

**CITY OF CAVE SPRINGS
WATER AND SEWER DEPARTMENT
Cave Springs, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended
December 31, 2021 and 2020
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
Cave Springs, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

**Honorable Randall Noblett, Mayor
and Members of the City Council
City of Cave Springs Water and Sewer Department
Cave Springs, Arkansas**

Opinions

We have audited the accompanying financial statements of the City of Cave Springs Water and Sewer Department, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed on the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Cave Springs Water and Sewer Department as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof 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 City of Cave Springs Water and Sewer Department, 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 opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Department and do not purport to, and do not, present fairly the financial position of the City of Cave Springs, Arkansas, as of December 31, 2021 and 2020, and the changes in its financial position, or, where applicable, its cash flows for the years 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.

Responsibility of Management 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.

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Honorable Randall Noblett, Mayor
and Members of the City Council
City of Cave Springs

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 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.

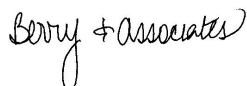
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 City of Cave Springs Water and Sewer 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Cave Springs Water and Sewer 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2022 on our consideration of the Water and Sewer Department of the City of Cave Springs, 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 Department of the City of Cave Springs, Arkansas's internal control over financial reporting and compliance.



BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
September 27, 2022

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2021 and 2020**

ASSETS		
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,758,487	\$ 2,298,339
Accounts receivable	194,046	394,799
Prepaid expenses	3,466	2,817
Total current assets	<u>2,955,999</u>	<u>2,695,955</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	<u>1,201,965</u>	<u>1,795,157</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>11,296,620</u>	<u>11,595,721</u>
TOTAL ASSETS	<u><u>\$ 15,454,584</u></u>	<u><u>\$ 16,086,833</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 39,549	\$ 87,720
Sales tax payable	7,937	10,354
Current portion of long-term debt	8,200	72,400
Accrued interest payable	1,220	13,786
Total current liabilities	<u>56,906</u>	<u>184,260</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	197,352	201,575
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	<u>431,527</u>	<u>1,356,042</u>
TOTAL LIABILITIES	<u><u>685,785</u></u>	<u><u>1,741,877</u></u>
NET POSITION		
Net investment in capital assets	10,856,893	10,167,278
Temporarily restricted	-	420,633
Unrestricted	<u>3,911,906</u>	<u>3,757,045</u>
Total net position	<u>14,768,799</u>	<u>14,344,956</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 15,454,584</u></u>	<u><u>\$ 16,086,833</u></u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Water revenue	\$ 1,284,619	\$ 1,457,455
Sewer revenue	702,015	639,124
Water & sewer tapping/connection fees	56,684	125,000
Water and sewer impact fees	182,700	362,600
Penalties	17,625	11,160
Miscellaneous	110,415	109,938
Total operating revenues	<u>2,354,058</u>	<u>2,705,277</u>
OPERATING EXPENSES		
Water:		
Water purchases	440,324	366,526
Depreciation	130,972	110,318
Salaries & wages	119,791	125,169
Dues and subscriptions	16,319	12,842
Bank fees	1,340	-
Office supplies	21,816	24,902
Computer Software	13,321	9,510
Professional fees	62,521	18,106
Repairs and maintenance	122,006	279,449
Fuel	5,846	4,719
Insurance	1,062	3,848
Miscellaneous	56,843	20,524
Small equipment and projects	66,009	-
Training	-	4,791
Utility permits and locates	3,134	3,415
Utilities	279	1,657
Total Water Expenses	<u>1,061,583</u>	<u>985,776</u>
Sewer:		
Depreciation	180,018	183,624
Dues and subscriptions	5,257	4,107
Salaries & wages	84,564	107,875
Dues and subscriptions	5,257	1,013
Office supplies	3,618	8,674
Computer software	11,666	7,512
Professional fees	95,372	26,538
Repairs and maintenance	141,049	207,843
Fuel	5,793	3,029
Sewer maintenance fees	216,120	188,055
Insurance	5,508	2,866
Utilities	31,969	26,924
Small equipment and projects	176,609	-
Contract labor	72,000	-
Miscellaneous	43,798	960
Total sewer expenses	<u>1,078,598</u>	<u>769,020</u>
Total operating expenses	<u>2,140,181</u>	<u>1,754,796</u>
OPERATING INCOME	<u>\$ 213,877</u>	<u>\$ 950,481</u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION, Continued
For the Years Ended December 31, 2021 and 2020

