

City of Eureka Springs, Arkansas
Water and Waste Water Department

Independent Auditor's Report and Financial Statements
December 31, 2018 and 2017

City of Eureka Springs, Arkansas
Water and Waste Water Department
December 31, 2018 and 2017

Contents

Independent Auditor’s Report.....	1	
 Financial Statements		
Statements of Net Position	3	
Statements of Revenues, Expenses and Changes in Net Position	4	
Statements of Cash Flows	5	
Notes to Financial Statements	6	
 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report		18
 Schedule of Findings and Responses	 20	



809 S. 52nd Street, Suite A / Rogers, AR 72758

P 479.845.0270 / F 479.845.0840

forvis.com

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Eureka Springs, Arkansas
Water and Waste Water Department
Eureka Springs, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Eureka Springs, Arkansas Water and Waste Water Department (Department), as of and for the years ended December 31, 2018 and 2017, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Mayor and City Council
City of Eureka Springs, Arkansas
Water and Waste Water Department
Page 2

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 City of Eureka Springs, Arkansas Water and Waste Water Department as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in *Note 1* to the financial statements, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Eureka Springs, Arkansas and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2022, 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 effectiveness of 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.

FORVIS, LLP

Rogers, Arkansas
October 24, 2022

Assets

See Notes to Financial Statements

Liabilities

	2018	2017
Current Liabilities		
Accounts payable	\$ 79,340	\$ 96,303
Accrued expenses	13,484	21,306
Accrued compensated absences	25,581	25,581
Due to other funds	921,500	901,737
	<u>1,039,905</u>	<u>1,044,927</u>
Total current liabilities		
	<u>1,039,905</u>	<u>1,044,927</u>
Liabilities Payable From Restricted Assets		
Current maturities of long-term debt	305,000	285,000
Accrued interest payable	8,132	8,132
Meter deposits payable	158,553	157,083
	<u>471,685</u>	<u>450,215</u>
Long-term Debt		
Bonds payable, net of unamortized discounts and premiums	1,023,982	1,352,391
	<u>1,023,982</u>	<u>1,352,391</u>
Total liabilities	<u>2,535,572</u>	<u>2,847,533</u>
Net Position		
Net investment in capital assets	3,949,578	4,170,063
Restricted for:		
Debt service	564,199	548,912
Unrestricted deficit	(421,618)	(629,884)
	<u>4,092,159</u>	<u>4,089,091</u>
Total net position		
	<u>4,092,159</u>	<u>4,089,091</u>
Total liabilities and net position	<u>\$ 6,627,731</u>	<u>\$ 6,936,624</u>

City of Eureka Springs, Arkansas
Water and Waste Water Department
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Water sales	\$ 802,284	\$ 851,037
Waste water charges	701,007	671,294
Other operating revenue	274,906	183,278
Other income	20,820	47,030
	<hr/>	<hr/>
Total operating revenues	1,799,017	1,752,639
	<hr/>	<hr/>
Operating Expenses		
Salaries, wages and fringe benefits	262,956	272,580
Supplies	17,080	15,219
Office and administration	9,727	8,270
Depreciation	535,910	431,315
Professional services	48,006	69,401
Repairs and maintenance	239,590	226,068
Insurance	11,743	10,000
Utilities	195,743	217,762
Water purchases	421,674	407,248
Other expenses	21,769	85,699
	<hr/>	<hr/>
Total operating expenses	1,764,198	1,743,562
	<hr/>	<hr/>
Operating Income	34,819	9,077
	<hr/>	<hr/>
Nonoperating Revenues (Expenses)		
Interest income	28,327	16,652
Grant revenue	4,397	-
Interest expense	(64,475)	(72,835)
	<hr/>	<hr/>
Net nonoperating revenues (expenses)	(31,751)	(56,183)
	<hr/>	<hr/>
Income (Loss) before Transfers	3,068	(47,106)
	<hr/>	<hr/>
Transfers In	-	5,000
	<hr/>	<hr/>
Increase (Decrease) in Net Position	3,068	(42,106)
	<hr/>	<hr/>
Net Position, Beginning of Year	4,089,091	4,131,197
	<hr/>	<hr/>
Net Position, End of Year	\$ 4,092,159	\$ 4,089,091
	<hr/> <hr/>	<hr/> <hr/>

