

Gravette



The Heart of Hometown America

**City of Gravette, Arkansas
Water & Wastewater Department**

**Financial Statements
December 31, 2017 and 2016**

(With Independent Auditor's Report Thereon)

**City of Gravette, Arkansas
Water & Wastewater Department**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Gravette, Arkansas
Water & Wastewater Department
Gravette, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the **City of Gravette, Arkansas, Water & Wastewater Department** (the Department), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department's basic 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 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Opinion on the Department

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the financial position of the Department as of December 31, 2017 and 2016, and the changes in financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the business-type activities of the City of Gravette, Arkansas that is directly attributable to the Department. They do not purport to, and do not present fairly the financial position of the City of Gravette, Arkansas as of December 31, 2017 and 2016, the changes in its financial position for the years then ended in conformity with the modified cash basis of accounting or accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the Department's basic financial statements. The supplementary information presented on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated April 2, 2021 on our consideration of the Department's internal control over financial reporting and 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 the 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.



Landmark PLC
Certified Public Accountants

Rogers, Arkansas
April 2, 2021

Financial Statements

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Net Position – Modified Cash Basis
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 764,536	\$ 776,289
Restricted cash and cash equivalents	354,574	339,104
TOTAL ASSETS	\$ 1,119,110	\$ 1,115,393
 LIABILITIES AND NET POSITION		
Liabilities		
Accrued expenses	\$ 12,868	\$ 8,991
Due to General Fund of the City of Gravette, Arkansas	2,612	-
Meter deposits	78,974	68,395
Total Liabilities	94,454	77,386
 Net Position		
Restricted for:		
Deposits	78,038	68,568
Reserves	150,000	150,000
Fund depreciation	126,536	120,536
Unrestricted	670,082	698,903
Total Net Position	1,024,656	1,038,007
TOTAL LIABILITIES AND NET POSITION	\$ 1,119,110	\$ 1,115,393

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Years ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Water revenues	\$ 1,041,290	\$ 1,028,168
Sewer revenues	222,529	221,778
Sanitation charges	126,887	122,671
Charges and fees	40,122	50,331
Miscellaneous	18,920	6,831
Total Operating Revenues	1,449,748	1,429,779
 OPERATING EXPENSES		
Advertising	316	90
Banking fees	3,003	2,621
Capital improvements	35,197	404,583
Dues and subscriptions	11,665	19,002
Employee benefits	39,780	37,365
Insurance	14,376	15,310
Miscellaneous	1,740	4,267
Payroll taxes	12,524	17,109
Postage	17,704	14,381
Professional services	51,176	15,365
Repairs and maintenance	233,205	147,623
Salaries and wages	163,113	159,445
Sanitation contract	126,677	116,387
Supplies	34,879	43,063
Training and meetings	5,265	3,979
Utilities	54,525	60,596
Water purchases	352,926	379,889
Total Operating Expenses	1,158,071	1,441,075
 OPERATING INCOME (LOSS)	291,677	(11,296)

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Years ended December 31, 2017 and 2016

NONOPERATING REVENUES (EXPENSES)		
Interest income	1,229	1,279
Sales tax income	-	309,636
Principal payments on long-term debt	(156,892)	(151,851)
Interest payments on long-term debt	(149,365)	(154,511)
Net Nonoperating Expenses	<u>(305,028)</u>	<u>4,553</u>
DECREASE IN NET POSITION	(13,351)	(6,743)
NET POSITION, BEGINNING OF YEAR	<u>1,038,007</u>	<u>1,044,750</u>
NET POSITION, END OF YEAR	<u>\$ 1,024,656</u>	<u>\$ 1,038,007</u>

