

**BLACK ROCK WATER & SEWER
DEPARTMENT**

Financial Statements

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

Black Rock Water and Sewer Department
491 Elm Street
Black Rock, AR 72415

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Black Rock Water and Sewer Department, which comprise the Statement of Net Position as of December 31, 2017 and 2016, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Black Rock Water and Sewer Department as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ENTERPRISE FUND ONLY

As discussed in Note A, the financial statements present only the Black Rock Water and Sewer Department and are not intended to present fairly the financial position of the City of Black Rock, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018 on our consideration of the Black Rock Water and Sewer 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 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 Black Rock Water and Sewer Department's internal control over financial reporting and compliance.

DISCLAIMER OF OPINION ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information (Schedule of Current Usage Information-UNAUDITED), which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Despain, Rutin, Short
& Company, CPA'S, PA*

Jonesboro, Arkansas
October 10, 2018

BLACK ROCK WATER & SEWER DEPARTMENT
Statement of Net Position
December 31,

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Cash on Hand	\$ 400	\$ 400
Cash in Bank	86,860	71,955
Less Restricted Cash	<u>(47,883)</u>	<u>(47,532)</u>
Unrestricted Cash	\$ 39,377	\$ 24,823
Accounts Receivable	20,982	20,964
Unbilled Sales	7,486	6,436
Inventory	3,872	3,872
Prepaid Insurance	<u>1,025</u>	<u>2,129</u>
Total Current Assets	<u>\$ 72,742</u>	<u>\$ 58,224</u>
Capital Assets:		
Property, Plant & Equipment	\$ 3,313,357	\$ 3,311,277
Less Accumulated Depreciation	<u>(1,338,788)</u>	<u>(1,281,296)</u>
Net Capital Assets	<u>\$ 1,974,569</u>	<u>\$ 2,029,981</u>
Other Assets:		
Restricted Cash	<u>\$ 47,883</u>	<u>\$ 47,532</u>
Total Assets	<u>\$ 2,095,194</u>	<u>\$ 2,135,737</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 2,424	\$ 2,730
Accrued Payroll Taxes	374	376
Accrued Interest	969	995
Accrued Sales Tax	1,079	1,000
Customer Meter Deposits	12,475	11,310
Notes Payable - Street Fund	-	4,000
Current Maturities of Long-Term Debt	<u>16,896</u>	<u>16,165</u>
Total Current Liabilities	<u>\$ 34,217</u>	<u>\$ 36,576</u>
Long-Term Liabilities:		
Bonds Payable--1998	\$ 245,609	\$ 252,637
Bonds Payable--2004	455,396	464,536
Less Current Maturities	<u>(16,896)</u>	<u>(16,165)</u>
Net Long-Term Liabilities	<u>\$ 684,109</u>	<u>\$ 701,008</u>
Total Liabilities	<u>\$ 718,326</u>	<u>\$ 737,584</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$ 1,272,594	\$ 1,311,813
Restricted	47,883	47,532
Unrestricted	<u>56,390</u>	<u>38,809</u>
Total Net Position	<u>\$ 1,376,867</u>	<u>\$ 1,398,153</u>
Total Liabilities & Net Position	<u>\$ 2,095,194</u>	<u>\$ 2,135,737</u>

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

BLACK ROCK WATER & SEWER DEPARTMENT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31,