City of Eureka Springs, Arkansas
Water and Waste Water Department
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Cash received from customers	\$ 1,516,293	\$ 1,485,072
Cash received from other charges	295,726	230,541
Payments for water	(419,066)	(406,434)
Payments for salaries and benefits	(270,778)	(261,989)
Payments to suppliers for goods and services	(568,392)	(646,176)
Net cash provided by operating activities	<u>553,783</u>	<u>401,014</u>
Noncapital Financing Activities		
Advances received from the City general fund	19,763	17,056
Transfer from City general fund	-	5,000
Net cash provided by noncapital financing activities	<u>19,763</u>	<u>22,056</u>
Capital and Related Financing Activities		
Purchases of capital assets	(7,016)	(18,775)
Principal payments on bonds	(308,624)	(280,000)
Interest and paying agent fees, net of capitalized interest	(64,260)	(72,620)
Grants for capital purposes	4,397	-
Net cash used in capital and related financing activities	<u>(375,503)</u>	<u>(371,395)</u>
Investing Activities		
Interest received	28,327	16,652
Increase in meter deposits	1,470	5,065
Net cash provided by investing activities	<u>29,797</u>	<u>21,717</u>
Increase in Cash and Cash Equivalents	<u>227,840</u>	<u>73,392</u>
Cash and Cash Equivalents, Beginning of Year	<u>781,776</u>	<u>708,384</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,009,616</u></u>	<u><u>\$ 781,776</u></u>

See Notes to Financial Statements

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Posisiton		
Cash	\$ 378,732	\$ 22,845
Restricted cash and cash equivalents	<u>630,884</u>	<u>758,931</u>
	<u><u>\$ 1,009,616</u></u>	<u><u>\$ 781,776</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 34,819	\$ 9,077
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	535,910	431,315
Changes in		
Accounts receivable	13,002	(37,259)
Inventories	(5,163)	5,163
Other assets	-	233
Accounts payable	(16,963)	(18,106)
Accrued liabilities	<u>(7,822)</u>	<u>10,591</u>
Net Cash Provided by Operating Activities	<u><u>\$ 553,783</u></u>	<u><u>\$ 401,014</u></u>

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies

Nature of Operations

The City of Eureka Springs, Arkansas (the City) operates under a Mayor – Council form of government. The City of Eureka Springs, Arkansas Water and Waste Water Department (the Department) is governed by the City Council. The Department provides services to the City of Eureka Springs and certain surrounding areas. The City Council approves the rates changes of the Department. The debt of the Department is maintained in the name of the City of Eureka Springs, Arkansas.

Basis of Accounting and Presentation

The Department is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from nonoperating revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenue (expense) but remain a major component of the overall revenues and expenses of the Department.

The Department prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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, expenses gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Department considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted of certificates of deposit, treasury obligations, and money market mutual funds.

City of Eureka Springs, Arkansas

Water and Waste Water Department

Notes to Financial Statements

December 31, 2018 and 2017

Customer Accounts Receivable

Customer accounts receivable are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of past due accounts. The allowance for doubtful accounts was \$31,174 and \$13,734 at December 31, 2018 and 2017, respectively.

Investments

Investments consist of certificates of deposit with original maturities of greater than 90 days. Certificates of deposit are recorded at amortized cost.

Inventories

Inventories consist of various meters, couplings, pipe, etc., used in the customary operations of the Department. All inventories are stated at cost. Cost is determined on the first-in, first-out (FIFO) basis.

Capital Assets

Capital assets are recorded at their cost on the date of purchase or acquisition value at the date of donation if acquired by gift. Depreciation is computed on a straight-line basis over the estimated useful life of each asset. Assets with a cost of greater than \$5,000 are capitalized. The following estimated lives are being used by the Department:

Assets	Years
Buildings and improvements	25
Vehicles and equipment	5-10
Water and waste water systems	5-25

Contributed Capital

The Department records all contributed fixed assets at their acquisition value at the date of contribution as capital contributions in the statement of revenues, expenses and changes in net position and depreciates these assets over their estimated useful lives. These donated assets, which are received from construction contractors, consist of water and waste water lines and related system infrastructure. For the years ended December 31, 2018 and 2017, there was no contributed capital.

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The department does not have any items that qualify for reporting in this category as of December 31, 2018 and 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The department does not have any items that qualify for reporting in this category as of December 31, 2018 and 2017.

Net Position Classifications

Net position is classified and displayed in the following three components:

- *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted expendable net position* – Consists of net position with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- *Unrestricted net position* – All other net position that do not meet the definition of “net investment in capital assets” or “restricted expendable.”