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Cash Flows – Modified Cash Basis
Years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		
Water	\$ 1,041,290	\$ 1,028,168
Sewer	222,529	221,778
Sanitation	126,887	122,671
Cash received from service charges, penalties, and other operating revenue	69,621	33,928
Payments for water	(352,926)	(379,889)
Payments for sanitation services	(126,677)	(116,387)
Payments for salaries and benefits	(175,637)	(176,554)
Payments to suppliers for goods and services	(461,145)	(361,758)
 Net Cash From Operating Activities	 343,942	 371,957
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital improvements	(35,197)	(404,583)
Sales tax income	-	309,636
Interest paid on long-term debt	(149,365)	(154,511)
Principal payments on long-term debt	(156,892)	(151,851)
Net Cash (Used For) Capital and Related Financing Activities	(341,454)	(401,309)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,229	1,279
 Net Cash From Investing Activities	 1,229	 1,279
 NET CHANGE IN CASH	 3,717	 (28,073)
 CASH, BEGINNING OF YEAR	 1,115,393	 1,143,466
 CASH, END OF YEAR	 \$ 1,119,110	 \$ 1,115,393

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Cash Flows – Modified Cash Basis
Years ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 291,677	\$ (11,296)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Capital improvements	35,197	404,583
Change in:		
Accrued expenses	3,877	1,904
Due to General Fund of the City of Gravette, Arkansas	2,612	-
Customer deposits	10,579	(23,234)
Total adjustments	52,265	383,253
Net Cash From Operating Activities	\$ 343,942	\$ 371,957

See accompanying notes to financial statements.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements
December 31, 2017 and 2016

NOTE 1: NATURE OF ACTIVITIES AND REPORTING ENTITY

The City of Gravette, Arkansas (the City) operates under an elected Mayor-Council form of government. The accompanying financial statements present only the Water & Wastewater Department (the Department) of the City and do not include any of the funds and account groups relative to the operations of the City, primary government except for that of the Department which is a proprietary fund. These financial statements are not intended to present fairly the financial position of the City and the results of its changes in net position. Separately issued financial statements of the City, primary government, may be obtained at the City's administrative offices. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* have been considered.

The purpose of the Department is to provide and maintain water and sewer services to the residents of the City of Gravette and surrounding areas. The Department also provides sanitation services as contracted through a third party.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Although the Department is not included in the regulatory financial statements of the City, the Department is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income and changes in financial position. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. 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's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the Department generally recognizes assets and liabilities, revenues and expenses 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 accounts payable or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are accrued expenses and meter deposits liabilities.

Basis of Presentation

The presentation of the Department's financial statements follows the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into restricted and unrestricted, as applicable.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2017 and 2016

In addition, operating revenues and expenses derived from or related directly to the distribution of water and treatment of waste water are distinguished from nonoperating revenues and expenses for purposes of presentation on the Department's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities, including those fees and charges levied for the purpose of capital improvements.

When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to first apply the expense to restricted net position and then to unrestricted net position.

Change in Basis of Accounting

In previous years, the Department prepared its financial statements using generally accepted accounting principles (GAAP). In 2016, the Department adopted the modified cash basis of accounting for its financial statements. Under the modified cash basis of accounting, the Department records revenues when they are received. The accompanying financial statements have been restated to conform with the modified cash basis of accounting as described above. As a result of the change in basis of accounting, the beginning net position as of January 1, 2016 has been restated approximately \$8,145,000 less than the amounts previously reported, primarily resulting from the decrease in fixed assets and long-term debt and related investments, which have been excluded from the financial statements.

Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At December 31, 2017 and 2016, the Department had cash equivalents of approximately \$599,000 and \$623,000, respectively.

Meter Deposits

Customers are required to make a deposit for water and sewer services of \$75 for property owners or \$150 for renters.

Income Taxes

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

Current Accounting Developments

In June 2017, the GASB issued Statement No. 87 (GASB 87), *Leases*, effective for periods beginning after June 15, 2021. GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases and governments. Management is currently evaluating the impact of implementation of these statements to the financial statements of the Department and does not expect the implementation of these statements to significantly impact the financial statements of the Department.

