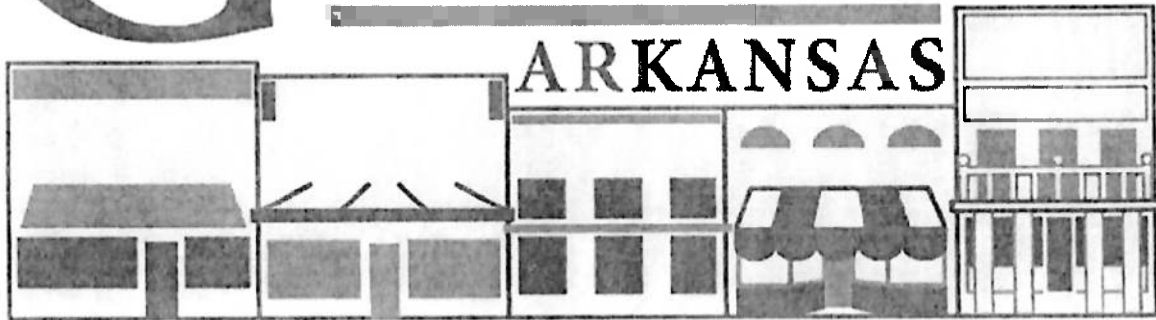


Gravette



The Heart of Hometown America

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

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of the **City of Gravette, Arkansas, Water & Wastewater Department** (the Department), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Department as of December 31, 2021 and 2020, and the respective changes in financial position – modified cash and, where applicable, cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Basis of Accounting

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

Other Matters

As discussed in Note 1, the modified cash basis financial statements present only the Water and Wastewater Department and do not purport to, and do not, present fairly the financial position of the City of Gravette, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with the modified cash basis of accounting.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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 opinion. 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 GAAS 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include 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 Department'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department'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.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the modified cash basis financial statements that collectively comprise the Department's basic modified cash basis financial statements. The Schedules of Customer Counts and Volumes, Water and Sewer Rates, and Unaudited Capital Assets are presented for purposes of additional analysis and are not a required part of the basic modified cash basis financial statements.

The Supplementary 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 modified cash financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic modified cash basis 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 modified cash basis financial statements or to the basic modified cash basis 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 mentioned above is fairly stated, in all material respects, in relation to the basic modified cash basis 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 6, 2023 on our consideration of the Department'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 solely 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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, slightly slanted style.

Rogers, Arkansas
March 6, 2023

Financial Statements

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Net Position – Modified Cash Basis
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 705,688	\$ 971,423
Restricted cash and cash equivalents	427,246	416,679
Total Assets	\$ 1,132,934	\$ 1,388,102
 Liabilities and Net Position		
Liabilities		
Accrued expenses	\$ 12,382	\$ 13,760
Meter deposits	97,708	98,552
Total Liabilities	110,090	112,312
 Net Position		
Restricted		
Meter deposits	97,557	97,787
Debt reserve fund	150,076	150,000
Meter replacements	30,502	25,856
Fund depreciation	149,111	143,036
Unrestricted	595,598	859,111
Total Net Position	1,022,844	1,275,790
Total Liabilities and Net Position	\$ 1,132,934	\$ 1,388,102

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Water revenues	\$ 1,220,173	\$ 1,170,701
Sewer revenues	281,112	267,103
Sanitation charges	163,364	144,440
Charges and fees	72,600	72,056
Miscellaneous	1,704	7,878
Total Operating Revenues	<u>1,738,953</u>	<u>1,662,178</u>
 Operating Expenses		
Advertising	285	924
Banking fees	2,510	2,013
Capital improvements	487,296	92,822
Dues and subscriptions	17,577	18,055
Employee benefits	54,023	42,246
Insurance	13,257	10,960
Miscellaneous	27,571	34,949
Payroll taxes	15,073	13,376
Postage	15,593	15,631
Professional services	67,221	67,624
Repairs and maintenance	138,281	119,819
Salaries and wages	195,950	172,124
Sanitation contract	159,405	142,967
Supplies	38,939	33,223
Taxes	864	-
Training and meetings	4,923	4,171
Utilities	56,745	57,616
Water purchases	365,009	381,191
Rent expense	30,667	-
Total Operating Expenses	<u>1,691,189</u>	<u>1,209,711</u>
 Operating Income	<u>47,764</u>	<u>452,467</u>

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Nonoperating Revenues (Expenses)		
Interest income	3,066	5,297
Principal payments on long-term debt	(175,152)	(169,529)
Interest payments on long-term debt	<u>(128,624)</u>	<u>(133,778)</u>
	<u>(300,710)</u>	<u>(298,010)</u>
 Change in Net Position	 (252,946)	 154,457
 Net Position, Beginning of Year	 <u>1,275,790</u>	 <u>1,121,333</u>
 Net Position, End of Year	 <u>\$ 1,022,844</u>	 <u>\$ 1,275,790</u>

See accompanying notes to financial statements.

