

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

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

**(With Independent Auditor's Report Thereon)**

**Baker Firm, P.A.  
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INDEPENDENT AUDITOR'S  
REPORT

## **INDEPENDENT AUDITORS' REPORT**

**The Honorable Members of the City Council  
City of Manila, Arkansas**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

I have audited the accompanying modified cash basis financial statements of the City of Manila, 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.

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 Manila, Arkansas Water and Sewer Department as of December 31, 2019 and 2018, and the respective changes in modified cash basis financial position and cash flows thereof for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1(B).

#### **Basis of Accounting**

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

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(B); this includes determining that the modified cash basis of accounting is an acceptable basis for presentation of the financial statements in accounting the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level

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

In performing an audit in accordance with GAAS and Government Auditing Standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

#### **Emphasis of Matter**

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

## **Other Matters**

### **Other Information**

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

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

In accordance with Government Auditing Standards, I have also issued my report dated March 10, 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.  
Jonesboro, Arkansas  
March 10, 2023**

# FINANCIAL STATEMENTS

**City of Manila, Arkansas  
Water and Sewer Department  
Statements of Net Position  
Modified Cash Basis  
December 31, 2019 and 2018**

	<b><u>Assets</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Current Assets</b>			
Cash		\$ 533,812	\$ 549,762
Certificate of deposits		203,652	212,867
<b>Total current assets</b>		<u>737,464</u>	<u>762,629</u>
<b>Restricted Assets</b>			
Restricted cash		89,497	86,227
Restricted certificate of deposits		39,643	28,584
<b>Total restricted assets</b>		<u>129,140</u>	<u>114,811</u>
<b>Capital Assets, Net</b>		1,691,840	1,693,695
<b>Total Assets</b>		<u><u>\$ 2,558,444</u></u>	<u><u>\$ 2,571,135</u></u>
<b><u>Liabilities and Net Position</u></b>			
<b>Current Liabilities</b>			
Customer deposits		\$ 89,497	\$ 86,227
Current portion of long-term debt		22,923	20,132
<b>Total current liabilities</b>		<u>112,420</u>	<u>106,359</u>
<b>Long-Term Debt, Net</b>		<u>55,010</u>	<u>47,813</u>
<b>Total Liabilities</b>		<u>167,430</u>	<u>154,172</u>
<b>Net Position</b>			
Net investment in capital assets		1,709,933	1,654,334
Restricted for debt service			
Unrestricted		681,081	762,629
<b>Total net position</b>		<u>2,391,014</u>	<u>2,416,963</u>
<b>Total Liabilities and Net Position</b>		<u><u>\$ 2,558,444</u></u>	<u><u>\$ 2,571,135</u></u>



**City of Manila, Arkansas**  
**Water and Sewer Department**  
**Statements of Revenues, Expenditures and Changes in Net Position**  
**Modified Cash Basis**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Water service	\$ 331,805	\$ 323,875
Sewer service	313,218	318,659
Sanitation	279,348	284,312
Late fees and other charges	25,546	35,523
Sales tax	55,101	57,500
Other income	34,195	11,439
<b>Total operating revenue</b>	<u>1,039,213</u>	<u>1,031,308</u>
<b>Operating Expenditures</b>		
Salaries and wages	185,513	134,668
Payroll tax	14,629	10,520
Sales tax	29,623	30,657
Employee benefits	31,373	29,595
Uniform rental	4,853	6,717
Contract labor	2,844	
License and fees	7,733	
Rent	11,318	
Retirement plan contribution	5,081	4,914
Insurance	2,272	1,434
Repairs and maintenance	130,344	253,586
Fuel	25,467	27,616
Utilities	80,394	64,134
Chemicals	17,031	19,674
General supplies	43,485	20,313
Postage		5,428
Professional services	10,458	17,963
Wastewater testing	7,050	7,358
Miscellaneous	21,914	13,751
Sanitation fees	285,375	284,312
Depreciation	76,964	53,961
<b>Total operating expenditures</b>	<u>993,721</u>	<u>986,601</u>
<b>Operating Gain/(Loss)</b>	<u>45,492</u>	<u>44,707</u>
<b>Non-Operating Revenues (Expenditures)</b>		
Federal grants		125,763
Interest income	2,149	1,473
Interest expense	(2,357)	(1,695)
Nonoperating revenues (expenditures)	<u>(208)</u>	<u>125,541</u>
<b>Income Before Other Revenue, Expenditures, Gains or Losses</b>	45,284	170,248
Contributions to the street fund	(71,233)	(3,573)
Adjustments to capital assets		<u>(19,534)</u>
<b>Change in Net Position</b>	(25,949)	147,141
<b>Net Position , Beginning of Year</b>	2,416,963	2,269,822
<b>Net Position, End of Year</b>	<u><u>\$ 2,391,014</u></u>	<u><u>\$ 2,416,963</u></u>