NON-OPERATING REVENUE (EXPENSES)	<u>2021</u>	<u>2020</u>
Interest income	\$ 4,131	\$ 6,023
Interest expense	(37,414)	(63,267)
Grant income	243,329	-
Loss on disposal of capital assets	(80)	-
Net non-operating income (expense)	<u>209,966</u>	<u>(57,244)</u>
OTHER FINANCING USES		
Transfers from other funds	<u>-</u>	<u>57,553</u>
CHANGE IN NET POSITION	423,843	950,790
NET POSITION - BEGINNING OF YEAR	<u>14,344,956</u>	<u>13,394,166</u>
NET POSITION - END OF YEAR	<u><u>\$ 14,768,799</u></u>	<u><u>\$ 14,344,956</u></u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,554,811	\$ 2,479,129
Cash payments to suppliers	(1,800,007)	(1,241,938)
Cash payments to employees	(84,564)	(177,609)
Net cash provided by operating activities	<u>670,240</u>	<u>1,059,582</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(12,049)	(314,986)
Principal payments on long-term debt	(988,715)	(69,533)
Interest payments on long-term debt	(49,980)	(64,054)
Grant income	243,329	-
Net cash used by capital and related financing activities	<u>(807,415)</u>	<u>(448,573)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to) from to other funds	<u>-</u>	<u>57,553</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net activity of restricted cash	593,192	(18,089)
Interest received	4,131	6,023
Net cash provided (used) by investing activities	<u>597,323</u>	<u>(12,066)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	460,148	656,496
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,298,339</u>	<u>1,641,843</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,758,487</u></u>	<u><u>\$ 2,298,339</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 213,877	\$ 950,481
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	310,990	293,942
Provision for loss on disposal of assets	80	-
(Increase) Decrease in:		
Accounts receivable	200,753	(226,148)
Prepaid expenses	(649)	3,361
Increase (Decrease) in:		
Accounts payable	(48,171)	13,004
Sales tax payable	(2,417)	3,663
Customer deposits	(4,223)	21,279
	<u>456,363</u>	<u>109,101</u>
Net cash provided by operating activities	<u><u>\$ 670,240</u></u>	<u><u>\$ 1,059,582</u></u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department is a component of the City of Cave Springs, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Cave Springs and certain properties outside the city limits.

Basis of Presentation and Accounting

The accounts of the Department 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 Department'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 Department is determined by its measurement focus. The transactions of the Department 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) are segregated into net investment in capital assets, restricted for debt service; and unrestricted components.

Estimates

Management of the Department 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 Department 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.

Allowance for Bad Debts

The Department 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, 2021 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2021 was \$0.

Budgets and Budgetary Accounting

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department 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 nonoperating section of the statements of revenues, expenses and changes in net position. 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:

Asset	Years
Water & Sewer System	25-40
Office Equipment	3-7
Equipment	5-15
Vehicles	5

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 refundings 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 Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange 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 Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Equity Classification

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

Net Investment in Capital Assets- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS:

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 Department’s name. The deposited funds were adequately insured at December 31, 2021.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the years ended December 31, 2021 and 2020 was as follows:

	Balance 12/31/20	Additions	Retirements and transfers	Balance 12/31/21
Land & Easements	\$ 642,500	\$ -	\$ -	\$ 642,500
Sewer System	9,843,620	-	-	9,843,620
Water System	3,893,830	-	-	3,893,830
Equipment - Water	187,463	5,985	-	193,448
Equipment - Sewer	11,690	5,984	(1,010)	16,664
Office Equipment	15,029	-	(3,029)	12,000
Vehicles	104,864	-	-	104,864
	<u>14,698,996</u>	<u>11,969</u>	<u>(4,039)</u>	<u>14,706,926</u>
Less Accumulated Depreciation	<u>(3,103,275)</u>			<u>(3,410,306)</u>
Total Net Capital Assets	<u>\$ 11,595,721</u>			<u>\$ 11,296,620</u>