City of Gravette, Arkansas
Water & Wastewater Department

Statements of Cash Flows – Modified Cash Basis
Years ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		
Water	\$ 1,217,951	\$ 1,173,313
Sewer	281,112	267,103
Sanitation	163,364	144,440
Cash received from service charges, penalties, and other operating revenue	74,304	79,934
Payments for water	(365,009)	(381,191)
Payments for sanitation services	(159,405)	(142,967)
Payments for salaries and benefits	(249,973)	(214,370)
Payments to suppliers for goods and services	(429,506)	(362,532)
Net Cash From Operating Activities	532,838	563,730
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital improvements	(487,296)	(92,822)
Interest paid on long-term debt	(128,624)	(133,778)
Principal payments on long-term debt	(175,152)	(169,529)
Net Cash (Used For) Capital and Related Financing Activities	(791,072)	(396,129)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,066	5,297
Net Cash From Investing Activities	3,066	5,297
NET CHANGE IN CASH AND CASH EQUIVALENTS	(255,168)	172,898
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,388,102	1,215,204
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,132,934	\$ 1,388,102

See accompanying notes to financial statements.

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

**Statements of Cash Flows – Modified Cash Basis
Years ended December 31, 2021 and 2020**

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	\$ 47,764	\$ 452,467
Adjustments to reconcile operating income to net cash from operating activities:		
Capital improvements	487,296	92,822
Change in:		
Due from General Fund of the City of Gravette, Arkansas	-	2,612
Accrued expenses	(1,378)	6,626
Meter deposits liability	(844)	9,203
 Total adjustments	 485,074	 111,263
 Net Cash From Operating Activities	 \$ 532,838	 \$ 563,730

See accompanying notes to financial statements.

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: NATURE OF ACTIVITIES

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Although the Department is not included in the financial statements of the City, the Department is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income and changes in financial position. Under an economic resources measurement focus, all assets and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the Department generally recognizes assets and liabilities, revenues and expenses when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect accounts payable or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are accrued expenses and meter deposits liabilities.

Basis of Presentation

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

City of Gravette, Arkansas

Water & Wastewater Department

Notes to Financial Statements **December 31, 2021 and 2020**

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

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

Use of Estimates

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

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At December 31, 2021 and 2020, the Department did not have cash equivalents.

Upcoming Accounting Pronouncements

GASB Statement No. 87 – *Leases* (GASB 87) addresses the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognizing inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. This statement is effective for periods beginning after June 15, 2021, with earlier application encouraged. The Department has not yet determined the potential impact, if any, that this statement could have on its modified cash financial statements.

Meter Deposits

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

Income Taxes

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

Advertising

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

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest of which, are fully guaranteed by the United States of America. The Department maintains separate bank accounts in various banks. Deposits with banks at December 31, 2021 and 2020 are as follows:

	2021	2020
Total cash and cash equivalents in bank	\$ 1,132,134	\$ 1,387,302
Less:		
FDIC insured	750,000	750,000
Collateralized	382,134	637,302
Uninsured/Uncollateralized	\$ -	\$ -

NOTE 4: RISK MANAGEMENT

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

NOTE 5: RISKS AND UNCERTAINTIES

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

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 6: COMMITMENTS AND CONTINGENCIES

On July 1, 2021, the Department entered into a service contract with Republic Services of Bella Vista (Republic Services) whereas the Department collects sanitation fees from the citizens of the City and remits payments to Republic Services each month. Payments totaling \$159,405 and \$142,967 were made to Republic Services during the years ended December 31, 2021 and 2020, respectively. The contract term ends June 30, 2026.

The Department is involved in litigation as of December 31, 2021 arising in the ordinary course of business. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that the resulting outcome of such litigation would have minimal adverse economic impact on the Department.

The following is a summary of the Department's debt service transactions for the years ended December 31, 2021 and 2020:

2021				
	Debt Outstanding January 1, 2021	Additions	Payments	Debt Outstanding December 31, 2021
2004 USDA WEP Loan	\$ 2,126,653	\$ -	\$ 57,262	\$ 2,069,391
2008 ADFA Loan	1,365,130	-	117,890	1,247,240
	\$ 3,491,783	\$ -	\$ 175,152	\$ 3,316,631
2020				
	Debt Outstanding January 1, 2020	Additions	Payments	Debt Outstanding December 31, 2020
2004 USDA WEP Loan	\$ 2,181,468	\$ -	\$ 54,815	\$ 2,126,653
2008 ADFA Loan	1,479,844	-	114,714	1,365,130
	\$ 3,661,312	\$ -	\$ 169,529	\$ 3,491,783

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Annual debt service requirements to maturity are as follows:

Years ended December 31,	Principal	Interest	Total
2022	\$ 178,127	\$ 129,153	\$ 307,280
2023	184,025	123,255	307,280
2024	190,128	117,152	307,280
2025	196,447	110,833	307,280
2026	202,988	104,292	307,280
2027-2031	994,409	414,999	1,409,408
2032-2036	481,988	263,812	745,800
2037-2041	599,604	146,196	745,800
2042-2046	288,915	20,277	309,192
	<u>\$ 3,316,631</u>	<u>\$ 1,429,969</u>	<u>\$ 4,746,600</u>

A summary of each bond issued is as follows:

	Date of Issue	Amount of Original Issue	Interest Rate & Service Fee Percent	Date of Final Maturity
2004 USDA WEP Loan	6/23/2004	\$ 2,756,000	4.375%	6/23/2044
2008 ADFA Loan	12/2/2008	2,420,000	2.75%	10/15/2031

NOTE 7: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

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

City of Gravette, Arkansas
Water & Wastewater Department

Notes to Financial Statements
December 31, 2021 and 2020

Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salary. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees of the system, based on the annual actuarial valuation. For the years ended December 31, 2021 and 2020, the City's contribution to the plan was \$98,189 and \$90,835, respectively. Of this amount, the Department contributed \$28,453 and \$25,031, respectively.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City at June 30, 2021 (the actuarial valuation date and measurement date) was \$246,763. The Department's proportionate share of the total collective net pension liability has not been determined.

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 6, 2023, the date that the financial statements were available to be issued.

Supplementary Information

City of Gravette, Arkansas
Water & Wastewater Department

Schedules of Customer Counts and Volumes
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Water customers	<u>1,763</u>	<u>1,693</u>
Sewer customers	<u>1,036</u>	<u>994</u>
Gallons purchased for the year	<u>11,885,000</u>	<u>10,865,000</u>
Gallons billed for the year	<u>8,567,530</u>	<u>8,123,580</u>

See Independent Auditor's Report

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

**Schedules of Water and Sewer Rates
December 31, 2021 and 2020**

As of December 31, 2021 and 2020, the monthly water and sewer rates are as follows:

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

<u>Monthly Sewer Rates for Customers</u>	<u>On Service</u>	<u>Not on Service</u>
First 1,000 gallons of water consumption or portion thereof	\$12.51 minimum	\$27.00 minimum
All in excess of 1,000 gallons of water consumption	\$2.98 / thousand	\$2.98 / thousand

See Independent Auditor's Report

City of Gravette, Arkansas
Water & Wastewater Department

Unaudited Capital Assets
December 31, 2021 and 2020

Capital assets are capitalized at historical cost or estimated historical costs, if actual data is not available. Capital assets purchased are recorded as expenditures at the time of purchase. Donated capital assets are reported at fair value when received. The Department maintains a threshold level of \$5,000 for capitalizing equipment. No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the estimated useful lives of the assets which range from 5 to 50 years.

The following is a summary of major components of the Department's capital assets and related activities resulting from modified cash basis transactions for the years ended December 31, 2021 and 2020:

	2021			
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Non-depreciable:				
Land	\$ 38,471	\$ -	\$ -	\$ 38,471
Construction in progress	-	51,300	-	51,300
Depreciable:				
City Hall	-	435,996	-	435,996
Water system	8,914,047	-	-	8,914,047
Wastewater system	7,634,276	-	-	7,634,276
Equipment	1,113,633	-	-	1,113,633
	<u>17,700,427</u>	<u>487,296</u>	<u>-</u>	<u>18,187,723</u>
Accumulated depreciation	<u>(6,721,210)</u>	<u>(390,748)</u>	<u>-</u>	<u>(7,111,958)</u>
Capital assets, net	<u>\$ 10,979,217</u>	<u>\$ 96,548</u>	<u>\$ -</u>	<u>\$ 11,075,765</u>
	2020			
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Non-depreciable:				
Land	\$ 38,471	\$ -	\$ -	\$ 38,471
Depreciable:				
Water system	8,874,729	39,318	-	8,914,047
Wastewater system	7,606,416	27,860	-	7,634,276
Equipment	1,087,989	25,644	-	1,113,633
	<u>17,607,605</u>	<u>92,822</u>	<u>-</u>	<u>17,700,427</u>
Accumulated depreciation	<u>(6,326,008)</u>	<u>(395,202)</u>	<u>-</u>	<u>(6,721,210)</u>
Capital assets, net	<u>\$ 11,281,597</u>	<u>\$ (302,380)</u>	<u>\$ -</u>	<u>\$ 10,979,217</u>

See Independent Auditor's Report



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the **City of Gravette Water & Wastewater Department** (the Department), a component unit of the City of Gravette, Arkansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements and have issued our report thereon dated March 6, 2023.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses as 2021-001, we did identify a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

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

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

The Department's Responses to Findings

The Department's 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 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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas
March 6, 2023

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

**Summary Schedule of Findings and Responses
December 31, 2021**

2021-001: Lack of Segregation of Duties

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

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

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

Recommendation: We recommend that employees who reconcile the bank account, enter payables or process checks not have the ability to sign checks. We also recommend that one person not be responsible for taking customer payments, recording payments, depositing payments, and have the ability to authorize write-offs.

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

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

**Summary Status of Prior Year Findings
December 31, 2020**

2020-001: Lack of Segregation of Duties

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

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

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

Recommendation: We recommend that employees who reconcile the bank account, enter payables, or process checks not have the ability to sign checks. We also recommend that one person not be responsible for taking customer payments, recording payments, depositing payments, and have the ability to authorize write-offs.

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

Status of Prior Finding: The Department will continue to evaluate the cost/benefit of additional support staff to achieve complete segregation of duties. See finding 2021-001.