**City of Manila, Arkansas**  
**Water and Sewer Department**  
**Statements of Cash Flows**  
**Modified Cash Basis**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 1,039,213	\$ 1,031,308
Cash payments to suppliers for goods and services	(731,244)	(797,972)
Cash payments to employees	(185,513)	(134,668)
Net cash provided/(used) by operating activities	<u>122,456</u>	<u>98,668</u>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from federal grant		125,763
Contribution to the street fund	(71,233)	(3,573)
Net change in customer deposits	3,270	1,546
Net cash provided/(used) by non-capital financing activities	<u>(67,963)</u>	<u>123,736</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(20,147)	(29,469)
Interest payments on long-term debt	(2,357)	(1,595)
Purchases of capital assets	(44,974)	
Net cash provided/(used) in financing activities	<u>(67,478)</u>	<u>(31,064)</u>
<b>Cash flows from investing activities:</b>		
Customer deposits		
Interest received	305	511
Net cash provided/(used) by investing activities	<u>305</u>	<u>511</u>
<b>Net Increase (decrease) in Current and Restricted Cash</b>	(12,680)	191,851
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<u>635,989</u>	<u>444,138</u>
<b>Cash And Cash Equivalents - End Of Year</b>	<u><u>\$ 623,309</u></u>	<u><u>\$ 635,989</u></u>
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities</b>		
Operating gain (loss)	\$ 45,492	\$ 44,707
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	76,964	53,961
<b>Net Cash Provided By Operating Activities</b>	<u><u>\$ 122,456</u></u>	<u><u>\$ 98,668</u></u>
<b>Reconciliation of Cash to Statement of Net Position-Modified Cash Basis</b>		
Current assets- cash and cash equivalents	\$ 533,812	\$ 549,762
Restricted assets- cash and cash equivalents	89,497	86,227
	<u><u>\$ 623,309</u></u>	<u><u>\$ 635,989</u></u>

**NONCASH TRANSACTIONS**

	<b>2019</b>	<b>2018</b>
Notes payable loan for purchase of equipment	\$ 30,135	\$ 70,100
Equipment purchased with notes payable	(30,135)	(70,000)
Loan fee for notes payable		(100)

NOTES TO THE FINANCIAL  
STATEMENTS

**City of Manila, 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 Manila, Arkansas Water and Sewer provides water sales and sewer treatment services to the citizens of the City of Manila, Arkansas (the City) and to commercial and industrial customers located within the service area. The City Council serves as the governing board of the Department 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 Water and Sewer Fund has no potential component units required to be evaluated for inclusion in its reporting entity.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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 receivable and revenues for services billed or provided, but not collected. In addition, 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.

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

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

The presentation of the Department's financial statements follows the requirements of GASB Statement standards, 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 are derived from or related directly to the distribution of water and sewer and are distinguished from non-operating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenditures and charges 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 distribution and wastewater systems. 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 informal policy to apply the expenditure to the restricted net position to the extent such are available and then to the unrestricted net position.

