

**CITY OF MONETTE WATER AND SEWER FUND
A COMPONENT UNIT OF THE CITY OF MONETTE, ARKANSAS
Audited Financial Statements
For the Year Ended December 31, 2020**

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City of Monette Water and Sewer Fund
A Component Unit of the City of Monette, Arkansas
Audited Financial Statements
For the Year Ended December 31, 2020

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THOMAS, SPEIGHT & NOBLE

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Bob Blankenship, Mayor
And the Members of the City Council
City of Monette, Arkansas

We have audited the accompanying financial statements of the City of Monette Water and Sewer Fund, a component unit of the City of Monette, Arkansas, as of and for the year ended December 31, 2020, 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 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, for the year ended December 31, 2020, the City of Monette Water and Sewer Fund has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employee pension to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure on the financial statements is not practicable.

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Qualified Opinion

In our opinion, except for the effects of the matter discussed in the above paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Monette Water and Sewer Fund, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Monette Water and Sewer Fund and are not intended to present fairly the financial position of the City of Monette, Arkansas, and the results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2022, on our consideration of the City of Monette Water and Sewer Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 City of Monette Water and Sewer Fund's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Osceola, Arkansas

December 20, 2022

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Statements of Net Position
December 31, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$ 719,333
Accounts receivable and unbilled revenues	55,421
Total current assets	<u>774,754</u>

NON-CURRENT ASSETS

Cash and cash equivalents - restricted	123,941
Capital assets	
Capital assets, net of accumulated depreciation	3,242,858
Construction in progress	15,753
Total non-current assets	<u>3,382,552</u>

TOTAL ASSETS

\$ 4,157,306

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 21,809
Payroll taxes payable	557
Due to other funds	26,181
Current portion of long-term debt	32,630
Total current liabilities	<u>81,177</u>

LONG-TERM DEBT, net of current portion

1,533,668

LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Customer deposits	<u>64,084</u>
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TOTAL LIABILITIES

1,678,929

NET POSITION

Net investment in capital assets	1,676,560
Restricted for debt service	59,857
Unrestricted	741,960
Total net position	<u>2,478,377</u>

TOTAL LIABILITIES AND NET POSITION

\$ 4,157,306

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

OPERATING REVENUES

Water revenue	\$ 200,846
Sewer revenue	209,480
Penalty charges	4,066
Miscellaneous income	19,447
Total operating revenues	<u>433,839</u>

OPERATING EXPENSES

Salaries and wages	126,254
Employee benefits	18,872
Payroll taxes	9,857
Contract labor	2,325
Computer expense	1,441
Supplies	22,512
Fuel	4,015
Utilities	35,934
Insurance	32,503
Professional fees	507
System repairs	88,506
Office	9,709
Depreciation	142,135
Permits and licenses	2,725
Water sampling	6,697
Chemicals	9,088
Miscellaneous	50
Total operating expenses	<u>513,130</u>

OPERATING INCOME (LOSS)

(79,291)

NON-OPERATING REVENUES (EXPENSES)

Interest income	1,537
Interest expense	(37,094)
Total Non-operating revenues (expenses)	<u>(35,557)</u>

CAPITAL CONTRIBUTIONS/TRANSFERS

Transfers From/(To) - Other City Funds	119,944
Total Capital Contributions/Transfers	<u>119,944</u>

CHANGE IN NET POSITION

5,096

NET POSITION AT BEGINNING OF YEAR

2,473,281

NET POSITION AT END OF YEAR

\$ 2,478,377

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Statements of Cash Flows
For the Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts from customers	\$ 443,650
Cash payments to suppliers for goods and services	(230,233)
Cash payments to employees	(126,254)
Net cash provided by (used in) operating activities	<u>87,163</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments on long-term debt	(32,194)
Interest payments on long-term debt	(37,094)
Purchase of capital assets	(36,310)
Payments received from (paid to) related parties	109,080
Net cash provided by (used in) financing activities	<u>3,482</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	1,537
Net cash provided by (used in) investing activities	<u>1,537</u>

NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH 92,182

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 751,092

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 843,274

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (79,291)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	142,135
(Increase)/Decrease In:	
Customer accounts receivable	3,130
Increase/(Decrease) In:	
Accounts payable	11,736
Payroll taxes payable	(3,488)
Customer deposits	12,941
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u><u>\$ 87,163</u></u>

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The City of Monette Water and Sewer Fund (the Utility), a component unit of the City of Monette, Arkansas (the City) was established to provide water and sewer services to the residents of the City. The Utility is a component unit of the City and dependent on the City's governing body. Control by and dependence upon the City was determined on the basis of the budget adoption to fund any deficit that may occur. The accompanying financial statements represent only the activities of the Utility and are not intended to present that of the City or any of the City's activities.