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2017 and 2016

Advertising

The Department follows the policy of charging advertising to expense as paid.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest of which, are fully guaranteed by the United States of America. The Department maintains separate bank accounts in various banks. Deposits with banks at December 31, 2017 and 2016 are as follows:

	2017	2016
Total cash and cash equivalents in bank	\$ 1,134,938	\$ 1,159,099
Less:		
FDIC insured	500,000	500,000
Collateralized	634,938	659,099
Uninsured/Uncollateralized	\$ -	\$ -

NOTE 4: RESTRICTED CASH AND CASH EQUIVALENTS

At December 31, 2017 and 2016, certain resources of the Department are classified as restricted cash and cash equivalents on the Statements of Financial Position as follows:

	2017	2016
Meter deposits	\$ 78,038	\$ 68,568
Funded depreciation	126,536	120,536
Debt reserve fund	150,000	150,000
Total restricted cash and cash equivalents	\$ 354,574	\$ 339,104

NOTE 5: CAPITAL ASSETS

Capital assets are capitalized at historical cost or estimated historical costs, if actual data is not available. Capital assets purchased are recorded as expenditures at the time of purchase. Donated capital assets are reported at fair value when received. The Department maintains a threshold level of \$500 for capitalizing equipment. No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the estimated useful lives of the assets which range from 5 to 50 years.

City of Gravette, Arkansas Water & Wastewater Department

Notes to Financial Statements December 31, 2017 and 2016

The following is a summary of major components of the Department's capital assets and related transactions for the years ended December 31, 2017 and 2016:

	2017			
	Balance	Increases	Decreases	Balance
	Beginning of Year			End of Year
Non-depreciable:				
Land	\$ 38,471	\$ -	\$ -	\$ 38,471
Depreciable:				
Water system	8,874,729	-	-	8,874,729
Wastewater system	7,606,416	-	-	7,606,416
Equipment	997,565	35,197	-	1,032,762
	17,517,181	35,197	-	17,552,378
Accumulated depreciation	(5,171,894)	(387,800)	-	(5,559,694)
Capital assets, net	\$ 12,345,287	\$ (352,603)	\$ -	\$ 11,992,684
	2016			
	Balance	Increases	Decreases	Balance
	Beginning of Year			End of Year
Non-depreciable:				
Land	\$ 38,471	\$ -	\$ -	\$ 38,471
Depreciable:				
Water system	8,874,729	-	-	8,874,729
Wastewater system	7,226,158	380,258	-	7,606,416
Equipment	973,240	24,325	-	997,565
	17,112,598	404,583	-	17,517,181
Accumulated depreciation	(4,788,292)	(383,602)	-	(5,171,894)
Capital assets, net	\$ 12,324,306	\$ 20,981	\$ -	\$ 12,345,287

NOTE 6: RISKS AND UNCERTAINTIES

As of the date of the Independent Auditor's Report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the Department's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that the Department's operations will be impacted.

City of Gravette, Arkansas Water & Wastewater Department

Notes to Financial Statements December 31, 2017 and 2016

NOTE 7: COMMITMENTS

The following is a summary of the Department's debt service transactions for the years ended December 31, 2017 and 2016:

	Debt Outstanding January 1, 2017	Additions	Payments	Debt Outstanding December 31, 2017
2004 ANRC Loan	\$ 30,529	\$ -	\$ 1,086	\$ 29,443
2004 USDA WEP Loan	2,286,728	-	50,117	2,236,611
2008 ADFA Loan	1,805,772	-	105,689	1,700,083
	<u>\$ 4,123,029</u>	<u>\$ -</u>	<u>\$ 156,892</u>	<u>\$ 3,966,137</u>

	Debt Outstanding January 1, 2016	Additions	Payments	Debt Outstanding December 31, 2016
2004 ANRC Loan	\$ 31,563	\$ -	\$ 1,034	\$ 30,529
2004 USDA WEP Loan	2,334,703	-	47,975	2,286,728
2008 ADFA Loan	1,908,614	-	102,842	1,805,772
	<u>\$ 4,274,880</u>	<u>\$ -</u>	<u>\$ 151,851</u>	<u>\$ 4,123,029</u>

Annual debt service requirements to maturity are as follows:

Year Ended December 31,	Principal	Interest	Total
2018	\$ 157,596	\$ 152,296	\$ 309,892
2019	189,905	146,560	336,465
2020	166,922	140,358	307,280
2021	172,427	134,853	307,280
2022	178,127	129,153	307,280
2023-2027	983,344	561,238	1,544,582
2028-2032	872,813	378,468	1,251,281
2033-2037	503,503	242,297	745,800
2038-2042	626,370	119,430	745,800
2043-2044	115,131	1,604	116,735
	<u>\$ 3,966,138</u>	<u>\$ 2,006,257</u>	<u>\$ 5,972,395</u>

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2017 and 2016

A summary of each bond issued is as follows:

	<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Interest Rate & Service Fee Percent</u>	<u>Date of Final Maturity</u>
2004 ANRC Loan	6/22/2004	\$ 32,548	5.00%	6/1/2035
2004 USDA WEP Loan	6/23/2004	2,756,000	4.375%	6/23/2044
2008 ADFA Loan	12/2/2008	2,420,000	2.75%	10/15/2031

On July 1, 2016, the Department entered into a service contract with Republic Services of Bella Vista (Republic Services) whereas the Department collects sanitation fees from the citizens of the City and remits payments to Republic Services each month. Payments totaling \$126,677 and \$53,040 were made to Republic Services during the years ended December 31, 2017 and 2016, respectively. The contract term ends June 30, 2021.

The Department had a service contract with Waste Management of Springdale Hauling for sanitation services. The contract expired on June 30, 2016 and was not renewed. Payments totaling \$0- and \$63,347 were made to Waste Management of Springdale Hauling during the years ended December 31, 2017 and 2016, respectively.

NOTE 8: RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settle claims have not exceeded this commercial coverage in the previous year. Also, there were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The Department is involved in litigation as of December 31, 2017 arising in the ordinary course of business. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that the resulting outcome of such litigation would have minimal adverse impact on the Department.

NOTE 9: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The City contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The State of Arkansas issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2017 and 2016

Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salary. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees of the system, based on the annual actuarial valuation. For the years ended December 31, 2017 and 2016, the City's contribution to the plan was \$72,483 and \$71,895, respectively. Of this amount, the Department contributed \$23,676 and \$22,938, respectively.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City at June 30, 2017 and 2016 (the actuarial valuation date and measurement date) was \$716,726 and \$654,424, respectively. The Department's proportionate share of the total collective net pension liability has not been determined.

NOTE 10: SALES AND USE TAX REVENUE

During the years ended December 31, 2017 and 2016, the Department received \$-0- and \$309,636, respectively, from the City of Gravette derived from the City's 0.75% Sales and Use Tax to support the 2013 Sewer Bond Fund.

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 2, 2021, the date that the financial statements were available to be issued.

Supplementary Information

City of Gravette, Arkansas
Water & Wastewater Department

Schedules of Customer Counts and Volumes
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Water customers	<u>1,537</u>	<u>1,480</u>
Sewer customers	<u>887</u>	<u>849</u>
Gallons purchased for the year	<u>11,870,000</u>	<u>12,376,000</u>
Gallons billed for the year	<u>7,411,500</u>	<u>7,580,900</u>

See Independent Auditor's Report

**City of Gravette, Arkansas
Water & Wastewater Department**

**Schedules of Water and Sewer Rates
December 31, 2017 and 2016**

<u>Monthly Water Rates for Customers</u>	<u>Inside City</u>	<u>Outside City</u>	<u>West</u>
First 1,000 gallons or portion thereof	\$24.81 minimum	\$32.25 minimum	\$36.85 minimum
Next 19,000 gallons	\$5.96 / thousand	\$7.74 / thousand	\$7.74 / thousand
All in excess of 20,000 gallons	\$5.80 / thousand	\$7.53 / thousand	\$7.53 / thousand

Monthly Sewer Rates for Customers

First 1,000 gallons of water consumption or portion thereof	\$7.50 minimum
All in excess of 1,000 gallons of water consumption	\$2.00 / thousand



**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***

Honorable Mayor and City Council
City of Gravette, Arkansas
Water & Wastewater Department
Gravette, Arkansas