When both restricted and unrestricted resources are available for use, generally it is the Department’s policy to use restricted resources first.

Compensated Absences

The Department’s policies permit employees to earn time off benefits. Expenses and the related liabilities are recognized as time off benefits and are accrued regardless of whether the employee is expected to realize the time off. Compensated absences are computed using the regular pay rate in effect at the balance sheet date.

Amortization

Amortization of bond premiums and discounts is determined using the effective interest method over the term of the bonds.

City of Eureka Springs, Arkansas

Water and Waste Water Department

Notes to Financial Statements December 31, 2018 and 2017

Income Taxes

As an essential government function of the City, the Department is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Risk Management

The Department is exposed to various risks of loss from 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position Revision

The presentation of net position amounts for fiscal year 2017 have been revised for an immaterial classification error between components. This revision resulted in an increase in net investment in capital assets of \$179,305 from \$3,990,758 to \$4,170,063 with a corresponding decrease in restricted for debt service from \$728,217 to \$548,912. This revision had no impact on total net position.

Note 2: Investments

Investments

The Department's investment policies are to comply with the provisions of State statutes. Permissible investments include direct obligations of the U.S. Government, obligations of agencies of the U.S. Government, collateralized certificates of deposit, obligations issued by the Arkansas State Board of Education, prefunded municipal bonds, certificates of deposits with banks authorized by State law to receive deposits of public funds, repurchase agreements, money market funds, and corporate debt obligations.

At December 31, 2018, the Department had the following investments and maturities:

	December 31, 2018				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 21,788	\$ 21,788	\$ -	\$ -	\$ -

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

At December 31, 2017, the Department had the following investments and maturities:

Type	December 31, 2017				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 21,121	\$ 21,121	\$ -	\$ -	\$ -

Interest Rate Risk

As a means of limiting its exposure to losses from rising interest rates, the Department's investment policy is to attempt to match investments' maturities with cash flow requirements. Money market mutual funds are used to meet the short term cash flow needs of the Department.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Department's investment policy does not specifically address credit risk.

At December 31, 2018 and 2017 the Departments investments in money market mutual funds were rated as follows:

Investment Type	Rating Agency	Rating
Money Market Mutual Funds	S&P/Moody's	AAAm/Aaa

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the Department's investment policy does not directly address custodial credit risk, all investments are held by the Department or by an agent of the Department in the Department's name.

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Summary of Carrying Values

The carrying values of deposits and investment shown above are included in the statements of net position as follows:

	2018	2017
Carrying value		
Deposits	\$ 1,266,933	\$ 1,039,760
Cash on hand	200	200
Investments	<u>21,788</u>	<u>21,121</u>
	<u><u>\$ 1,288,921</u></u>	<u><u>\$ 1,061,081</u></u>
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 378,732	\$ 167,649
Restricted cash and cash equivalents	630,884	614,127
Restricted investments	<u>279,305</u>	<u>279,305</u>
	<u><u>\$ 1,288,921</u></u>	<u><u>\$ 1,061,081</u></u>

City of Eureka Springs, Arkansas

Water and Waste Water Department

Notes to Financial Statements December 31, 2018 and 2017

Note 3: Restricted Assets

Restricted assets are held for specific purposes as follows:

	<u>2018</u>	<u>2017</u>
Depreciation reserve for additional replacements to the sewer system	\$ 518,742	\$ 506,115
Construction and improvements for expansion	31,272	29,325
Operating and maintenance fund	182	135
2008 bond funds	347	348
2008 debt service reserve	65,140	65,140
2010 bond funds	21,788	21,121
2010 debt service reserve	114,165	114,165
Meter deposits	<u>158,553</u>	<u>157,083</u>
	<u>\$ 910,189</u>	<u>\$ 893,432</u>

Note 4: Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2018 and 2017, consisted of the following:

	<u>Balance December 31, 2017</u>	<u>Transfers / Additions</u>	<u>Transfers / Disposals</u>	<u>Balance December 31, 2018</u>
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Buildings and improvements	110,748	-	-	110,748
Vehicle and equipment	259,996	7,016	-	267,012
Water and waste water systems	<u>20,843,428</u>	<u>-</u>	<u>-</u>	<u>20,843,428</u>
	21,234,172	7,016	-	21,241,188
Less: accumulated depreciation	<u>15,606,023</u>	<u>535,910</u>	<u>-</u>	<u>16,141,933</u>
	<u>\$ 5,628,149</u>	<u>\$ (528,894)</u>	<u>\$ -</u>	<u>\$ 5,099,255</u>