	<u>2017</u>	<u>2016</u>
Revenue from Operations:		
Water Revenue	\$ 80,023	\$ 82,458
Sewer Revenue	40,993	41,535
Penalties Charged	5,223	4,499
Miscellaneous Income	762	6,004
Connect/Reconnect Fees	<u>1,250</u>	<u>1,900</u>
Total Revenue from Operations	<u>\$ 128,251</u>	<u>\$ 136,396</u>
Operating Expenses:		
Wages	\$ 25,950	\$ 30,136
Retirement Contributions	-	698
Utilities	14,514	29,038
Supplies & Repairs	11,654	11,708
Taxes & Licenses	2,896	1,987
Payroll Tax	2,146	2,196
Legal & Professional	6,909	7,045
Office Expense	2,894	2,552
Bad Debts	2,700	2,661
Insurance	7,373	8,908
Travel	1,224	-
Vehicle Expense	3,759	1,964
Miscellaneous Expense	4,969	4,248
Depreciation Expense	<u>57,492</u>	<u>64,263</u>
Total Operating Expenses	<u>\$ 144,480</u>	<u>\$ 167,404</u>
Net Income (Loss) from Operations	<u>\$ (16,229)</u>	<u>\$ (31,008)</u>
Non-Operating Income (Expense)		
Interest Earned	\$ 83	\$ 50
Interest Expense	(31,365)	(32,040)
Gain on Sale	1,225	-
Proceeds from Burlington Northern	<u>25,000</u>	<u>-</u>
Total Non-Operating Income (Expense)	<u>\$ (5,057)</u>	<u>\$ (31,990)</u>
Net Income (Loss) Before Contributions	<u>\$ (21,286)</u>	<u>\$ (62,998)</u>
Capital Contributions and Transfers	<u>\$ -</u>	<u>\$ -</u>
Net Position, Beginning of Year	<u>\$ 1,398,153</u>	<u>\$ 1,461,151</u>
Net Position, End of Year	<u>\$ 1,376,867</u>	<u>\$ 1,398,153</u>

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

BLACK ROCK WATER & SEWER DEPARTMENT

Statement of Cash Flows

For the Year Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash Flows from Operations:		
Cash received from Customers	\$ 128,348	\$ 130,646
Cash paid to Employees	(25,950)	(30,136)
Cash paid to Suppliers	<u>(60,164)</u>	<u>(72,303)</u>
Cash Flows from Operations	\$ 42,234	\$ 28,207
Cash Flows from Investing Activities:		
Interest Earned	\$ 83	\$ 50
Cash Flows from Investing Activities	<u>\$ 83</u>	<u>\$ 50</u>
Cash Flows from Non-Capital Financing Activities:		
Cash received from Burlington Northern	\$ 25,000	\$ -
Cash received from Black Rock Street Fund	-	4,000
Cash paid to Black Rock Street Fund	<u>(4,000)</u>	<u>-</u>
Cash Flows from Non-Capital Financing Activities	<u>\$ 21,000</u>	<u>\$ 4,000</u>
Cash Flows from Capital & Related Financing Activities:		
Transfer (to) from Restricted Cash	\$ (351)	\$ (106)
Principal Payments on 1998 Revenue Bonds	(7,028)	(6,719)
Principal Payments on 2004 Revenue Bonds	(9,139)	(8,748)
Purchase of Model 210 Injector	(2,080)	-
Sale of old water truck	1,225	-
Interest Paid (Expense)	<u>(31,390)</u>	<u>(32,064)</u>
Cash Flows from Capital & Related Financing Activities	<u>\$ (48,763)</u>	<u>\$ (47,637)</u>
Cash Increase (Decrease)	\$ 14,554	\$ (15,380)
Cash and Cash Equivalents, Beginning	<u>24,823</u>	<u>40,203</u>
Cash and Cash Equivalents, Ending	<u>\$ 39,377</u>	<u>\$ 24,823</u>
Reconciliation of Operating Income with Cash Flows from Operations:		
Net Income (Loss) from Operations	\$ (16,229)	\$ (31,008)
Adjustments:		
Depreciation	57,492	64,263
Decrease (Increase) in Current Assets:		
Accounts Receivable	(18)	(3,495)
Unbilled Sales	(1,050)	(234)
Prepaid Insurance	1,104	(569)
Increase (Decrease) in Current Liabilities & Accrued Expenses	<u>935</u>	<u>(750)</u>
Cash Flows from Operations	<u>\$ 42,234</u>	<u>\$ 28,207</u>