Basis of Presentation and Accounting

The accounts of the Utility are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Utility's assets, liabilities, net assets, revenues, and expenses. 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. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). 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. Net position is segregated into net investment in capital assets, restricted, and unrestricted components.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Utility considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Customer Accounts Receivable

The Utility carries its customer accounts receivable at cost. The Utility uses the direct write off method to recognize bad debts as they occur. Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. However, the direct write off method does not have a material effect on the financial statements because customers are required to make a deposit that is usually greater than an average month's bill.

Cash and Cash Equivalents - Restricted

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

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

Capital Assets

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

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

Distribution system	10-50 Years
Pumps, vehicles and small equipment	3-7 Years
Property improvements	10-20 Years

Other Assets

Other assets held are recorded and accounted for at cost.

Customer Deposits

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

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate. Vacation days not used by the end of the year are not carried forward. Compensated absences have not been accrued and are not material to the financial statements.

Net Position

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

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

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

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

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

Operating Revenues and Expenses

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

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City adopts an annual budget for the Utility. The budget is adopted under a basis consistent with GAAP. All annual appropriations lapse at year-end.

NOTE 2: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Utility has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, bonds payable, etc.) none of which are held for trading purposes. The Utility, unless otherwise indicated, estimates that the fair values of all financial instruments on December 31, 2020, do not materially differ from the aggregate carrying values as stated in the accompanying statement of net position.

NOTE 3: DUE TO OTHER FUNDS

Billing of sanitation fees and mosquito fees is accomplished through the Utility's monthly billing process. At December 31, 2020, sanitation and mosquito fees in the amount of \$26,181 were owed to the General Fund.

NOTE 4: CASH AND CASH EQUIVALENTS – RESTRICTED

Cash and cash equivalents - restricted consists of cash reserves restricted by long-term debt covenants and customer deposits. The long-term debt covenants require minimum reserves for bond payments and a repair fund (see Note 7).

	<u>2020</u>
Customer deposits	\$ 64,084
Debt service reserves	<u>59,857</u>
	<u>\$ 123,941</u>

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2020 are as follows:

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 15,753		\$ 15,753
Total capital assets not being depreciated	-	15,753	-	15,753
Capital assets being depreciated				
Pumps and small equipment	89,016	20,557	-	109,573
Office equipment	12,617	-	-	12,617
Distribution system	5,151,596	-	-	5,151,596
Total capital assets being depreciated	5,253,229	20,556	-	5,273,785
Less accumulated depreciation for:				
Pumps and small equipment	(81,816)	(4,456)	-	(86,272)
Office equipment	(11,490)	(87)		(11,577)
Distribution system	(1,795,485)	(137,593)	-	(1,933,078)
Total accumulated depreciation	(1,888,791)	(142,135)	-	(2,030,926)
Total capital assets, net	\$ 3,364,438	\$ (105,827)	\$ -	\$ 3,258,611

Depreciation expense was \$142,135 for the year ended December 31, 2020.

NOTE 6: EMPLOYEE'S RETIREMENT SYSTEM

All eligible employees participate in the Arkansas Employees Retirement System (APERS), a statewide cost-sharing multiple employer pension plan established by the authority of the Arkansas General Assembly. APERS provides retirement, disability, and survivor benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. Contribution requirements are set forth by Arkansas Statute, and the Utility is required to contribute at an actuarially determined rate. For the year ended December 31, 2020, the Utility's contribution was \$18,872.

