

**CITY OF BONO  
WATER AND SEWER DEPARTMENT  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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



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INDEPENDENT AUDITOR'S  
REPORT



**MANDY WALKER, P.A.**  
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## **INDEPENDENT AUDITORS' REPORT**

**To the City Council  
City of Bono, Arkansas  
Bono, Arkansas**

I have audited the accompanying modified cash basis financial statements of the **City of Bono, Arkansas Water and Sewer Department (the Department)**, as of and for the year ended December 31, 2017, 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 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, 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 Department as of December 31, 2017, 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.

## **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 Bono, Arkansas. My opinion is not modified with respect to this matter.

As discuss in Note 1(I) to the financial statements, the beginning net position was restated due to conversion to the modified cash basis of accounting. My opinion is not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

Management has omitted the Management 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

### **Other Information**

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated September 29, 2018 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.

*Mandy Walker, CPA*

Mandy Walker, P.A.  
Tuckerman, Arkansas  
September 29, 2018

# FINANCIAL STATEMENTS

**City of Bono, Arkansas  
Water and Sewer Department  
Statement of Net Position  
December 31, 2017**

	<b>2017</b>
<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 98,395
Certificate of deposits	212,339
Restricted Assets:	
Restricted certificate of deposits	90,650
Total current assets	401,384
<b>NON-CURRENT ASSETS</b>	
Capital assets	
Capital assets, net	931,888
Total non-current assets	931,888
<b>TOTAL ASSETS</b>	<b>\$ 1,333,272</b>
<b><u>LIABILITIES AND NET POSITION</u></b>	
<b>CURRENT LIABILITIES</b>	
Customer deposits	90,650
Total current liabilities	90,650
<b>LONG-TERM DEBT</b>	
<b>TOTAL LIABILITIES</b>	90,650
<b>NET POSITION</b>	
Net investment in capital assets	931,888
Unrestricted	310,734
Total net position	1,242,622
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,333,272</b>



**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Statement of Revenues, Expenditures and Changes in Net Position**  
**December 31, 2017**

	<b>2017</b>
<b>OPERATING REVENUES</b>	
Water service	\$ 193,690
Sewer service	106,606
Refuse revenue	131,310
Late fees and penalties	24,497
Rent	9,988
FSWDA	3,080
Sales tax	27,547
Permits and fees	10,141
Miscellaneous fees	254
<b>Total operating revenue</b>	<b>507,113</b>
<b>OPERATING EXPENDITURES</b>	
Salaries and wages	168,253
Payroll taxes	14,598
Pension expense	24,072
Refuse expense	105,419
Depreciation	53,235
Utilities and telephone	48,330
Employee benefits	10,098
System operating expense	31,908
Repairs	43,289
Professional services	9,150
Office expense	6,844
Sales tax	27,539
Permits and fees	75
Fuel and oil	4,938
Miscellaneous	4,542
Chemicals and lab	4,328
Uniforms	2,716
<b>Total operating expenditures</b>	<b>559,334</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(52,221)</b>
<b>NON-OPERATING REVENUES (Expenditures)</b>	
Interest income	2,288
Nonoperating revenues (expenses)	2,288
Income before other revenues, expenditures, gains or losses	(49,933)
Adjustments to capital assets	(12,762)
Contributions (to) from City of Bono	(9,994)
<b>CHANGE IN NET POSITION</b>	<b>(72,689)</b>
<b>NET POSITION AT BEGINNING OF YEAR, RESTATED</b>	<b>1,315,311</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 1,242,622</b>

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Statement of Cash Flows**  
**December 31, 2017**

	<b>2017</b>
<b>Cash flows from operating activities:</b>	
Cash receipts from customers	\$ 507,113
Cash payments to suppliers for goods and services	(337,846)
Cash payments to employees	(168,253)
Net cash provided/(used) by operating activities	1,014
 <b>Cash flows from non-capital financing activities:</b>	
Contributions (to) from City of Bono	(9,994)
Net cash provided/(used) by non-capital financing activities	(9,994)
 <b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(1,560)
Net cash provided/(used) in financing activities	(1,560)
 <b>Cash flows from investing activities:</b>	
Interest Income	329
Customer meter deposit (net)	6,640
Net cash provided/(used) by investing activities	6,969
<b>NET INCREASE IN CASH AND RESTRICTED CASH</b>	<b>(3,571)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>101,966</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 98,395</b>

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Statement of Cash Flows**  
**December 31, 2017**

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (52,221)
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**Adjustments to reconcile operating income (loss) to net  
cash provided by operating activities:**