We have audited, 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, the financial statements of the **City of Gravette Water & Wastewater** Department (the Department), a component unit of the City of Gravette, Arkansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated April 2, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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 described in the accompanying summary schedules of findings and responses as 2017-001, 2017-002, 2017-003, 2017-004, 2016-001, 2016-002, 2016-003, 2016-004, and 2016-005, we did identify deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 Water Department's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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 of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Certified Public Accountants

Rogers, Arkansas

April 2, 2021

City of Gravette, Arkansas

Water & Wastewater Department

Summary Schedule of Findings and Responses December 31, 2017

2017-001: Lack of Segregation of Duties

Condition: During our audit, we noted that there was a lack of segregation of duties in some areas, including check signing authority, cash receipts, cash disbursements, and review of journal entries.

Criteria and Cause: A good system of internal accounting controls requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction. Due to having a limited number of employees to handle all accounting functions, many duties and functions performed are contrary to ideal control procedures.

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and may not be detected in a timely manner.

Recommendation: We recommend that one person not be able to authorize, write, and sign checks. We also recommend that one person not be responsible for taking customer payments, recording payments, depositing payments, and have the ability to authorize write-offs. Lastly, we recommend a high level review of journal entries be performed by either the Mayor or the City Treasurer position on a monthly basis, including review of supporting documentation and explanation as applicable.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement the recommended procedures in order to segregate duties and further strengthen internal controls.

2017-002: Fund Accounting

Condition: During our audit, we noted that there were extensive inter-fund transactions throughout the City as a whole.

Criteria and Cause: The relevant cash receipts and disbursements appear to be recorded throughout the accounting system. However, the transactions were not always reflected in the correct fund. In addition, the relevant supporting documents were not maintained for all transactions.

Effect: Improper fund accounting increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: We recommend that management establish a monitoring system, which tracks both sides of inter-fund transactions and balances funds with all supporting documentation attached. We also suggest that this information be regularly reconciled to the general ledger accounts and the account records of all funds and that inter-fund transactions be kept to a minimum if possible.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement the recommended procedures and will keep inter-fund transactions to a minimum.

2017-003: Maintaining Financial Records

Condition: During our audit, we noticed that accounting records frequently could not be located when needed.

Criteria and Cause: The causes of the lack of accessible records were numerous, but included lack of a clearly specified system for filing records, failure of those who removed records from the files to indicate who took the records, and failure to return the records to the files or misfiling the records when they were returned.

Effect: The result was that employees spent nonproductive time searching for needed documents. The availability of records and documentation can be critical to the Department in the event of an audit by us or governmental agencies, a lawsuit, an insurance claim, or any number of other circumstances.

Recommendation: We strongly recommend that a clear, written record-retention policy be put in place to ensure that the appropriate records are available when needed.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement a record-retention policy and keep track of documents in a more efficient and effective manner to strengthen documentation and decrease the time spent searching for documents.

2017-004: Underfunded Meter Deposits

Condition: During our audit, we noticed that the Meter Deposits cash account was underfunded.

Criteria and Cause: A reconciliation between the cash account and the liability for the meter deposits was not in place, therefore, resulting in an underfunded account.

Effect: An underfunded meter deposit cash account could cause the Department to owe money to a depositor that the Department does not have allocated appropriately.

Recommendation: We recommend that a reconciliation be put in place to reconcile the liability to the cash account each month to ensure that the deposit cash account is appropriately funded.

Views of Responsible Officials and Planned Corrective Actions: In subsequent years, the Department has corrected this finding.

City of Gravette, Arkansas

Water & Wastewater Department

Summary Schedule of Findings and Responses December 31, 2016

2016-001: Lack of Segregation of Duties

Condition: During our audit, we noted that there was a lack of segregation of duties in some areas, including check signing authority, cash receipts, cash disbursements, and review of journal entries.

Criteria and Cause: A good system of internal accounting controls requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction. Due to having a limited number of employees to handle all accounting functions, many duties and functions performed are contrary to ideal control procedures.

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and may not be detected in a timely manner.