**C. Cash and Cash Equivalents**

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

**D. 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 \$3,000 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 expenditures. The cost of current repairs, maintenance, and minor replacements is charged to expenditure when incurred.

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

Water & Sewer Systems	25 - 50 Years
Wells	20 - 25 Years
Buildings	20 - 30 Years
Office Furniture and Equipment	5 - 10 Years
Transportation and Equipment	3 - 5 Years

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

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

**E. Estimates**

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

**F. 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 expenditure is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Department's informal policy to apply those expenditures to restricted net position to the extent such are available and then to unrestricted net position.

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

**G. 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.

**H. 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 expenditures, and non-operating income and expense items. All annual appropriations lapse at year-end and budgets are amended as needed.

**I. Customer Deposits**

Customer deposits are held until the customer's service is terminated, at which time the deposit is applied of the final bill.

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

**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, the Department's carrying balance and bank balance were insured by FDIC or collateralized with securities held by the Department's agent in the Department's name.

**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.

***The following is a summary of the restricted cash and cash equivalents as of December 31, 2019 and 2018.***

	<u>2019</u>	<u>2018</u>
Current restricted cash and cash equivalents		
Customer meter deposit fund	<u>\$ 89,497</u>	<u>\$ 86,227</u>

**NOTE 3: CERTIFICATE OF DEPOSITS**

As of December 31, 2019, the Department's certificate of deposits balance was \$243,295, of this balance \$203,652 was unrestricted and \$39,643 was restricted for debt service reserve.

As of December 31, 2018, the Department's certificate of deposits balance was \$241,451, of this balance \$212,867 was unrestricted and \$28,584 was restricted for debt service reserve.

**NOTE 4: CAPITAL ASSETS**

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

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

**NOTE 4: CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2019</u>
<b>Non-depreciable:</b>				
Land	\$ 25,969	\$ -	\$ -	\$ 25,969
<b>Depreciable:</b>				
System Plant, Wells & Lines	2,741,786			2,741,786
Equipment and Vehicles	1,321,145	75,109		1,396,254
	4,062,931	75,109	-	4,138,040
Less accumulated depreciation	(2,395,205)	(76,964)		(2,472,169)
	1,667,726	(76,964)	-	1,665,871
<b>Capital assets, net</b>	<u><u>\$ 1,693,695</u></u>	<u><u>\$ (76,964)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,691,840</u></u>

	<u>Balance</u> <u>12/31/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2018</u>
<b>Non-depreciable:</b>				
Land	\$ 25,969	\$ -	\$ -	\$ 25,969
<b>Depreciable:</b>				
System Plant, Wells & Lines	2,761,510		(19,724)	2,741,786
Equipment and Vehicles	1,338,081	70,000	(86,936)	1,321,145
	4,099,591	70,000	(106,660)	4,062,931
Less accumulated depreciation	(2,428,370)	(53,961)	87,126	(2,395,205)
	1,671,221	(53,961)	(19,534)	1,667,726
<b>Capital assets, net</b>	<u><u>\$ 1,697,190</u></u>	<u><u>\$ (53,961)</u></u>	<u><u>\$ (19,534)</u></u>	<u><u>\$ 1,693,695</u></u>

**NOTE 5: RETIREMENT PLAN**

The Department participates in a defined contribution plan and has contracted with a private insurance carrier who maintains an account for the Department. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan requires the Department to contribute to the insurance carrier an amount up to 4% of the employee's base salary. Eligibility commences upon retirement. Earnings are credited to the employee's account quarterly. Employees are entitled only to funds deposited by them and on their behalf; therefore, there is no unfunded liability. The Department's contribution to the plan for the years ended December 31, 2019 and 2018 was \$5,081 and \$4,914.