	Balance 12/31/19	Additions	Retirements and transfers	Balance 12/31/20
Land & Easements	\$ 642,500	\$ -	\$ -	\$ 642,500
Sewer System	9,843,620	-	-	9,843,620
Water System	3,600,834	292,996	-	3,893,830
Equipment - Water	145,830	41,633	-	187,463
Equipment - Sewer	11,690	-	-	11,690
Office Equipment	3,029	12,000	-	15,029
Vehicles	104,864	-	-	104,864
Construction in Progress	31,644	-	(31,644)	-
	<u>14,384,011</u>	<u>56,599</u>	<u>-</u>	<u>14,698,996</u>
Less Accumulated Depreciation	<u>(2,809,334)</u>			<u>(3,103,275)</u>
Total Net Capital Assets	<u>\$ 11,574,677</u>			<u>\$ 11,595,721</u>

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 – LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2021</u>	<u>2020</u>
Water System Revenue Bond, serviced by First Security Bank and payable to Arkansas Natural Resources Commission, due in annual installments of \$24,795, including interest at 5.0%, beginning December 2010 through December 2029. The bond is secured by property and equipment of the system. (1)	\$ -	\$ 176,238
Arkansas Natural Resources Commission loan, due in annual installments of \$42,449 including interest at 5.0%, beginning June 2013 through June 2032. The bond is secured by property and equipment of the system. (2)	-	376,194
Arkansas Natural Resources Commission water revenue bond, due in semi- annual installments of \$15,515 including interest at 5.0%, beginning June 2004 through December 2033. The bond is secured by property and equipment of the system. (3)	-	306,562
USDA Department of Rural Development loan, due in monthly installments of \$2,044 including interest at 3.75%, beginning June 2011 through December 2051. The bond is secured by property and equipment of the system. (2)	439,727	447,605
Arkansas Natural Resources Commission loan, due in annual installments of \$10,786 including interest at 3.0%, beginning December 2016 through December 2034. The bond is secured by property and equipment of the system. (2)	-	121,843
	439,727	1,428,442
Less Current Portion	(8,200)	(72,400)
Long-Term Debt, Net	<u>\$ 431,527</u>	<u>\$ 1,356,042</u>

- (1) The bond agreement with Arkansas Natural Resources Commission contains a provision which requires the Department to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, (2) leave a balance equal to the debt service requirements to which the system revenues are pledged, and (3) maintain a depreciation reserve that accumulates at a rate of 3% of revenues each month for the life of the bond. As of December 31, 2021 this bond has been paid and therefore no longer requires a debt service reserve.
- (2) This debt has no restrictive covenant.
- (3) The bond agreement with Arkansas Natural Resources Commission contains a provision which requires the Department to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, (2) leave a balance equal to the debt service requirements to which the system revenues are pledged, and (3) maintain a depreciation reserve that accumulates at a rate of \$120 a month for the life of the bond. As of December 31, 2021 this bond has been paid and therefore no longer requires a debt service reserve.

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 – LONG-TERM DEBT (continued):

The annual maturities of long-term debt at December 31, 2021, are as follows:

	Principal	Interest	Total
2022	\$ 8,200	\$ 16,328	\$ 24,528
2023	8,500	16,028	24,528
2024	8,800	15,728	24,528
2025	9,100	15,428	24,528
2026	9,500	15,028	24,528
2027-2031	53,100	69,540	122,640
2032-2036	64,000	58,640	122,640
2037-2041	77,300	45,340	122,640
2042-2046	93,200	29,440	122,640
2047-2051	108,027	14,613	122,640
	<u>\$ 439,727</u>	<u>\$ 296,113</u>	<u>\$ 735,840</u>

Long-term liability activity for the years ended December 31, 2021 and 2020 is as follows:

