

**CITY OF CAVE SPRINGS
WATER AND SEWER DEPARTMENTS
Cave Springs, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Year Ended
December 31, 2023
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
Cave Springs, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2023

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American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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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 Departments
Cave Springs, Arkansas**

Opinion

We have audited the accompanying financial statements of the City of Cave Springs Water and Sewer Departments, as of and for the year ended December 31, 2023, 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 financial position of the City of Cave Springs Water and Sewer Departments as of December 31, 2023, and the changes in financial position, and cash flows thereof for the year 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 Departments, 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 and Sewer Departments and do not purport to, and do not, present fairly the financial position of the City of Cave Springs, Arkansas, as of December 31, 2023, and the changes in its financial position, or, where applicable, its cash flows for the year 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 these 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 Departments' 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.

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 Departments' 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 Departments' 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.

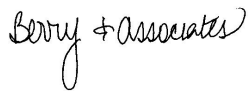
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Departments' basic financial statements. The Supplementary Information Required by the USDA Rural Development is presented for purposes of additional analysis and are 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 Required by the USDA Rural Development is fairly stated in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2024 on our consideration of the Water and Sewer Departments 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 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 the City of Cave Springs Water and Sewer Departments' 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 Departments of the City of Cave Springs, Arkansas's internal control over financial reporting and compliance.



Berry & Associates, P.A.
Little Rock, Arkansas
October 14, 2024

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
STATEMENT OF NET POSITION
December 31, 2023

ASSETS

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,679,413	\$ 928,640	\$ 2,608,053
Accounts receivable	184,479	-	184,479
Total current assets	<u>1,863,892</u>	<u>928,640</u>	<u>2,792,532</u>
NON-CURRENT ASSETS			
Restricted assets			
Cash and cash equivalents	<u>576,659</u>	<u>330</u>	<u>576,989</u>
Capital assets			
Capital assets, net of accumulated depreciation	<u>6,771,367</u>	<u>11,973,893</u>	<u>18,745,260</u>
TOTAL ASSETS	<u>\$ 9,211,918</u>	<u>\$ 12,902,863</u>	<u>\$ 22,114,781</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES			
Accounts payable	\$ 4,246	\$ 24,045	\$ 28,291
Retainage payable	138,655	150,028	288,683
Sales tax payable	12,601	-	12,601
Current portion of long-term debt	8,800	-	8,800
Accrued interest payable	<u>1,174</u>	<u>-</u>	<u>1,174</u>
Total current liabilities	<u>165,476</u>	<u>174,073</u>	<u>339,549</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Meter deposits	226,423	-	226,423
NON-CURRENT LIABILITIES			
Long-term debt, net of current portion	<u>414,258</u>	<u>2,325,257</u>	<u>2,739,515</u>
TOTAL LIABILITIES	<u>806,157</u>	<u>2,499,330</u>	<u>3,305,487</u>
NET POSITION			
Net investment in capital assets	6,348,308	9,648,636	15,996,944
Temporarily restricted	24,528	-	24,528
Unrestricted	<u>2,032,925</u>	<u>754,897</u>	<u>2,787,822</u>
Total net position	<u>8,405,761</u>	<u>10,403,533</u>	<u>18,809,294</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 9,211,918</u>	<u>\$ 12,902,863</u>	<u>\$ 22,114,781</u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended December 31, 2023