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

BLACK ROCK WATER AND SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity and Activities

The Black Rock Water and Sewer Department (Department) is charged with the full responsibility for the efficient operation and control of the Water & Sewer Department and to provide water and sewer services to the citizens of the City of Black Rock. The Black Rock Water and Sewer Department is an enterprise fund and for financial statement purposes is being presented as an enterprise fund activity. Enterprise funds are used to account for operations (a) that are financial and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements present only the Black Rock Water and Sewer Department funds, accounts and balances and are not intended to present the financial position, the results of operations, and the cash flows of the City of Black Rock, Arkansas.

Measurement Focus and Financial Statement Presentation

The term “measurement focus” is used to denote what is being measured and reported in the Black Rock Water & Sewer Department’s operating statement. The Black Rock Water & Sewer Department is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Black Rock Water & Sewer Department is better or worse off economically as a result of events and transactions of the period.

The Department adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. It requires classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt*—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as unspent proceeds.
- *Restricted*—This component of net position consists of constraints placed on net assets use through external 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.
- *Unrestricted*—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Management’s Discussion and Analysis is intended to be presented for the reporting entity as a whole, not for individual Departments or component units; therefore, it has not been included as supplemental information to these financial statements.

BLACK ROCK WATER AND SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Black Rock Water and Sewer Department uses the Accrual Basis of Accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled revenues are recorded at year end.

Allowance for Doubtful Accounts

Generally accepted accounting principles require that an allowance for doubtful accounts be accrued. The Black Rock Water and Sewer Department uses the direct write-off method, which is to say that bad debts are recognized as they occur. This practice does not have a material effect on the financial statements because customers are required to make a deposit greater than an average month's bill.

Fixed Assets

Fixed Assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water & Sewer System	50 Years
Trucks & Equipment	5 Years

Inventory Valuation

Inventory is valued at the lower of cost or market using the First-In, First-Out method.

Compensated Absences

Employees earn four weeks of compensated absences per year after 15 years of service for vacation and up to 60 days sick leave. Accrued compensated absences are immaterial to the financial statements and have not been accrued.

Cash Equivalents

The Department considers all cash amounts on deposit with an original maturity of twelve months or less to be cash equivalents. Restricted cash is not considered a cash equivalent.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Use of FASB Pronouncements

The Entity uses Financial Accounting Standards Board (FASB) pronouncements that do not conflict with pronouncements of the Government Accounting Standards Board (GASB).

Tax Status

The Water & Sewer Department is a part of the City of Black Rock and is not subject to filing of Federal and Arkansas tax returns. The Department is subject to filing of reports and payment of taxes to various taxing jurisdictions such as the Internal Revenue Service and the Arkansas Department of Finance & Administration for such taxes as Payroll Tax, Excise Tax and Sales Tax. Those returns are subject to examination and additional assessment by the various taxing jurisdictions for periods ranging from three to six years.

BLACK ROCK WATER AND SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2017

NOTE B - RESTRICTED CASH

The 1998 Bond issue requires that a debt service fund be established equal to the annual note payments over a ten-year period. The total required to be on deposit is \$18,252 when fully funded. Monthly payments of \$249 to the 2004 Bond issue debt service account became effective May 26, 2006, and accumulated over a ten year period to a required balance of \$29,631. The Department currently has accounts designated for this purpose which had \$53,895 on deposit as of December 31, 2017. Total required restricted cash was \$47,883 as of December 31, 2017.

NOTE C - INSURED DEPOSITS

All cash is on deposit in federal banks and is in fully insured accounts up to \$250,000. (See Note D for details of FDIC coverage and uninsured cash.)

NOTE D - OFF BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Black Rock Water and Sewer Department to concentrations of credit risk consist principally of cash deposits and trade accounts receivable.

