

Gravette



The Heart of Hometown America

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

**Financial Statements
December 31, 2019 and 2018**

(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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 829,869	\$ 828,467
Restricted cash and cash equivalents	385,335	369,414
Due from General Fund of the City of Gravette, Arkansas	2,612	2,612
TOTAL ASSETS	\$ 1,217,816	\$ 1,200,493
 LIABILITIES AND NET POSITION		
Liabilities		
Accrued expenses	\$ 7,134	\$ 7,267
Meter deposits	89,349	86,778
Total Liabilities	96,483	94,045
 Net Position		
Restricted		
Deposits	89,349	86,878
Reserves	150,000	150,000
Replacements	8,450	-
Fund depreciation	137,536	132,536
Unrestricted	735,998	737,034
Total Net Position	1,121,333	1,106,448
TOTAL LIABILITIES AND NET POSITION	\$ 1,217,816	\$ 1,200,493

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, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water revenues	\$ 1,098,120	\$ 1,111,857
Sewer revenues	232,326	225,369
Sanitation charges	127,822	129,392
Charges and fees	45,477	44,601
Miscellaneous	6,037	5,212
Total Operating Revenues	1,509,782	1,516,431
 OPERATING EXPENSES		
Advertising	135	228
Banking fees	2,531	2,239
Capital improvements	31,930	50,344
Dues and subscriptions	14,554	13,715
Employee benefits	44,096	43,142
Insurance	12,632	14,426
Miscellaneous	5,183	4,426
Payroll taxes	12,695	13,016
Postage	12,819	19,508
Professional services	90,521	53,189
Repairs and maintenance	210,499	174,703
Salaries and wages	165,791	166,024
Sanitation contract	127,186	127,938
Supplies	40,260	36,496
Taxes	31,477	-
Training and meetings	2,241	5,996
Utilities	57,792	57,985
Water purchases	362,829	344,007
Total Operating Expenses	1,225,171	1,127,382
 OPERATING INCOME	284,611	389,049

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, 2019 and 2018

NONOPERATING REVENUES (EXPENSES)		
Interest income	8,579	2,949
Principal payments on long-term debt	(131,934)	(172,901)
Interest payments on long-term debt	<u>(146,371)</u>	<u>(137,305)</u>
Net Nonoperating Expenses	<u>(269,726)</u>	<u>(307,257)</u>
INCREASE IN NET POSITION	14,885	81,792
NET POSITION, BEGINNING OF YEAR	<u>1,106,448</u>	<u>1,024,656</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,121,333</u></u>	<u><u>\$ 1,106,448</u></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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		
Water	\$ 1,098,120	\$ 1,111,857
Sewer	232,326	225,369
Sanitation	127,822	129,392
Cash received from service charges, penalties, and other operating revenue	51,514	47,201
Payments for water	(362,829)	(344,007)
Payments for sanitation services	(127,186)	(127,938)
Payments for salaries and benefits	(178,486)	(179,040)
Payments to suppliers for goods and services	(522,302)	(426,462)
Net Cash From Operating Activities	318,979	436,372
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital improvements	(31,930)	(50,344)
Interest paid on long-term debt	(146,371)	(137,305)
Principal payments on long-term debt	(131,934)	(172,901)
Net Cash (Used For) Capital and Related Financing Activities	(310,235)	(360,550)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	8,579	2,949
Net Cash From Investing Activities	8,579	2,949
 NET CHANGE IN CASH	17,323	78,771
 CASH, BEGINNING OF YEAR	1,197,881	1,119,110
 CASH, END OF YEAR	\$ 1,215,204	\$ 1,197,881

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Cash Flows – Modified Cash Basis
Years ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	\$ 284,611	\$ 389,049
Adjustments to reconcile operating income to net cash from operating activities:		
Capital improvements	31,930	50,344
Change in:		
Accrued expenses	(133)	(5,601)
Due to General Fund of the City of Gravette, Arkansas	-	(5,224)
Customer deposits	2,571	7,804
Total adjustments	34,368	47,323
Net Cash From Operating Activities	\$ 318,979	\$ 436,372

See accompanying notes to financial statements.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2019 and 2018

NOTE 1: NATURE OF ACTIVITIES

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, 2019 and 2018

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.