	Water	Sewer	Total
OPERATING REVENUES			
Water revenue	\$ 1,538,092	\$ -	\$ 1,538,092
Sewer revenue	-	795,469	795,469
Tapping/connection fees	82,490	37,500	119,990
Impact fees	113,300	178,000	291,300
Penalties	20,201	-	20,201
Miscellaneous	109,345	-	109,345
Total operating revenues	<u>1,863,428</u>	<u>1,010,969</u>	<u>2,874,397</u>
OPERATING EXPENSES			
Water purchases	954,159	-	954,159
Depreciation	133,423	180,920	314,343
Salaries & wages	127,858	83,659	211,517
Payroll taxes	9,044	6,141	15,185
Employee benefits	45,699	30,259	75,958
Contract labor	280	81,600	81,880
Dues and subscriptions	26,612	10,772	37,384
Bank fees	2,557	-	2,557
Office supplies	21,670	4,015	25,685
Computer software	12,251	12,347	24,598
Professional fees	67,601	71,273	138,874
Repairs and maintenance	269,364	257,265	526,629
Fuel	5,146	3,701	8,847
Insurance	3,962	4,824	8,786
Miscellaneous	72,940	163,807	236,747
Small equipment and projects	32,684	4,466	37,150
Sewer maintenance fees	-	234,405	234,405
Utility permits and locates	2,900	-	2,900
Utilities	1,873	37,700	39,573
Total operating expenses	<u>1,790,023</u>	<u>1,187,154</u>	<u>2,977,177</u>
OPERATING INCOME (LOSS)	<u>73,405</u>	<u>(176,185)</u>	<u>(102,780)</u>
NON-OPERATING REVENUE (EXPENSES)			
Interest income	4,235	2,113	6,348
Interest expense	(16,014)	(327)	(16,341)
Bad debt expense	(9,198)	-	(9,198)
Sanitation collection payments	(31,131)	-	(31,131)
Net non-operating income (expense)	<u>(52,108)</u>	<u>1,786</u>	<u>(50,322)</u>
OTHER FINANCING USES			
Transfers from other funds	69,007	1,942,915	2,011,922
Total other financing sources	<u>69,007</u>	<u>1,942,915</u>	<u>2,011,922</u>
CHANGE IN NET POSITION	90,304	1,768,516	1,858,820
NET POSITION - BEGINNING OF YEAR	<u>8,315,457</u>	<u>8,635,017</u>	<u>16,950,474</u>
NET POSITION - END OF YEAR	<u>\$ 8,405,761</u>	<u>\$ 10,403,533</u>	<u>\$ 18,809,294</u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,853,748	\$ 1,010,969	\$ 2,864,717
Cash payments to suppliers	(1,502,221)	(748,503)	(2,250,724)
Cash payments to employees	(127,858)	(83,659)	(211,517)
Net cash provided by operating activities	<u>223,669</u>	<u>178,807</u>	<u>402,476</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payments for construction in progress	(961,586)	(4,487,421)	(5,449,007)
Purchases of capital assets	(68,342)	-	(68,342)
Proceeds from issuance of long-term debt	-	2,325,257	2,325,257
Principal payments on long-term debt	(8,491)	-	(8,491)
Interest payments on long-term debt	(16,037)	-	(16,037)
Sanitation collection payments	(31,131)	-	(31,131)
Net cash used by capital and related financing activities	<u>(1,085,587)</u>	<u>(2,162,164)</u>	<u>(3,247,751)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	<u>69,007</u>	<u>1,942,915</u>	<u>2,011,922</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net activity of restricted cash	260,427	(330)	260,097
Interest received	4,235	1,786	6,021
Net cash provided by investing activities	<u>264,662</u>	<u>1,456</u>	<u>266,118</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(528,249)	(38,986)	(567,235)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,207,662</u>	<u>967,626</u>	<u>3,175,288</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,679,413</u></u>	<u><u>\$ 928,640</u></u>	<u><u>\$ 2,608,053</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 73,405	\$ (176,185)	\$ (102,780)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	133,423	180,920	314,343
Provision for bad debt expense, net of recovery	(9,198)	-	(9,198)
(Increase) Decrease in:			
Accounts receivable	(9,679)	-	(9,679)
Increase (Decrease) in:			
Accounts payable	(118,073)	24,044	(94,029)
Retainage payable	138,655	150,028	288,683
Sales tax payable	3,569	-	3,569
Customer deposits	11,567	-	11,567
	<u>150,264</u>	<u>354,992</u>	<u>505,256</u>
Net cash provided by operating activities	<u><u>\$ 223,669</u></u>	<u><u>\$ 178,807</u></u>	<u><u>\$ 402,476</u></u>

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

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Departments are 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 Departments 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 Departments' 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 Departments are determined by its measurement focus. The transactions of the Departments 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 Departments have 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 Departments consider 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 Departments have 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, 2023 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2023 was \$9,198.

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Departments. The budget of the Departments are 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.

Leases

The Departments calculate operating leases using the implicit interest rate, or their incremental borrowing rate if the lease rate is not determinable. All lease and non-lease components are combined for all leases. Lease payments for leases with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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 Departments define 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 Departments. 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 Departments' 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 DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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 Departments’ name. The deposited funds were adequately insured at December 31, 2023.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2023 was as follows:

	Balance 12/31/22	Additions	Retirements and transfers	Balance 12/31/23
Land & Easements	\$ 765,816	\$ -	\$ -	\$ 765,816
Sewer System	9,843,620	-	-	9,843,620
Water System	3,893,830	-	-	3,893,830
Building Improvements	8,168	-	-	8,168
Equipment - Water	193,448	3,732	-	197,180
Equipment - Sewer	16,664	-	-	16,664
Office Equipment	12,000	-	-	12,000
Vehicles	134,427	64,609	(23,099)	175,937
Construction in Progress	2,396,694	5,449,007	-	7,845,701
	17,264,667	\$ 5,517,348	\$ (23,099)	22,758,916
Less Accumulated Depreciation	(3,722,413)			(4,013,656)
Total Net Capital Assets	\$ 13,542,254			\$ 18,745,260

