

**CITY OF GENTRY
WATER AND SEWER FUND
Gentry, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021
and
INDEPENDENT AUDITOR'S REPORT**

**CITY OF GENTRY
WATER AND SEWER FUND
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FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021**

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**Honorable Kevin Johnston, Mayor,
And Members of the City Council
City of Gentry
Gentry, Arkansas**

INDEPENDENT AUDITOR'S REPORT

Opinions

We have audited the accompanying financial statements of the Water and Sewer Fund of the City of Gentry, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Fund of the City of Gentry, Arkansas as of December 31, 2022 and 2021 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water and Sewer Fund of the City of Gentry, Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water & Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Gentry, Arkansas as of December 31, 2022, and 2021, the changes in its financial position, or, where applicable, its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water and Sewer Fund of the City of Gentry, Arkansas's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2023 on our consideration of the Water and Sewer Fund of the City of Gentry, Arkansas's internal control over financial reporting and on 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 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 Water and Sewer Fund of the City of Gentry, Arkansas's internal control over financial reporting and compliance.



Berry & Associates, P.A.
Little Rock, Arkansas
March 28, 2023

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF NET POSITION
December 31, 2022 and 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,853,961	\$ 2,465,747
Certificates of deposit	1,244,290	1,182,438
Accounts receivable	444,873	413,703
Inventory of supplies	206,388	178,820
Prepaid expenses	-	32,602
Total Current Assets	<u>4,749,512</u>	<u>4,273,310</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	1,777,773	2,407,569
Certificates of deposit	163,408	163,408
Total Restricted Assets	<u>1,941,181</u>	<u>2,570,977</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>9,972,344</u>	<u>9,685,013</u>
TOTAL ASSETS	<u>\$ 16,663,037</u>	<u>\$ 16,529,300</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 375,000	\$ 370,000
Accounts payable	275,807	404,171
Other current liabilities	15,426	12,724
Total Current Liabilities	<u>666,233</u>	<u>786,895</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	<u>126,775</u>	<u>107,900</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	<u>6,995,000</u>	<u>7,370,000</u>
TOTAL LIABILITIES	<u>7,788,008</u>	<u>8,264,795</u>
NET POSITION		
Net investment in capital assets	2,602,344	1,945,013
Unrestricted	5,873,094	5,919,903
Temporarily restricted	399,591	399,589
Total Net Position	<u>8,875,029</u>	<u>8,264,505</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 16,663,037</u>	<u>\$ 16,529,300</u>

The accompanying notes to the financial statements are an integral part of these statements

CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water revenue	\$ 4,312,251	\$ 4,247,592
Sanitation revenue	472,642	411,850
Sewer revenue	455,685	443,291
Penalty charges	66,516	23,943
Connections and special service	315,778	191,706
Other income	69,394	76,206
Total Operating Revenues	<u>5,692,266</u>	<u>5,394,588</u>
OPERATING EXPENSES		
Water:		
Sanitation collection payments	446,969	381,362
Water purchased	2,708,906	2,380,469
Operating and office salaries	348,058	260,492
Employee benefits	53,322	39,561
Depreciation	290,036	297,306
Plant materials and supplies	303,394	156,008
Telephone and utility	29,001	30,271
Insurance, general and group	95,732	46,739
Payroll taxes	26,907	20,757
Repairs and maintenance	160,198	67,386
Miscellaneous	17,782	15,232
Office supplies and expense	32,399	31,990
Small equipment	30,212	4,507
Professional fees	37,348	15,153
Gas and oil	34,067	22,170
Uniforms	989	845
Contract labor	19,885	14,560
Alderman fees	6,857	6,475
Computer expense	10,132	8,700
Membership, dues and subscriptions	3,990	4,060
Total water expenses	<u>\$ 4,656,184</u>	<u>\$ 3,804,043</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
OPERATING EXPENSES		
Sewer:		
Sludge Haul	\$ 55,419	\$ 16,011
Operating and office salaries	94,025	80,640
Employee benefits	14,405	12,354
Depreciation and amortization	14,606	8,043
Plant materials and supplies	42,469	16,304
Telephone and utility	6,966	3,382
Insurance, general and group	13,199	12,807
Payroll taxes	7,253	6,345
Wastewater chemicals and expense	11,818	6,904
Repairs and maintenance	96,079	3,500
Miscellaneous	725	737
Contract labor	-	195
Laboratory tests	7,861	8,522
Small equipment	1,436	14,327
Professional fees	-	72,062
Gas and oil	2,966	2,440
Total sewer expenses	<u>369,227</u>	<u>264,573</u>
Total operating expenses	<u>5,025,411</u>	<u>4,068,616</u>
OPERATING INCOME	666,855	1,325,972
NON-OPERATING REVENUES (EXPENSES)		
Interest income	17,639	6,516
Interest expense	<u>(184,380)</u>	<u>(192,093)</u>
Net Non-Operating Expenses	<u>(166,741)</u>	<u>(185,577)</u>
INCOME BEFORE TRANSFERS	500,114	1,140,395
TRANSFERS IN (OUT)	<u>110,410</u>	<u>(26,193)</u>
CHANGE IN NET POSITION	610,524	1,114,202
NET POSITION - BEGINNING OF YEAR	<u>8,264,505</u>	<u>7,150,303</u>
NET POSITION - END OF YEAR	<u>\$ 8,875,029</u>	<u>\$ 8,264,505</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 5,661,096	\$ 5,380,515
Cash payments to suppliers	(4,493,340)	(3,317,061)
Cash payments to employees	(348,058)	(260,492)
Net cash provided by operating activities:	<u>819,698</u>	<u>1,802,962</u>
Cash flows from investing activities:		
Increase in meter deposits payable	18,875	9,150
Net redemption of certificates of deposit	(61,852)	(81,939)
Interest received	17,639	6,516
Net cash used by investing activities:	<u>(25,338)</u>	<u>(66,273)</u>
Cash flows from non-capital financing activities:		
Operating transfers in (out)	110,410	(26,193)
Net cash provided (used) by non-capital financing activities:	<u>110,410</u>	<u>(26,193)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(581,014)	(121,092)
Purchases for construction in progress	(10,958)	(3,988,778)
Principal payments on long-term debt	(370,000)	(250,000)
Interest payments on long-term debt	(184,380)	(192,093)
Net cash used by capital and related financing activities:	<u>(1,146,352)</u>	<u>(4,551,963)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(241,582)	(2,841,467)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,873,316</u>	<u>7,714,783</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,631,734</u>	<u>\$ 4,873,316</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 666,855	\$ 1,325,972
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	304,641	305,348
(Increase) decrease in-		
Accounts receivable	(31,170)	(14,073)
Prepaid expenses	32,602	(15,558)
Inventory	(27,568)	(21,046)
Increase (decrease) in-		
Accounts payable	(128,364)	222,836
Other current liabilities	2,702	(517)
Net cash provided by operating activities:	<u>\$ 819,698</u>	<u>\$ 1,802,962</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Date of Management's Review

Events have been evaluated through March 28, 2023, the date of the financial statements were available to be issued, and management determined that no additional disclosures were required.

Organization

The Water and Sewer Fund of the City of Gentry, Arkansas is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The fund is used to record the revenues and expenses from the operation of the water and sewer system.

Basis of Presentation and Accounting

The accounts of the Fund are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Fund's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Fund is determined by its measurement focus. The transactions of the Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Fund has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Fund considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Fund. The budget of the Fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and non-operation income and expense items are not considered. All annual appropriations lapse at fiscal year-end.

Restricted Assets

Certain proceeds of the Fund's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Fund are also considered restricted.

Receivables

The Fund has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of December 31, 2022 management had determined that minimal additional accounts needed to be written off.

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Fund defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	10-40 years
Water and sewer system	5-40 years
Automobiles and equipment	5-15 years

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Fund. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Fund's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Adoption of GASB 87

Effective January 1, 2022, the Fund adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Fund's results of operations or cash flows.

Equity Classifications

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Temporarily Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position- This component of net position consists of net position that does not meet the definition of "restricted."

CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 2 - CONCENTRATIONS:

The Fund has two major customers, McKee Foods Corp. and Simmons Foods, Inc. These customers comprised approximately 58% and 26% respectively, of the total water and sewer revenues in 2022.

For the year ended December 31, 2021, the two major customers comprised approximately 61% and 25% respectively, of the total water and sewer revenues in 2021.