Recommendation: We recommend that one person not be able to authorize, write, and sign checks. We also recommend that one person not be responsible for taking customer payments, recording payments, depositing payments, and have the ability to authorize write-offs. Lastly, we recommend a high level review of journal entries be performed by either the Mayor or the City Treasurer position on a monthly basis, including review of supporting documentation and explanation as applicable.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement the recommended procedures in order to segregate duties and further strengthen internal controls.

Status: This finding has not been corrected by the Department. See current year finding 2017-001.

2016-002: Fund Accounting

Condition: During our audit, we noted that there were extensive inter-fund transactions throughout the City as a whole.

Criteria and Cause: The relevant cash receipts and disbursements appear to be recorded throughout the accounting system. However, the transactions were not always reflected in the correct fund. In addition, the relevant supporting documents were not maintained for all transactions.

Effect: Improper fund accounting increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: We recommend that management establish a monitoring system, which tracks both sides of inter-fund transactions and balances funds with all supporting documentation attached. We also suggest that this information be regularly reconciled to the general ledger accounts and the account records of all funds and that inter-fund transactions be kept to a minimum if possible.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement the recommended procedures and will keep inter-fund transactions to a minimum.

Status: This finding has not been corrected by the Department. See current year finding 2017-002.

2016-003: Maintaining Financial Records

Condition: During our audit, we noticed that accounting records frequently could not be located when needed.

Criteria and Cause: The causes of the lack of accessible records were numerous, but included lack of a clearly specified system for filing records, failure of those who removed records from the files to indicate who took the records, and failure to return the records to the files or misfiling the records when they were returned.

Effect: The result was that employees spent nonproductive time searching for needed documents. The availability of records and documentation can be critical to the Department in the event of an audit by us or governmental agencies, a lawsuit, an insurance claim, or any number of other circumstances.

Recommendation: We strongly recommend that a clear, written record-retention policy be put in place to ensure that the appropriate records are available when needed.

Views of Responsible Officials and Planned Corrective Action: The Department will make every effort to implement a record-retention policy and keep track of documents in a more efficient and effective manner to strengthen documentation and decrease the time spent searching for documents.

Status: The Department is in the process of evaluating this finding. See current year finding 2017-003.

2016-004: Noncompliance with State Act Compliance 14-237-101

Condition: During our testing of state compliance, we noticed that financial statements were not published by April 1 and that the Department did not maintain a fixed assets ledger.

Criteria and Cause: Arkansas Code Section 14-237-108(b) *Fixed Assets* states the department should maintain a listing of fixed assets by major category. During our audit, the Department did not have a fixed assets listing. Additionally, Arkansas Code Section 12-237-113(a) *Annual Publication of Financial Statements* states that financial statements should be published in the local newspaper by April 1 of the following year. During our audit, it was noted that while financial statements are released each year, the financial statements are not published by the required date of April 1.

Effect: Noncompliance with Arkansas Code Sections could result in penalties or decreased funding.

Recommendation: We strongly recommend that the Department maintain a fixed assets ledger within Centerpoint (CSA). We also recommend that the financial statements be published no later than April 1.

Views of Responsible Officials and Planned Corrective Actions: The Department will make every effort to implement the recommendations provided.

Status: This finding has not been corrected by the Department. See finding 2017-004.

2016-005: Underfunded Meter Deposits

Condition: During our audit, we noticed that the Meter Deposits cash account was underfunded.

Criteria and Cause: A reconciliation between the cash account and the liability for the meter deposits was not in place, therefore, resulting in an underfunded account.

Effect: An underfunded meter deposit cash account could cause the Department to owe money to a depositor that the Department does not have allocated appropriately.

Recommendation: We recommend that a reconciliation be put in place to reconcile the liability to the cash account each month to ensure that the deposit cash account is appropriately funded.

Views of Responsible Officials and Planned Corrective Actions: In subsequent years, the Department has corrected this finding.

Status: This finding has not been corrected by the Department. See finding 2017-005.

**City of Gravette, Arkansas
Water & Wastewater Department**

**Summary Status of Prior Year Findings
December 31, 2015**

There were no audit findings for the year ended December 31, 2015.