NOTE 4 – 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:

	Water	Sewer
Customer Meter Deposits	\$ 239,885	\$ -
Construction Fund	312,215	-
Debt Service Reserves	24,559	330
	\$ 576,659	\$ 330

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 5 – LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2023</u>
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. (1)	\$ 423,058
Arkansas Natural Resources Commission bond, due in semi-annual installments of \$282,314 including interest at 0.5%, beginning October 2024 through December 2053. The bond is secured by property and equipment of the system. (2)	<u>2,325,257</u>
	2,748,315
Less Current Portion	<u>(8,800)</u>
Long-Term Debt, Net	<u><u>\$ 2,739,515</u></u>

- (1) The loan agreement with USDA Department of Rural Development has a restrictive covenant, including the requirement to maintain a debt service reserve fund in the amount of \$24,528 for the life of the loan.
- (2) The bond agreement with Arkansas Natural Resources Commission has a restrictive covenant, to accumulate a depreciation reserve equal to 3 percent of the gross system revenues, until it reaches \$1,360,000.

The annual maturities of long-term debt at December 31, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 8,800	\$ 15,728	\$ 24,528
2025	189,458	117,384	306,842
2026	374,189	214,967	589,156
2027	380,042	209,114	589,156
2028	385,951	203,205	589,156
2029-2033	1,091,557	1,854,223	2,945,780
2034-2038	69,100	53,540	122,640
2039-2043	83,300	39,340	122,640
2044-2048	100,400	22,240	122,640
2049-2053	65,518	32,594	98,112
	<u>\$ 2,748,315</u>	<u>\$ 2,762,335</u>	<u>\$ 5,510,650</u>

Long-term liability activity for the year ended December 31, 2023 is as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>12/31/22</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/23</u>	<u>One Year</u>
Long Term Debt					
Loans	\$ 431,549	\$ -	\$ (8,491)	\$ 423,058	\$ 8,800
Sewer Revenue Bonds	-	2,325,257	-	2,325,257	-
Total	<u>\$ 431,549</u>	<u>\$ 2,325,257</u>	<u>\$ (8,491)</u>	<u>\$ 2,748,315</u>	<u>\$ 8,800</u>

The Water Department has pledged future water customer revenues, net of specified operating expenses, to repay \$423,058 in loans. Proceeds from the loans were used for building of the Water Department's water 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, 2023 were \$8,491 and \$16,037, respectively.

The Sewer Department has pledged future sewer customer revenues, net of specified operating expenses, to repay \$2,325,257 in bonds. Proceeds from the bonds are being used for building of the Sewer Department's sewer system. Principal and interest on the bond is payable through 2053, solely from the sewer customer net revenues.

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023**

NOTE 6 – SUBSEQUENT EVENTS:

Management has evaluated all the activities of the Departments through October 14, 2024 (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, 2023.

NOTE 7 – RISK MANAGEMENT:

The Departments are 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 Departments carry property, vehicle insurance and workers compensation insurance.

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

NOTE 8 – COMMITMENTS:

The Sewer 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 Sewer 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 Sewer Department entered into a contract with Cave Springs Utility, LLC in 2018 for the operation and maintenance of the Sewer Department's wastewater facilities. The contract began February 15, 2018 with a term of one year. The Sewer Department renewed this contract in 2023 for an additional year and will pay a monthly fee of \$6,000 for the term of the contract.

The Water Department started a construction project to extend the twelve-inch water main line during a prior year. The Water Department entered into a contract with an engineering contractor for the amount of \$531,105. As of December 31, 2023 the Water Department has incurred costs of \$453,538. The Water Department entered into a contract with a construction contractor for the amount of \$2,732,129. As of December 31, 2023 the Water Department has incurred costs of \$1,943,156.

The Sewer Department started a construction project to build a lift station and connect the sewer system to the Northwest Arkansas Conservation Association system during the year ended December 31, 2023. The Sewer Department entered into a contract with an engineering contractor for the amount of \$1,248,500. As of December 31, 2023 the Sewer Department has incurred costs of \$1,003,815. The Sewer Department entered into a contract with a construction contractor for the amount of \$10,727,495. As of December 31, 2023 the Sewer Department has incurred costs of \$3,000,562.