Depreciation	53,235
Total Adjustments	<u>53,235</u>

<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 1,014</u></b>
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**RECONCILIATION OF CASH TO STATEMENT OF NET POSITION**

Unrestricted Cash	\$ 98,395
Restricted Cash	<u>0</u>
	<b><u>\$ 98,395</u></b>

**NONCASH TRANSACTIONS**

Amount of interest earned on certificate of deposits and reinvested with certificate of deposits	\$ 1,959
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NOTES TO FINANCIAL  
STATEMENTS

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**A. Organization**

The City of Bono, Arkansas Water and Sewer, established in 1963, provides water sales and sewer treatment services to the citizens of the City of Bono, Arkansas (the Department) 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 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, 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,

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

**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.

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.

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 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 nonoperating revenues and expenses. Nonoperating 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.

**C. 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.

**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 \$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 reported as non-operating revenues or expenses. The cost of current repairs, maintenance, and minor

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

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

replacements is charged to expense when incurred. Interest cost related to constructing property, plant and equipment is capitalized as part of the related asset when applicable.

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:

Water & Sewer Systems	15-50 Years
Buildings	20-30 Years
Office Furniture and Equipment	5-10 Years
Transportation	3-5 Years

**E. 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.

Estimates and assumptions are used by an independent actuary to perform actuarial valuation for the Department's defined benefit plan. These valuations are the basis for determining required contributions, annual cost, funded status and net pension liability obligations.

**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 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.

**City of Bono, Arkansas  
Water and Sewer Department  
Notes to Financial Statements  
December 31, 2017**

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

*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”.

**G. Taxes**

The City, and thus the Department, is exempt from federal income taxes under Code Section 115 of the Internal Revenue Code.

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

**I. Restatement of Financial Statements**

The January 1, 2017, beginning net position balance was increased by \$97,706 to reflect the change in the presentation of the financial statements from the accrual basis of accounting to the modified cash basis of accounting. Management has determined that the modified cash basis of accounting is a more informative reporting basis for the Department.

	<b>December 31, 2016</b>	
	<b><u>As Previously Reported</u></b>	<b><u>Restated</u></b>
<b>Total Net Position</b>	\$ 1,292,977	\$ 1,315,311

**J. 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 Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

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

**K. New Accounting Pronouncements**

**The following statements became effective for the fiscal year ending December 31, 2017:**

- GASB Statement No. 75- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Per the GASB, this Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Department does not offer any postemployment benefits to their employees.
- GASB Statement No. 81- Irrevocable Split-Interest Agreements. Per the GASB, the objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Department is not a beneficiary of any irrevocable split-interest agreements.
- GASB Statement No. 82- Pensions Issues – an amendment of GASB Statement No. 67, No. 68 and No. 73. Per the GASB, the objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Department is part of a defined contribution plan and will make the applicable note as related to the plan type and to present in accordance with the modified cash basis of accounting.

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

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

- GASB Statement No. 85- Omnibus 2017. Per the GASB, the objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). None of the issues addressed in this statement affect the Department.
- GASB Statement No. 86- Certain Debt Extinguishment Issued. Per the GASB, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Department did not have any in-substance defeasance of debt.

**The following statements will become effective after December 31, 2017:**

- GASB Statement No. 83- *Certain Asset Retirement Obligations*
- GASB Statement No. 84- *Fiduciary Activities*
- GASB Statement No. 87- *Leases*
- GASB Statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- GASB Statement No. 89- Accounting for Interest Cost Incurred before the End of a Construction Period
- GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

*Management has not yet determined the effects of these statements on the District's financial statements.*

**City of Bono, Arkansas  
Water and Sewer Department  
Notes to Financial Statements  
December 31, 2017**

**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, 2017, the Department was not exposed to custodial credit risk. The Department’s carrying balance and bank balance were insured by FDIC and collateralized with securities held by the Department’s agent in the Department’s name.

**NOTE 3: CERTIFICATE OF DEPOSITS**

As of December 31, 2017, the Department’s certificate of deposits totaled \$302,989, of which \$212,339 was unrestricted and \$90,650 was restricted for customer deposits.