	Balance 12/31/20	Additions	Retirements	Balance 12/31/21	Due Within One Year
Long Term Debt					
Loans	\$ 760,175	\$ -	\$ (320,448)	\$ 439,727	\$ 8,200
Water Revenue Bonds	668,267	-	(668,267)	-	-
Total	<u>\$ 1,428,442</u>	<u>\$ -</u>	<u>\$ (988,715)</u>	<u>\$ 439,727</u>	<u>\$ 8,200</u>

	Balance 12/31/19	Additions	Retirements	Balance 12/31/20	Due Within One Year
Long Term Debt					
Loans	\$ 789,609	\$ -	\$ (29,434)	\$ 760,175	\$ 30,700
Water Revenue Bonds	708,366	-	(40,099)	668,267	41,700
Total	<u>\$ 1,497,975</u>	<u>\$ -</u>	<u>\$ (69,533)</u>	<u>\$ 1,428,442</u>	<u>\$ 72,400</u>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$439,727 in loans. Proceeds from the loans were used for building of the Department's water and sewer system. Principal and interest on the loans are payable through 2051, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2021 were \$988,715 and \$49,980, respectively. Principal and interest paid in the year ended December 31, 2020 were \$69,533 and \$64,054, respectively.

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 5 – SUBSEQUENT EVENTS:

Management has evaluated all the activities of the Department through September 27, 2022 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements as of December 31, 2021.

NOTE 6 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted for specific use and cash deposits for meters by customers.

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

	2021	2020
Customer Meter Deposits	\$ 389,191	\$ 381,675
Construction Fund	812,774	848,584
Debt Service Reserves	-	564,898
	<u>\$ 1,201,965</u>	<u>\$ 1,795,157</u>

NOTE 7 – RISK MANAGEMENT:

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Department carries property, vehicle insurance and workers compensation insurance.

There has been no significant reduction in the Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

NOTE 8 – COMMITMENTS:

The Department leases the right to discharge treated effluent from its sewage treatment facilities under a Drip Field operating lease. The 50-year lease term began September 23, 2008 and provides rents of \$15 for every connected residence and \$15 for every 208 gallons of commercial effluent discharged through the drip field irrigation system per month. Payment of the rent is subject to the collection of user fees charged to the system's customers by the Department. The lease requires the City of Cave Springs, Arkansas to provide \$1,000,000 of public liability insurance, and \$1,000,000 environmental insurance once volume reaches a certain level.

The Department entered into a contract with Cave Springs Utility, LLC in 2018 for the operation and maintenance of the Department's wastewater facilities. The contract began February 15, 2018 with a term of one year. The Department renewed this contract in 2021 for an additional year and will pay a monthly fee of \$6,000 for the term of the contract.

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 9 – EMPLOYEE BENEFITS:

Plan Description. The Department 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.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% 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% for annual covered payroll. The Water and Sewer Department's contributions to APERS for the year ending December 31, 2021 were \$26,728, 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 year ending 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.

NOTE 10 – CONTINGENCIES:

The Department is a defendant in a claim relating to the Drip Field operating lease. The amount of the liability, if any, from the claims cannot be determined with certainty. Due to uncertainties in the settlement process, it is at least reasonable possible that management's estimate of the outcome will change within the year.



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**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 Randall Noblett, Mayor
and Members of the City Council
City of Cave Springs Water and Sewer Department
Cave Springs, Arkansas**

Independent Auditor's Report

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 Cave Springs Water and Sewer Department, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Cave Springs Water and Sewer Department's financial statements and have issued our report thereon dated September 27, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cave Springs Water and Sewer 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*.

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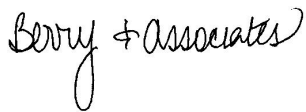
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Honorable Randall Noblett, Mayor
and Members of the City Council
City of Cave Springs
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Purpose of this Report

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.

A handwritten signature in cursive script that reads "Berry & Associates".

Berry & Associates, P.A.
Little Rock, Arkansas
September 27, 2022

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2021**

2021-001 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 customer 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. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2020.

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