	<u>2019</u>	<u>2018</u>
Value of notes payable debt paid-off with new debt		\$ -
Value of proceeds from debt used to pay for equipment		0
Value of proceeds from debt used to pay for fees		0
Value of equipment traded-in		0
Interest earned on trustee account		\$ 200
Interest paid on bond debt by trustee		(145)
Debt transferred to City of Leachville General Fund		156,232
Asset Transferred to City of Leachville General Fund less accumulated depreciation		(145,000)

NOTES TO THE FINANCIAL
STATEMENTS

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

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, 2019 and 2018**

**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 additions and major replacements of retired units of property are 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, 2019 and 2018**

**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 could differ from those estimates.

The useful lives of assets comprising utility plant in service are significant estimates used to determine the amount of depreciation expenses and the net book value of utility plant in services reported in the Department's financial statements.

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, 2019 and 2018**

**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. During the year ending December 31, 2017, the Department quit requiring a customer deposit and instead required a non-refundable connection fee; however, the Department will remain to have 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, 2019 and 2018, 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.

Tower Reserve Fund

Represents funds maintained for the purpose of replacements and repairs to the water tower. This fund does not have a required balance or funding requirement.

Cash with Fiscal Agent

Represents funds that are held by Arkansas Development Finance Authority in order to make debt service payments as required by the bond covenant.

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

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, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Unrestricted Cash	\$ 247,446	\$ 88,404
Current restricted cash and cash equivalents		
Customer Meter Deposit Fund	\$ 29,385	\$ 31,575
Asset management reserve funds	<u>44,592</u>	<u>36,689</u>
	73,977	68,264
Non-current restricted cash and cash equivalents		
Debt service reserve funds	11,610	11,602
Total Restricted Cash	<u>85,587</u>	<u>79,866</u>
Total Cash Balance	<u><u>\$ 333,033</u></u>	<u><u>\$ 168,270</u></u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

NOTE 3: CAPITAL ASSETS

A summary of changes in capital asset balances that occurred during the year ended December 31, 2019 and 2018 follows:

	<u>Balance 1/1/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2019</u>
Non-depreciable:				
Land	\$ 111,500	\$ -	\$ -	\$ 111,500
Depreciable:				
System Plant, Wells & Lines	2,082,952	66,455	-	2,149,407
Equipment	235,695	-	-	235,695
	<u>2,318,647</u>	66,455	-	<u>2,385,102</u>
Less accumulated depreciation	(826,002)	(62,593)	-	(888,595)
	<u>1,492,645</u>	3,862	-	<u>1,496,507</u>
Capital assets, net	<u><u>\$ 1,604,145</u></u>	<u><u>\$ 3,862</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,608,007</u></u>

	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
Non-depreciable:				
Land	\$ 111,500	\$ -	\$ -	\$ 111,500
Depreciable:				
System Plant, Wells & Lines	2,082,952	-	-	2,082,952
Equipment	409,695	-	(174,000)	235,695
	<u>2,492,647</u>	-	(174,000)	<u>2,318,647</u>
Less accumulated depreciation	(788,718)	(66,284)	29,000	(826,002)
	<u>1,703,929</u>	(66,284)	(145,000)	<u>1,492,645</u>
Capital assets, net	<u><u>\$ 1,815,429</u></u>	<u><u>\$ (66,284)</u></u>	<u><u>\$ (145,000)</u></u>	<u><u>\$ 1,604,145</u></u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

NOTE 4: COMMITMENTS

Long-Term Debt as of December 31, 2019:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2019	Maturities To December 31, 2019
6/1/2001	6/1/2026	5-5.85%	\$ 502,579	\$ 195,952	\$ 306,627
3/14/2006	10/15/2037	2.50%	850,000	610,371	239,629
			<u>\$ 1,352,579</u>	<u>\$ 806,323</u>	<u>\$ 546,256</u>