NOTE 3 - LONG-TERM DEBT:

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Water and Sewer Revenue Bonds, Series 2020 paid annually with bonds maturing annually through June 2040 (1)	\$ 4,685,000	\$ 4,900,000
Water and Sewer Revenue Refunding Bonds Series 2016, paid annually with bonds maturing annually through June 2037 (2)	<u>2,685,000</u>	<u>2,840,000</u>
	7,370,000	7,740,000
Less Current Portion	<u>(375,000)</u>	<u>(370,000)</u>
Total Long-Term Portion	<u>\$ 6,995,000</u>	<u>\$ 7,370,000</u>

The Water and Sewer Revenue Refunding Bond Series 2020 dated November 30, 2020, is a single bond in the principal amount of \$5,000,000 and bearing interest at a variable rate. The bond will be paid in annual installments for a period of twenty years, with the first installment of \$154,685 for principal and interest due June 1, 2021. The revenue bonds have restrictive covenants, including the requirements to establish a debt service reserve in the amount of \$161,464. (1)

The Water and Sewer Revenue Refunding Bond Series 2016 dated September 28, 2016, is a single bond in the principal amount of \$3,490,000 and bearing interest at a variable rate. The bond will be paid in annual installments for a period of twenty years, with the first installment of \$142,616 for principal and interest due June 1, 2017. The revenue bonds have restrictive covenants, including the requirements to establish a debt service reserve in the amount of \$238,125. (2)

The annual maturities of long-term debt payable at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 375,000	\$ 176,980	\$ 551,980
2024	385,000	168,790	553,790
2025	390,000	160,380	550,380
2026	400,000	151,870	551,870
2027	410,000	143,140	553,140
2028-2032	2,200,000	565,950	2,765,950
2033-2037	2,290,000	270,237	2,560,237
2038-2040	<u>920,000</u>	<u>34,178</u>	<u>954,178</u>
	<u>\$ 7,370,000</u>	<u>\$ 1,671,525</u>	<u>\$ 9,041,525</u>

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 3 - LONG-TERM DEBT (con't):

Long-term activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance December 31, 2021	Additions	Retirements	Balance December 31, 2022	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 7,740,000	\$ -	\$ (370,000)	\$ 7,370,000	\$ 375,000

	Balance December 31, 2020	Additions	Retirements	Balance December 31, 2021	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 7,990,000	\$ -	\$ (250,000)	\$ 7,740,000	\$ 370,000

The Fund has pledged future water customer revenues, net of specified operating expenses, to repay \$7,370,000 in revenue bonds. Proceeds from the bonds were used for building of the Fund's water system and water treatment facility. Principal and interest on the bonds are payable through 2040, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2022 were \$370,000 and \$184,380, respectively. Principal and interest paid in the year ended December 31, 2021 were \$250,000 and \$192,093, respectively.

NOTE 4 – EMPLOYEE BENEFITS:

Plan Description. The City of Gentry 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 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 Arkansas Public Employees Retirement System 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 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377, or on their website www.apers.org.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5.25% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department's contributions to APERS for the years ending December 31, 2022 and 2021 were \$67,727 and \$51,915, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal, but would be included in the government wide financial statements and not the individual fund financial statements.

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 5 –PUBLIC FUNDS; DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation (“FDIC”) or collateralized by securities held by the banks in the Fund’s name.

NOTE 6 –CAPITAL ASSETS:

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	Balance at December 31, 2021	Additions	Deletions/ Transfers	Balance at December 31, 2022
Land and right-of-way	\$ 78,964	\$ 16,697	\$ -	\$ 95,661
Water and sewer system	7,771,848	5,077,015	-	12,848,863
Buildings and improvements	367,497	-	-	367,497
Automotive equipment	460,462	-	-	460,462
Other equipment	609,822	22,505	-	632,327
Construction in progress	4,535,203	10,958	(4,535,203)	10,958
	<u>13,823,796</u>	<u>5,127,175</u>	<u>(4,535,203)</u>	<u>14,415,768</u>
Accumulated depreciation	<u>(4,138,783)</u>	<u>(304,641)</u>	<u>-</u>	<u>(4,443,424)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 9,685,013</u>	<u>\$ 4,822,534</u>	<u>\$ (4,535,203)</u>	<u>\$ 9,972,344</u>
	Balance at December 31, 2020	Additions	Deletions/ Transfers	Balance at December 31, 2021
Land and right-of-way	\$ 43,001	\$ 35,963	\$ -	\$ 78,964
Water and sewer system	7,771,848	-	-	7,771,848
Buildings and improvements	367,497	-	-	367,497
Automotive equipment	384,234	76,228	-	460,462
Other equipment	600,921	8,901	-	609,822
Construction in progress	546,425	3,988,778	-	4,535,203
	<u>9,713,926</u>	<u>4,109,870</u>	<u>-</u>	<u>13,823,796</u>
Accumulated depreciation	<u>(3,833,435)</u>	<u>(305,348)</u>	<u>-</u>	<u>(4,138,783)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 5,880,491</u>	<u>\$ 3,804,522</u>	<u>\$ -</u>	<u>\$ 9,685,013</u>

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 7 – RESTRICTED CASH:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for debt service reserves (see Note 3).