The Department maintains bank accounts in several financial institutions located in Northeast Arkansas. As of December 31, 2017, the carrying amount of the Department's deposits was \$86,860 and the bank balance for the combined financial institutions was \$87,275. The bank balances were covered by FDIC Insurance.

The Department's carrying amount of total cash deposits and investments with financial institutions are classified in these three categories as of December 31, 2017:

1. Insured or collateralized with securities held by the Entity or by its agent in the Entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Entity's name; and
3. Uncollateralized.

Description	Category			Carrying Amount	Market Value
	1	2	3		
US Treasury Notes	\$ -	\$ -	\$ -	\$ -	\$ -
FDIC Insurance	86,860	-	-	86,860	86,860
Uninsured Cash	-	-	-	-	-
Totals	\$ 86,860	\$ -	\$ -	\$ 86,860	\$ 86,860

The Department is engaged primarily in providing services to the residents of the City of Black Rock. Concentrations of Credit Risk with respect to trade receivables and unbilled service revenues are limited due to the customer deposits held by the Department. As of December 31, 2017 and 2016 trade receivables exceeded customer deposits by approximately \$15,993 and \$16,090 respectively.

BLACK ROCK WATER AND SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2017

NOTE E - LONG-TERM LIABILITIES

Long-term debt at December 31, 2017, consisted of two bond issues, 2004 and 1998. The 2004 bond issue bears interest at the rate of 4.375%. An interest-only payment was due on April 26, 2005, and another on April 26, 2006. Monthly installments of \$2,440 began on May 26, 2006, with the final installment being on April 26, 2044. This issue was used to expand and improve the waste water system. The 1998 issue was used to make major repairs and improvements to the existing water system. The 1998 issue bears interest at the rate of 4.5% and is dated October 8, 1998. Terms provided for an interest only payment on October 8, 1999, and monthly payments, which include principal and interest in the amount of \$1,521 for the next 40 years. Following is a summary of current maturities of the two bonds and a summary of all long-term debt:

	<u>2004 Bond</u>	<u>1998 Bond</u>	<u>Total Maturity</u>
2018	\$ 9,546	\$ 7,350	\$ 16,896
2019	9,972	7,688	17,660
2020	10,417	8,041	18,458
2021	10,883	8,410	19,293
2022	11,368	8,796	20,164
2023-2027	64,922	50,428	115,350
2028-2032	80,764	63,126	143,890
2033-2037	100,473	79,021	179,494
2038-2042	124,991	12,750	137,741
2043-2044	32,060	-	32,060
Total Maturities 12/31/17	<u>\$ 455,396</u>	<u>\$ 245,609</u>	<u>\$ 701,005</u>
Total Maturities 12/31/16	<u>\$ 464,536</u>	<u>\$ 252,637</u>	<u>\$ 717,173</u>

On October 11, 2016, the Department borrowed \$4,000 from the Black Rock Street Fund on a short-term basis for cash flow purposes. This debt was subsequently repaid on February 11, 2017.

NOTE F - RISK MANAGEMENT

The Department is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage the risk of loss, the Department purchases commercial insurance policies, which includes a workers compensation insurance policy and a commercial vehicle policy.

NOTE G - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Black Rock Water and Sewer Department has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, bonds payable, etc.) none of which are held for trading purposes. The Black Rock Water and Sewer Department, unless otherwise indicated, estimates that the fair values of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values as stated in the accompanying Statement of Net Position. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Department could realize in a current market exchange.

BLACK ROCK WATER AND SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2017

NOTE H - SUBSEQUENT EVENTS

Management has evaluated subsequent events up through October 10, 2018, the date on which the financial statements were available to be issued.

NOTE I - DEFERED COMPENSATION

The City contributes 3% of employee salary to a deferred compensation plan (tax deferred annuity) administered by Woodmen of the World. Employees are allowed to contribute to the plan. Covered compensation for 2017 was \$0.00.