Use of Estimates

Management uses estimates and assumption in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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, 2019 and 2018, the Department had cash equivalents of approximately \$276,000 and \$721,000, 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.

Advertising

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

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, 2019 and 2018

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, 2019 and 2018 are as follows:

	2019	2018
Total cash and cash equivalents in bank	\$ 1,217,289	\$ 1,230,643
Less:		
FDIC insured	750,000	500,000
Collateralized	467,289	730,643
Uninsured/Uncollateralized	\$ -	\$ -

NOTE 4: RESTRICTED CASH AND CASH EQUIVALENTS

At December 31, 2019 and 2018, certain resources of the Department are classified as restricted cash and cash equivalents on the Statements of Financial Position as follows:

	2019	2018
Meter deposits	\$ 89,349	\$ 86,878
Meter replacements	8,450	-
Funded depreciation	137,536	132,536
Debt reserve fund	150,000	150,000
Total restricted cash and cash equivalents	\$ 385,335	\$ 369,414

NOTE 5: 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 any of the three preceding years. 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, 2019 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.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2019 and 2018

NOTE 6: 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.

The following is a summary of major components of the Department's capital assets and related activities resulting from modified cash basis transactions for the years ended December 31, 2019 and 2018:

	2019			
	Balance Beginning of Year	Increases	Decreases	Balance 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	1,056,059	31,930	-	1,087,989
	17,575,675	31,930	-	17,607,605
Accumulated depreciation	(5,933,127)	(392,881)	-	(6,326,008)
Capital assets, net	\$ 11,642,548	\$ (360,951)	\$ -	\$ 11,281,597

	2018			
	Balance Beginning of Year	Increases	Decreases	Balance 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	1,032,762	50,344	(27,047)	1,056,059
	17,552,378	50,344	(27,047)	17,575,675
Accumulated depreciation	(5,559,694)	(389,888)	16,455	(5,933,127)
Capital assets, net	\$ 11,992,684	\$ (339,544)	\$ (10,592)	\$ 11,642,548

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2019 and 2018

NOTE 7: 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 District’s operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that the District’s operations will be impacted.

NOTE 8: COMMITMENTS AND CONTINGENCIES

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 \$127,186 and \$127,938 were made to Republic Services during the years ended December 31, 2019 and 2018, respectively. The contract term ends June 30, 2021.

The following is a summary of the Department’s debt service transactions for the years ended December 31, 2019 and 2018:

	Debt Outstanding January 1, 2019	Additions	Payments	Debt Outstanding December 31, 2019
2004 USDA WEP Loan	\$ 2,201,661	\$ -	\$ 20,193	\$ 2,181,468
2008 ADFA Loan	1,591,467	-	111,623	1,479,844
	<u>\$ 3,793,128</u>	<u>\$ -</u>	<u>\$ 131,816</u>	<u>\$ 3,661,312</u>

	Debt Outstanding January 1, 2018	Additions	Payments	Debt Outstanding December 31, 2018
2004 ANRC Loan	\$ 29,443	\$ -	\$ 29,443	\$ -
2004 USDA WEP Loan	2,236,611	-	34,950	2,201,661
2008 ADFA Loan	1,700,083	-	108,616	1,591,467
	<u>\$ 3,966,137</u>	<u>\$ -</u>	<u>\$ 173,009</u>	<u>\$ 3,793,128</u>

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2019 and 2018

Annual debt service requirements to maturity are as follows:

Year Ended December 31,	Principal	Interest	Total
2020	\$ 166,922	\$ 140,358	\$ 307,280
2021	172,427	134,853	307,280
2022	178,127	129,153	307,280
2023	184,025	111,034	295,059
2024	190,128	106,184	296,312
2025-2029	1,049,980	451,636	1,501,616
2030-2034	620,345	310,853	931,198
2035-2039	549,457	196,343	745,800
2040-2044	549,901	62,945	612,846
	\$ 3,661,312	\$ 1,643,359	\$ 5,304,671

A summary of each bond issued is as follows:

	Date of Issue	Amount of Original Issue	Interest Rate & Service Fee Percent	Date of Final Maturity
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

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.

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, 2019 and 2018, the City's contribution to the plan was \$93,365 and \$80,097, respectively. Of this amount, the Department contributed \$24,917 and \$27,038, respectively.

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2019 and 2018

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City at June 30, 2019 and 2018 (the actuarial valuation date and measurement date) was \$748,375 and \$639,525, respectively. The Department's proportionate share of the total collective net pension liability has not been determined.

NOTE 10: 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Water customers	<u>1,650</u>	<u>1,607</u>
Sewer customers	<u>965</u>	<u>942</u>
Gallons purchased for the year	<u>10,076,000</u>	<u>11,259,000</u>
Gallons billed for the year	<u>6,426,900</u>	<u>7,053,900</u>

See Independent Auditor's Report

City of Gravette, Arkansas

Water & Wastewater Department

Schedules of Water and Sewer Rates December 31, 2019 and 2018

In March 2019, the City Council approved a rate increase for both water and sewer usage, effective upon passage. The changes are as follows:

<u>Previous 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

<u>New Monthly Water Rates for Customers</u>	<u>Inside City</u>	<u>Outside City</u>	<u>West</u>
First 1,000 gallons or portion thereof	\$25.10 minimum	\$32.54 minimum	\$37.14 minimum
All in excess of 1,000 gallons	\$6.25 / thousand	\$8.03 / thousand	\$8.03 / thousand

<u>Previous Monthly Sewer Rates for Customers</u>	<u>All Customers</u>
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

<u>New Monthly Sewer Rates for Customers</u>	<u>On Service</u>	<u>Not on Service</u>
First 1,000 gallons of water consumption or portion thereof	\$12.51 minimum	\$27.00 minimum
All in excess of 1,000 gallons of water consumption	\$2.98 / thousand	\$2.98 / 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, 2019 and 2018, 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 schedule of findings and responses, as 2019-001 and 2018-001, 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 & Sewer Department

Summary Schedule of Findings and Responses December 31, 2019

2019-001: 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 employees who reconcile the bank account, enter payables, or process checks not have the ability to 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.

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.

City of Gravette, Arkansas

Water & Sewer Department

Summary Schedule of Findings and Responses December 31, 2018

2018-001: 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 employees who reconcile the bank account, enter payables, or process checks not have the ability to 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.

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 2019-001.

City of Gravette, Arkansas Water & Sewer Department

Summary Status of Prior Year Findings December 31, 2017

- Finding:** 2017-001: Lack of Segregation of Duties
- Status of Prior Finding:** The Department will continue to evaluate the cost/benefit of additional support staff to achieve complete segregation of duties. See finding 2018-001.
- Finding:** 2017-002: Fund Accounting
- Status of Prior Finding:** During the audit of December 31, 2018, it was noted that this finding was resolved by the Department.
- Finding:** 2017-003: Maintaining Financial Records
- Status of Prior Finding:** During the audit of December 31, 2018, it was noted that this finding was resolved by the Department.
- Finding:** 2017-004: Noncompliance with State Act Compliance 14-237-101
- Status of Prior Finding:** During the audit of December 31, 2018, it was noted that this finding was resolved by the Department.
- Finding:** 2017-005: Underfunded Meter Deposits
- Status of Prior Finding:** During the audit of December 31, 2018, it was noted that this finding was resolved by the Department.