Long-Term Debt as of December 31, 2018:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2018	Maturities To December 31, 2018
6/1/2001	6/1/2026	5-5.85%	\$ 502,579	\$ 220,951	\$ 281,628
3/14/2006	10/15/2037	2.50%	850,000	634,365	215,635
9/1/2014	8/1/2019	2.59%	79,000	12,696	66,304
			<u>\$ 1,431,579</u>	<u>\$ 868,012</u>	<u>\$ 563,567</u>

Long-term liability activity for the years ended December 31, 2019 and 2018, was as follows:

December 31, 2019					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond Payable	\$ 855,316	\$ -	\$ -	\$ 806,323	\$ 51,107
Notes Payable	12,696	-	12,696	-	-
	<u>\$ 868,012</u>	<u>\$ -</u>	<u>\$ 12,696</u>	<u>\$ 806,323</u>	<u>\$ 51,107</u>

December 31, 2018					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond Payable	\$ 902,288	\$ -	\$ 46,972	\$ 855,316	\$ 48,994
Notes Payable	185,271	-	172,575	12,696	12,696
	<u>\$ 1,087,559</u>	<u>\$ -</u>	<u>\$ 219,547</u>	<u>\$ 868,012</u>	<u>\$ 61,690</u>

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

NOTE 4: COMMITMENTS (continued)

Pledged Revenue-Bonds:

For the year ending December 31, 2019 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 \$1,059,731. Principal and interest paid for the current year and total customer revenue pledged for debt service was \$48,994 and \$32,733, respectively. The percentage of customer revenue pledged for the current year for principal and interest payments was 13.84%.

For the year ending December 31, 2018 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 \$1,141,457. Principal and interest paid for the current year and total customer revenue pledged for debt service was \$46,972 and \$34,757, respectively. The percentage of customer revenue pledged for the current year for principal and interest payments was 15.51%.

Pledged Revenue- Notes:

For the year ending December 31, 2019 and 2018, the Department's outstanding notes from direct borrowing is secured with the collateral of equipment.

Maturities of long-term debt at December 31, 2019 are as follows:

Year Ended December 31	Principal	Interest	Service Fees	Total
2020	\$ 51,107	\$ 24,579	\$ 6,042	\$ 81,728
2021	53,314	22,623	5,792	81,728
2022	55,619	20,577	5,532	81,728
2023	58,027	18,438	5,263	81,728
2024	60,542	16,201	4,985	81,728
2025-2029	209,193	53,542	20,400	283,134
2030-2034	188,588	29,544	11,818	229,950
2035-2037	129,932	5,768	2,307	138,007
Totals	\$ 806,322	\$ 191,270	\$ 62,139	\$ 1,059,731

**City of Leachville, Arkansas
Water and Sewer Department
Notes to Financial Statements
December 31, 2019 and 2018**

NOTE 5: GRANT FROM LEACHVILLE INDUSTRIAL DEVELOPMENT CORPORATION

On February 12, 2019, the Department received a \$150,000 grant, without restrictions, from the Leachville Industrial Development Corporation. The Department held the money for utilization in association with wastewater improvement project(s).

NOTE 6: 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, 2019 and 2018. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three years.

NOTE 7: SUBSEQUENT EVENTS

- a. On April 8, 2020, the Department signed a contract with MMRS, LLC for \$376,880.50 for wastewater improvement project(s). This contract has been completed
- b. On April 8, 2020, the Department signed a contract with C.A. Walker Construction for \$1,033,300 for wastewater improvement project(s). This contract has been completed
- c. In 2020, the entirety of the grant described in Note 5 was expended.
- d. As of October 3, 2022, the Department expended all of the funds approved by the United States Department of Agriculture in their letter of condition dated March 12, 2018, totaling in excess of \$1,500,000. The wastewater projects with this money began in approximately May of 2020.

OTHER INFORMATION

City of Leachville
Water and Sewer Department
Other Information
Schedule of Water and Sewer Rates
December 31, 2019

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, 2019 and 2018, and the related notes to the financial statements, and has issued its report thereon dated January 23, 2023.

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:

2019-001

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.


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*.

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
January 23, 2023