NOTE J - NON-OPERATING INCOME

In February 2017, the Department received \$25,000.00 from Burlington Northern Railroad for the closure of the railroad crossing on Lagoon Road.

SUPPLEMENTAL INFORMATION

BLACK ROCK WATER & SEWER DEPARTMENT
 Schedule of Current Usage Information
 For the Year Ended December 31,

Water Usage Rates as of December 31, 2017

Water Rates

\$ 14.00	First 2,000 gallons
3.75	Per 1,000 gallons Next 4,000 gallons
3.75	Per 1,000 gallons Over 6,000 gallons

Sewer Rates

\$ 9.00	First 1,000 gallons
2.00	Per 1,000 gallons Next 3,000 gallons
1.25	Per 1,000 gallons Over 4,000 gallons

Number of Users and Billed Usage

	<u>No. of Users</u>		<u>Billed Usage (in gallons)</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
January	354	343	1,251,000	1,099,000
February	352	344	1,186,000	1,095,000
March	352	344	1,431,000	1,527,000
April	352	346	1,018,000	1,066,000
May	352	344	1,066,000	1,159,000
June	355	343	1,039,000	1,021,250
July	358	341	1,134,000	1,092,000
August	363	343	765,353	1,283,000
September	355	347	1,618,000	1,878,000
October	354	351	1,143,000	1,786,000
November	354	352	1,310,000	1,485,400
December	357	351	832,000	1,060,000

UNAUDITED

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Black Rock Water and Sewer Department
491 Elm Street
Black Rock, AR 72415

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 Black Rock Water and Sewer Department ("Department") which comprise the Statement of Net Position as of December 31, 2017 and 2016, and the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the years then ended, and the related Notes to the Financial Statements, and have issued our report thereon dated October 10, 2018, which was unmodified.

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) to determine the 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 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. However, as described in the accompanying schedule of findings and questioned costs (**ITEM 2017-1**), we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (**ITEM 2017-1**).

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to Management of the Black Rock Water and Sewer Department in a separate letter dated October 10, 2018.

THE DEPARTMENT'S RESPONSE TO FINDINGS

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of the 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.

*Despain, Rether, Short
& Company, CPAs, PA*

Jonesboro, Arkansas
October 10, 2018

BLACK ROCK WATER AND SEWER DEPARTMENT
Schedule of Findings & Questioned Costs
For the Year Ended December 31, 2017

SCHEDULE OF FINDINGS & QUESTIONED COSTS

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Black Rock Water & Sewer Department.
2. The Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (a) disclosed a deficiency in internal control described in this schedule of findings and questioned costs as **ITEM 2017-1** and (b) disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The deficiency in internal control described in **ITEM 2017-1** is considered to be a material weakness.
3. There were no prior audit findings to be resolved. However, the deficiency in internal control described in **ITEM 2017-1** was present in the prior year.

MATERIAL WEAKNESS

ITEM 2017-1: The Department has a limited number of accounting personnel (two employees) that effectively precludes an adequate segregation of duties relating to the billing, collection, recording, coding, and classification of transactions that affect the general ledger. This same circumstance extends to other areas as well. There is a limited amount of control activities with respect to procurement, acquisition and use of materials.

DEPARTMENT'S RESPONSE: Management of the Black Rock Water & Sewer Department realizes that better internal control could be maintained by utilizing more individuals. However, it is Management's determination that the cost of hiring additional people would exceed the benefit realized.

COMPLIANCE AND OTHER MATTERS

No Findings for the Year Ended December 31, 2017.

BLACK ROCK WATER AND SEWER DEPARTMENT
Auditors' Comments on Prior Findings
December 31, 2017

PRIOR AUDIT FINDINGS

There were no findings or questioned costs in the prior audit.

However, the material weakness described as **ITEM 2017-1** was present in the prior audit period. The condition in **ITEM 2017-1** will be present until the Department's Management determines that the cost of the risk associated with this item exceeds the cost of the benefit in adding additional staff.