The following is a list of the restricted cash at December 31:

	<u>2022</u>	<u>2021</u>
Debt Service Reserves	\$ 1,339,201	\$ 1,274,035
Construction Fund	168,850	908,525
Bond Fund	243,147	232,783
Customer Meter Deposits	<u>189,983</u>	<u>155,634</u>
	<u>\$ 1,941,181</u>	<u>\$ 2,570,977</u>



**Honorable Kevin Johnston, Mayor,
and Members of the City Council
City of Gentry
Gentry, Arkansas**

**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***

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 Water and Sewer Fund of the City of Gentry, Arkansas, (the "Fund") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Fund's financial statements and have issued our report thereon dated March 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 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 in 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2022-01 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 or other matters that are required to be reported under *Government Auditing Standards*.

**Honorable Kevin Johnston, Mayor
and Members of the City Council
City of Gentry
Gentry, Arkansas**

Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the findings identified in our audit and described in the accompanying schedule of findings. The Fund's responses were 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.



Berry & Associates, P.A.
Little Rock, Arkansas
March 28, 2023

**CITY OF GENTRY WATER & SEWER FUND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022**

2022-01 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual who is responsible for service billing and adjustment, receives customer payments, and posts payments to subsidiary accounts receivable ledger. Also, the same individual who is responsible for general ledger activity including posting and writing checks also reconciles the bank statement. This finding was also noted in 2021.

Cause: The Fund's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the City Council should consider a formal evaluation of their risks associated with this lack of duty segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight. For example, the entity might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View of Responsible Officials: The Fund concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Fund has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as applicable.

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
SUPPLEMENTARY INFORMATION
December 31, 2022**

GOVERNMENT:

The Water and Sewer Fund City of Gentry, Arkansas is governed by a mayor and eight aldermen. The records are maintained by the City Water Clerk.

<u>Name</u>	<u>Title</u>
Kevin Johnston	Mayor
Jenny Trout	City Clerk
Joel Kurtz	City Attorney
Janice Arnold	Aldermen
Jason Barrett	Aldermen
Michael Crawford	Aldermen
Cindy Philpott	Aldermen
David Page	Aldermen
Jimmy Thorburn	Aldermen
Jason Williams	Aldermen
Dan Erskin	Aldermen

USAGE OF THE WATER AND SEWER SYSTEM:

The current water and sewer rates are shown in the following schedules:

	<u>Within Corporate Limits (Per 1,000 Gal)</u>	<u>Outside Corporate Limits (Per 1,000 Gal)</u>
<u>WATER RATES:</u>		
GALLONS		
Minimum water rates for the first 1,000 gallons are based on meter size, and the monthly minimums are as follows:		
5/8" x 3/4"	\$ 14.98	\$ 35.93
1"	20.97	50.30
1 1/2"	26.95	63.54
2"	43.41	104.21
3"	164.69	395.22
4"	209.61	502.90
6"	315.53	754.50
8"	434.15	1,041.96
Next 14,000	5.84	9.96
Next 35,000	5.61	8.08
Next 250,000	5.39	6.21
Next 700,000	4.95	5.39
Next 4,000,000	4.57	4.81
Excess 5,000,000	3.01	3.01
<u>SEWER RATES:</u>		
Minimum 1,000	\$ 8.53	\$ 14.14
Next 4,000	3.14	3.96
Next 45,000	2.40	2.40
Excess 50,000	1.55	1.55

Sewer rates are based on current usage of water.

**CITY OF GENTRY, ARKANSAS
WATER AND SEWER FUND
SUPPLEMENTARY INFORMATION (Continued)
December 31, 2022**

USAGE OF THE WATER AND SEWER SYSTEM, CONT:

As of December 31, 2022, water service and sewer service was provided to 2,951 and 1,682 users, respectively.

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are being properly maintained.

INSURANCE COVERAGE:

	<u>Expiration Date</u>	<u>Amount of Coverage</u>
<u>Property and equipment</u>		
City Hall	12/22/2023	\$ 350,000
Water Utility Building		50,000
Pump House		45,000
Sewer Treatment Plant		52,000
Sewer Plant Lab		40,000
City Water Shop		200,000
Water Supt's Office		65,000
Sludge Drying Facility		150,000
City Maintenance Shop		250,000
Water Tower Control Building		15,000
Water Dept. Equipment Storage		150,000
Fidelity Bond	12/31/2023	250,000
<u>Automotive</u>		
Liability insurance	12/22/2023	
Bodily injury		25,000/50,000
Property damage		25,000