The Sewer department has entered a loan agreement with the Arkansas Natural Resources Commission (ANRC) to fund their sewer lift station and connection to the Northwest Arkansas Conservation Authority. The Bond is approved for \$13,600,000 and \$2,325,257 has been disbursed as of December 31, 2023. The Sewer Department recognizes that in the event the actual costs of the Project exceed the amount of the Bond Amount, ANRC shall be under no obligation to provide any additional funds to the Sewer Department. If, for any reason, the Sewer Department does not utilize the entire Bond Amount, then in such event the Bond Amount will be reduced to the amount of actual funds disbursed.

CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 9 – CONTINGENCIES:

The Sewer 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 reasonably possible that management's estimate of the outcome will change within the year.

NOTE 10 – EMPLOYEE BENEFITS:

Plan Description. The Departments contribute 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. Beginning July 1, 2022, the contribution rates shall be increased in increments of .25% per fiscal year, not to exceed 7%. The contributory rate was increased to 5.50% as of July 1, 2023. 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 Departments' contributions to APERS for the year ending December 31, 2023 were \$31,593, equal to the required contributions for the year.

Requirements. GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, which establishes standards for public pension plan obligations for participating employers. 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.



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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Cave Springs Water and Sewer Departments ("the Departments"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Cave Springs Water and Sewer Departments' basic financial statements and have issued our report thereon dated October 14, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Departments' 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 Departments' internal control. Accordingly, we do not express an opinion on the effectiveness of the Departments' 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, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 items 2023-001 and 2023-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cave Springs Water and Sewer Departments' 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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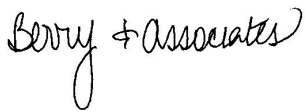
Honorable Randall Noblett, Mayor
and Members of the City Council
City of Cave Springs
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Departments' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Departments' response to the findings identified in our audit and described in the accompanying schedule of findings. The Departments' responses were not subjected to the other 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.

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

Berry & Associates, P.A.
Little Rock, Arkansas
October 14, 2024

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023**

2023-001 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 2023.

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

2023-002 Internal Control – Unauthorized Purchase

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting through the verification of appropriate operating expenditures.

Condition: An employee of the city used water and sewer funds for general fund expenses.

Cause: Due to an unauthorized transaction, there is an individual who caused unauthorized use of funds during the financial reporting transaction cycle.

Effect or Potential Effect: Unauthorized use of funds occurred and was not detected in a timely manner.

Recommendation: The Departments should adopt a policy of verifying invoices and expenditures to ensure they are appropriate operating expenditures of the Departments. General fund expenses should be reimbursed by the general fund to the Departments and this be recorded as a receivable until it is repaid.

View of Responsible Officials: The Departments concur with the recommendation; the Departments have made certain changes in procedures that will improve verification of proper expenditures and have implemented a policy against unauthorized expenditures.

**CITY OF CAVE SPRINGS WATER AND SEWER DEPARTMENTS
SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT
December 31, 2023**

CITY COUNCIL MEMBERS:

<u>Name</u>	<u>Title</u>
Randy Noblett	Mayor
MC Chitszan	Alderman
Angie Caruthers <i>(replaced by Jeremy Cobb in 2024)</i>	Alderman
JJ Thompson	Alderman
Mike Middlecamp	Alderman
Erica Velasquez	Alderman
Marc Williams	Alderman
Kimberly Hutcheson	Recorder/Treasurer
Justin Eichmann	City Attorney

WATER & SEWER RATE SCHEDULE:

<u>Water Rates:</u>		<u>Rural Service Outside city Limits (Per 1,000 Gal)</u>	<u>Commercial (Per 1,000 Gal)</u>
<u>GALLONS</u>			
Base		\$ 23.36	\$ 21.58
Per 1,000		12.36	8.58

Rural service outside the city limits is not connected to the sewer system.

<u>Water Rates:</u>		<u>Residential Rate (Per 1,000 Gal)</u>
<u>GALLONS</u>		
Base		\$ 19.80
Per 1,000		7.48

<u>Sewer Rates:</u>		
<u>GALLONS</u>		
Flat Fee - Qualifying Low Income Residents	\$	15.00
Flat Fee - Standard Rate		50.00

As of December 31, 2023, water and sewer service was provided to 6,803 and 1,339 active 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.

Insurance Schedule:

<u>POLICY NO.</u>	<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
P2200401	Arkansas Municipal League	Property	\$ 1,151,418
V2200349	Arkansas Municipal League	Vehicles	\$ 190,055