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

	Balance December 31, 2016	Transfers / Additions	Transfers / Disposals	Balance December 31, 2017
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Buildings and improvements	110,748	-	-	110,748
Vehicle and equipment	259,996	-	-	259,996
Water and waste water systems	20,824,653	18,775	-	20,843,428
	<u>20,788,039</u>	<u>18,775</u>	<u>-</u>	<u>21,234,172</u>
Less: accumulated depreciation	15,174,708	431,315	-	15,606,023
	<u>\$ 6,835,951</u>	<u>\$ (412,540)</u>	<u>\$ -</u>	<u>\$ 5,628,149</u>

Note 5: Construction Commitments

There are no construction commitments as of December 31, 2018 or 2017.

Note 6: Letter of Credit

The Department has a \$30,000 letter of credit expiring on May 20, 2019. At December 31, 2018 and 2017, there were no draws against the letter. The named beneficiary is the Arkansas Department of Environmental Quality.

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Note 7: Long-term Liabilities

Changes in long-term liabilities for the years ended December 31, 2018 and 2017, consisted of the following:

	Balance December 31, 2017	Increases	Decreases	Balance December 31, 2018	Amounts Due Within One Year	Amounts Due Greater Than One Year
Revenue bonds	\$ 1,645,000	\$ -	\$ (308,624)	\$ 1,336,376	\$ 305,000	\$ 1,031,376
Unamortized premiums (discounts)	(7,609)	-	215	(7,394)	-	(7,394)
Bonds payable, net	<u>\$ 1,637,391</u>	<u>\$ -</u>	<u>\$ (308,409)</u>	<u>\$ 1,328,982</u>	<u>\$ 305,000</u>	<u>\$ 1,023,982</u>

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due Within One Year	Amounts Due Greater Than One Year
Revenue bonds	\$ 1,925,000	\$ -	\$ (280,000)	\$ 1,645,000	\$ 285,000	\$ 1,360,000
Unamortized premiums (discounts)	(7,824)	-	215	(7,609)	-	(7,609)
Bonds payable, net	<u>\$ 1,917,176</u>	<u>\$ -</u>	<u>\$ (279,785)</u>	<u>\$ 1,637,391</u>	<u>\$ 285,000</u>	<u>\$ 1,352,391</u>

Series 2008 Water and Sewer Revenue Bonds

In August 2008, the Department issued \$1,635,000 in Revenue Refunding Bonds (Series 2008) at an average rate of 4.2% to finance improvements and the cost of refunding the Water and Sewer Revenue Bonds, Series 2002. The bonds mature in fiscal year 2027 with principal payments due in June and interest payments due in June and December of each year. As of December 31, 2018 and 2017, the outstanding principal was \$906,376 and \$1,015,000, respectively.

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Series 2010 Water and Sewer Refunding Revenue Bonds

In December 2010, the Department issued \$1,850,000 in Revenue Refunding Bonds (Series 2010) with interest rates ranging from 2.00% to 3.20% over the life of the bonds to finance the cost of refunding the Water and Sewer Revenue Bonds, Series 2005. The bonds mature in 2020 with principal payments due in June and interest payments due in June and December of each year. As of December 31, 2018 and 2017, the outstanding principal was \$430,000 and \$630,000, respectively.

All Department water sales, waste water charges, other operating revenues, and all assets are pledged to the bonds outstanding balance. The debt secured by these revenues and assets was issued for the purpose of financing water and waste water improvements of the Department. These pledged revenues and assets will not be available for other purposes until after December 31, 2027.

The Department is required to establish rates sufficient to pay the expenses of operation and maintenance of the system, make monthly deposits into bond funds for repayment obligations which will be due and payable in the forthcoming year, and, to make deposits in an amount equal to 3% of gross revenues for the preceding month into the depreciation fund. At December 31, 2018, certain debt covenants were in default. The Department has not obtained a waiver from the bond trustee for the events of default. Under the bond ordinance, the bond trustee may on an event of default call for specific performance of the provisions of the ordinance, but generally may not call the bonds immediately due and payable.