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

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

NOTE 7: LONG-TERM DEBT

Long-term debt at December 31, 2020 consists of the following:

	<u>2020</u>
2003 - Water and Sewer Revenue Bond - USDA - 4.5%, \$357,530; principal and interest of \$1,624 payable monthly beginning January 2004; matures December 2043.	278,078
2016 - Water and Sewer Revenue Bond - USDA - 1.875%, \$1,350,000; principal and interest of \$4,150 payable monthly beginning January 2017; matures December 2056.	1,288,220
	<u>\$ 1,566,298</u>

All bonds are secured by revenues and distribution system of the Utility. Analysis of changes to the Utility's long-term debt are as follows:

	<u>2020</u>
Total long-term debt at beginning of year	\$ 1,598,493
Additional borrowings	
Debt retirements	<u>(32,195)</u>
Total long-term debt at the end of the year	1,566,298
Less current portion	<u>(32,630)</u>
Non-current portion	<u>\$ 1,533,668</u>

Maturities of long-term debt at December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	32,630	36,658	69,288
2022	33,440	35,848	69,288
2023	34,276	35,012	69,288
2024	35,136	34,152	69,288
2025	36,036	33,252	69,288
Thereafter	1,394,780	478,482	1,873,262
	<u>\$ 1,566,298</u>	<u>\$ 653,404</u>	<u>\$ 2,219,702</u>

Interest expense was \$37,094 for year ended December 31, 2020.

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

NOTE 8: BOND REQUIREMENTS

The City of Monette Water and Sewer Fund must maintain certain requirements after receiving bonds from the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The Utility is required to establish a "2003 Water and Sewer Revenue Bond Fund". There shall be paid into the Bond Fund on the first business day of each month, for ten years, a sum of \$163, until a debt service reserve shall have been accumulated in an amount equal to \$19,488. The Utility is also required to establish a "2016 Water and Sewer Revenue Bond Fund". Commencing on the first business day of the first month after delivery of the bond, there shall be paid into the Bond Fund on the first business day of each month an amount equal to \$415 until the reserve has accumulated an amount equal to \$49,800.

As of December 31, 2020, the debt service requirements for the City of Monette Water and Sewer Fund have been met. The amounts maintained in the Debt Reserve Fund have been included in restricted cash (see Note 4).

In addition to the debt service reserve, the Utility is required to maintain a Short-Lived Asset Reserve. The reserve can be used as needed for the replacement of items related to the treatment plant as specified in the preliminary engineering report. The reserve is to be maintained with monthly or annual deposits, along with records documenting the use of any funds expended from the reserve. As of December 31, 2020, the Utility has not established an account for this reserve and the required balance at the time was \$30,324.

In the event of default in the payments of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained in the instruments incident to making or insuring the loan, USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Utility, incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and /or (c) take possession of the facility, repair, maintain, and operate or rent it.

NOTE 9: RISK MANAGEMENT AND LITIGATION

The Utility is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. Management estimates that the amount of any actual or potential claims as of December 31, 2020 will not materially affect the financial condition of the Utility.

NOTE 10: CUSTODIAL CREDIT RISK OF BANK DEPOSITS

State law generally requires public funds be deposited in State of Arkansas banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may be in the form of checking, savings, and/or time deposit accounts. Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Utility's policy for custodial risk is compliant with state law. Due to the dollar amounts of cash deposits and investments, and the limits of the FDIC, the Utility was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department at year ended December 31, 2020. The amount exceeding FDIC coverage at December 31, 2020 was \$550,558.

City of Monette Water and Sewer Fund
(A Component Unit of the City of Monette, Arkansas)
Notes to Financial Statements
December 31, 2020

NOTE 11: MONTHLY WATER RATES

The City of Monette Water and Sewer Fund are determined each month by meter measurements. The rates for customers are as follows: \$20.40/2,000 gallons of water and for the excess of 2,000 gallons the rate is \$2.72/1,000 gallons used.

NOTE 12: ALLOCATION OF 1% SALES TAX

Ordinance #2013-4 was passed on February 18, 2013; it authorized a 1% city sales and use tax. Collection began in October of 2013; and the tax is perpetual. The amounts allocated and transferred to the water and sewer department are reported within the statement of revenues, expenses, and changes in net position as transfers from other city funds.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or disclosure through December 20, 2022, the date financial statements were available to be issued.



THOMAS, SPEIGHT & NOBLE

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Robert Blankenship, Mayor
And the Members of the City Council of
City of Monette, 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 City of Monette Water and Sewer Fund, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Monette Water and Sewer Fund's basic financial statements and have issued our report thereon dated December 20, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Monette Water and Sewer Fund'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 City of Monette Water and Sewer Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Monette Water and Sewer Fund's internal control.

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

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

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2020-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The City of Monette Water and Sewer Fund's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend the financial accounting duties be segregated among employees to the extent possible.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Monette Water and Sewer Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Monette Water and Sewer Fund's Response to Findings

Management's response to the findings identified in our audit is described above. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas, Speight & Noble, CPAs

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Osceola, Arkansas

December 20, 2022