**NOTE 4: CAPITAL ASSETS**

A summary of changes in capital asset balances that occurred during the year ended December 31, 2017 follows:

	<b><u>Balance</u></b> <b><u>1/1/2017</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>12/31/2017</u></b>
<b>Non-depreciable:</b>				
Land	\$ 31,110	\$ -	\$ -	\$ 31,110
<b>Depreciable:</b>				
Buildings	65,104	-	-	65,104
System Plant, Wells & Lines	2,141,508	1,560	(126,118)	2,016,950
Equipment	103,225	-	(14,801)	88,424
Vehicles	49,811	-	-	49,811
	<u>2,359,648</u>	<u>1,560</u>	<u>(140,919)</u>	<u>2,220,289</u>
Less accumulated depreciation	<u>(1,394,433)</u>	<u>(53,235)</u>	<u>128,157</u>	<u>(1,319,511)</u>
	965,215	(51,675)	(12,762)	900,778
<b>Capital assets, net</b>	<b><u>\$ 996,325</u></b>	<b><u>\$ (51,675)</u></b>	<b><u>\$ (12,762)</u></b>	<b><u>\$ 931,888</u></b>

**City of Bono, Arkansas  
Water and Sewer Department  
Notes to Financial Statements  
December 31, 2017**

**NOTE 5: RETIREMENT PLAN-ARKANSAS PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**Plan Description:**

All Department employees participate in the Arkansas Public Employee' Retirement Plan (the "Plan") is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The Plan issues a publicly available financial report that includes the financial statements and supplementary information for the Plan which is available on the APERS website, [www.apers.org](http://www.apers.org). The report may also be obtained by writing to APERS, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201-1015.

**Benefits Provided:**

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

- |  |       |
|--|-------|
| • Contributory, prior to 7/1/2005                              | 2.07% |
| • Contributory, on or after<br>7/1/2005, but prior to 7/1/2007 | 2.03% |
| • Contributory on or after<br>7/1/2017                         | 2.00% |
| • Non-Contributory   | 1.72% |

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 5: RETIREMENT PLAN-ARKANSAS PUBLIC EMPLOYEE RETIREMENT SYSTEM  
(continued)**

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

***Contributions:***

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 14.50% of compensation for the fiscal year ended June 30, 2017. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

The Department was required to contribute at an actuarially determined rate which was 14.50% for the period January 1, 2017 – June 30, 2017 and 14.75% for the period July 1, 2017 to December 31, 2017. For December 31, 2017 and 2016, the Department's contribution to APERS were \$49,232 and \$39,225, respectively.

***Net Pension Liability:***

The Department's proportionate share of the collective net pension at June 30, 2017 and 2016 (actuarial valuation date and measurement date) was \$213,307 and \$191,151, respectively. Because of the use of a modified cash basis of accounting framework in the preparation of the financial statements, this proportionate share of APERS net pension liability is not reported in the Department's financial statements as a liability. In accordance with the modified cash basis of accounting, pension expenditures are only reported when contributions are paid by the Department.

**City of Bono, Arkansas**  
**Water and Sewer Department**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 6: DUE TO CITY OF BONO, ARKANSAS**

At December 31, 2017, the Department had an outstanding liability to the City of \$2,822 to reimburse the City for paying for unused vacation at retirement for a water employee. This liability is not reflected on the financial statements. In accordance with the modified cash basis of accounting, expenditures are only reported when paid by the Department.

**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. The Department has purchased insurance to address these risk. There have been no significant reduction in the Department's coverage during the years ended December 31, 2017. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three years.

OTHER SUPPLEMENTARY  
INFORMATION

**City of Bono Water and Sewer  
Supplemental Information  
Schedule of Water and Sewer Rates  
December 31, 2017**

<b>Water Usage Rates</b>
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<u><b>Rates</b></u>	
First 1,000 gallons	\$10.25 (minimum)
Next 4,000 gallons	2.90 per 1,000 gallons
Next 5,000 gallons	2.20 per 1,000 gallons
All over 10,000 gallons	1.00 per 1,000 gallons

<b>Sewer Usage Rates</b>
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<u><b>Rates</b></u>	
First 2,000 gallons	\$ 8.00
Each 1,000 gallons thereafter	1.03



# OTHER REQUIRED REPORT



## **MANDY WALKER, P.A.**

CERTIFIED PUBLIC ACCOUNTANT  
P.O. Box 792  
109 E. Main Street  
Tuckerman, Arkansas 72473

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

**To the Mayor, City Council Members and  
Management of the City of Bono, Arkansas Water and Sewer  
Bono, 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 business-type activities of the City of Bono, Arkansas, Water and Sewer (the Department) as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued my report thereon dated September 29, 2018.

#### **Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the City of Bono, Arkansas Water and Sewer'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 opinions 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. Given these limitations, during my audit, I did identify a deficiency in internal control that I considered to be material weaknesses. The material weakness was as follows:

## 2017-001

### 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 Bono, 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.

*Mandy Walker, CPA*

**Mandy Walker, P.A.  
Tuckerman, Arkansas  
September 29, 2018**