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

**NOTE 6: COMMITMENTS**

**Long-Term Debt**

The Department's long-term debt at December 31, 2019 and 2018, were as follows::

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2019	Maturities To December 31, 2019
8/15/2018	8/15/2022	4%	70,100	47,798	22,302
11/6/2019	11/6/2024	4%	30,135	30,135	
			<u>\$ 100,235</u>	<u>\$ 77,933</u>	<u>\$ 22,302</u>

  

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2018	Maturities To December 31, 2018
12/5/1989	12/5/2019	5%	93,000	3,431	89,569
8/15/2018	8/15/2022	4%	70,100	64,514	5,756
			<u>\$ 163,100</u>	<u>\$ 67,945</u>	<u>\$ 95,325</u>

Changes in long-term debt for the years ended December 31, 2019 and 2018, were as follows:

<b>December 31, 2019</b>					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 3,431		\$ 3,431	\$ -	
Notes Payable	\$ 64,514	\$ 30,135	16,716	77,933	22,923
	<u>\$ 67,945</u>	<u>\$ 30,135</u>	<u>\$ 20,147</u>	<u>\$ 77,933</u>	<u>\$ 22,923</u>

  

<b>December 31, 2018</b>					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 27,314		\$ 23,883	\$ 3,431	\$ 3,431
Notes Payable		\$ 70,100	5,586	64,514	16,701
	<u>\$ 27,314</u>	<u>\$ 70,100</u>	<u>\$ 29,469</u>	<u>\$ 67,945</u>	<u>\$ 20,132</u>

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

**NOTE 6: COMMITMENTS (continued)**

**Pledged Revenue- Notes**

For the year ending December 31, 2019, the Department's outstanding notes from direct borrowings were secured with a combination of collateral of equipment and a certificate of bond for \$39,643.

Maturities of long-term debt on December 31, 2019, were as follows:

	<b>Bonded Debt</b>		<b>Direct Borrowings- Notes Payable</b>		<b>Total</b>
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	
2020			\$ 22,923	\$ 1,174	\$ 24,097
2021			24,887	934	25,821
2022			17,330	683	18,013
2023			6,288	422	6,710
2024			6,505	150	6,655
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,933</u>	<u>\$ 3,363</u>	<u>\$ 81,296</u>

**NOTE 7: 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 only when the claim is paid. In determining claims, events that might create claims, but for which none have been reported, are considered. 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 8: CONTRIBUTION TO THE STREET FUND**

The Sewer Department reimbursed the Street Fund \$71,233, for the purchase of a backhoe on behalf of the department.

## OTHER INFORMATION

**City of Manila, Arkansas  
Water and Sewer Department  
Other Information  
Schedule of Sewer Rates  
December 31, 2019**

<b>Residential Users</b>	
<b><u>Water Usage Rates</u></b>	
Rates	
First 1,000 gallons	\$10.00
All over 1,000 gallons	\$2.00 per thousand
<b><u>Sewer Usage Rates</u></b>	
Rates	
First 1,000 gallons	\$12.00
All over 1,000 gallons	\$2.00 per thousand

  

<b>Commercial Users</b>	
<b><u>Water Usage Rates</u></b>	
Rates	
First 1,000 gallons	\$11.00
All over 1,000 gallons	\$2.00 per thousand
<b><u>Sewer Usage Rates</u></b>	
Rates	
First 1,000 gallons	\$13.00
All over 1,000 gallons	\$2.00 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  
City of Manila, Arkansas**

I 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 **City of Manila, 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 have issued my report thereon dated March 10, 2023.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, I 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 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.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. I did identify a certain deficiency in internal control described below that I consider to be a material weakness. The material weakness was as follows:

2019-01

## **Segregation of Duties**

**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 entity's objectives with regard to reliability of financial reporting.

**Cause:** Cost/benefit implications 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.

**Views of responsible officials and planned corrective actions:** The Department is aware of the deficiency and will continue 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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The City of Manila, Arkansas Water and Sewer Response to Finding**

The Department's response to the finding identified in my audit is described above. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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, consisting of a stylized 'Z' followed by a horizontal line.

**Baker Firm, P.A.**  
**Jonesboro, Arkansas**  
**March 10, 2023**