Principal and interest maturities of the Department bonds are as follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 305,000	\$ 52,390	\$ 357,390
2020	310,000	42,160	352,160
2021	95,000	31,290	126,290
2022	95,000	27,300	122,300
2023	100,000	23,310	123,310
2024-2027	431,376	49,140	480,516
	<u>\$ 1,336,376</u>	<u>\$ 225,590</u>	<u>\$ 1,561,966</u>

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Note 8: Water and Waste Water Rates

Water rates may be adjusted annually commencing with the January billing based on the preceding November's South Urban Price index. Water and waste water rates are as follows for the years ended December 31, 2018 and 2017:

December 31, 2018	Water Rates*		Waste Water Rates
	Inside City	Outside City	
First 2,000 gallons	\$ 10.20 minimum	\$ 20.40 minimum	\$ 11.50 minimum
Next 8,000 gallons	\$ 3.79 / thousand	\$ 7.58 / thousand	\$ 6.78 / thousand
Usage over 10,000 gallons	\$ 5.24 / thousand	\$ 10.48 / thousand	\$ 8.46 / thousand

December 31, 2017	Water Rates		Waste Water Rates
	Inside City	Outside City	
First 2,000 gallons	\$ 10.20 minimum	\$ 20.40 minimum	\$ 11.50 minimum
Next 8,000 gallons	\$ 3.79 / thousand	\$ 7.58 / thousand	\$ 6.78 / thousand
Usage over 10,000 gallons	\$ 5.24 / thousand	\$ 10.48 / thousand	\$ 8.46 / thousand

*Beginning June 2017, the Department also charges \$5 for Infrastructure and Improvements for the first 2,000 gallons of water consumption per month, \$10 for Infrastructure and Improvements for the next 8,000 gallons of water consumption per month, and \$50 for all water consumption in excess of 10,000 galls per month.

The Department also sells water on a contract basis to Bay Shores/Bluff Shores which currently has less than 10 users. This contract accounted for approximately 1% of water sales for the years ended December 31, 2018 and 2017.

City of Eureka Springs, Arkansas
Water and Waste Water Department
Notes to Financial Statements
December 31, 2018 and 2017

Note 9: Retirement Plan

The Department provides a money purchase pension plan administered by the City covering all employees who are 21 years of age, completed 12 months of service and have been credited with 1,000 hours of service during the 12 month period beginning with the date the employee was hired. Vesting occurs at 20 percent per year over a period of two to six years. The employee can contribute 5% to 25% of compensation and the Department matches 5%. The Department contributions for the years ended December 31, 2018 and 2017, were \$5,416 and \$4,171, respectively.

Note 10: Significant Estimates and Concentrations

Concentrations

The Department's business activities are concentrated with customers located in and near the City of Eureka Springs, Arkansas. The local economy is highly dependent on the tourist trade. All of the future revenue is associated within the above-mentioned geographic region.

The Department is dependent on one source of water. See *Note 11*.

Note 11: Contractual Agreement with Carroll-Boone Water District

The Department has entered into an agreement with the Carroll-Boone Water District (the District) in which the Department will pay for all water purchased at such rates as required to provide the District with revenues sufficient to pay all debt services, purchase water storage rights, pay actual operation and maintenance costs, maintain all covenants and reserves required by the District's bonds, and maintain other reserves. The District, from time to time, will estimate their total system costs, revenues from demand charges, and the volume of water sales in order to adjust the rates for water purchases. The contract price was set at \$1.50 per thousand gallons for the years ended December 31, 2018 and 2017.

Note 12: Subsequent Events

Subsequent events have been evaluated through October 24, 2022, which is the date the financial statements were available to be issued.

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*

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Eureka Springs, Arkansas
Water and Waste Water Department
City of Eureka Springs, 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 Eureka Springs, Arkansas Water and Waste Water Department (Department), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 24, 2022.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Department's Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

Rogers, Arkansas
October 24, 2022

City of Eureka Springs, Arkansas
Water and Waste Water Department
Schedule of Findings and Responses
Year Ended December 31, 2018

Reference Number	Finding
2018-001	<p><i>Criteria</i> Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p><i>Condition</i> Adequate information technology general controls are not in place.</p> <p><i>Cause</i> Currently there are no documented policies, procedures, processes or controls in place to limit access and authorization to accounting software, to monitor IT processes, including third party services, to review activity logs for improper activity, to test accuracy of software updates, or monitor security incidents.</p> <p><i>Effect</i> Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p><i>Recommendation</i> We recommend that policies and procedures be developed to provide control over information technology.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> The Department is working on implementing and documenting appropriate information technology controls.</p>