

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
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HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
Holly Grove, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Holly Grove Water and Sewer Department as of and for the year ended December 31, 2023, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Holly Grove Water and Sewer Department as of December 31, 2023, and the respective 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 Opinions

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 Holly Grove 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 opinions.

Emphasis of Matter

As discussed in Note A, the accompanying financial statements of the Holly Grove Water and Sewer Department are intended to present the financial position, and the changes in financial position and the cash flows of the City that is attributable to the transactions of the Holly Grove Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the City of Holly Grove, Arkansas, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's 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 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 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 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 Holly Grove 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Holly Grove 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 7 and 25 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2024 on our consideration of Holly Grove Water and Sewer 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 Holly Grove Water and Sewer Department's 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.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

December 5, 2024

**HOLLY GROVE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023**

Within this section of the Holly Grove Water and Sewer Department's financial report, the Department's management provides narrative discussion and analysis of the financial activities of the Department for the year ended December 31, 2023. The Department's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Department as a whole and present a longer term view of the Department's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Holly Grove Water and Sewer Department as a whole

Our analysis of the Department as a whole follows in the next section. The Department operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Department's finances is: "Is the Department as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Department as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Department's net position and the changes which have occurred in the year. You can think of the Department's net position (the difference between its assets and liabilities) as one way to measure the Department's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Department.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
December 31, 2023**

Financial Highlights:

	<u>2023</u>	<u>2022</u>
Beginning Net Position	\$ 789,521	\$ 765,928
Increase (decrease) in Net Position	<u>(18,650)</u>	<u>23,593</u>
Ending Net Position	<u><u>\$ 770,871</u></u>	<u><u>\$ 789,521</u></u>

Assets, liabilities, and net position for 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current Assets	\$ 72,110	\$ 98,968
Restricted Assets	107,419	142,180
Capital Assets	<u>1,158,292</u>	<u>1,209,116</u>
Total Assets	<u><u>\$ 1,337,821</u></u>	<u><u>\$ 1,450,264</u></u>
Current Liabilities	\$ 159,303	\$ 147,073
Long-term Liabilities	<u>407,647</u>	<u>513,670</u>
Total Liabilities	<u><u>566,950</u></u>	<u><u>660,743</u></u>
Net Position:		
Net Investment in capital assets	591,342	594,381
Restricted for debt service	96,882	96,882
Unrestricted	<u>82,647</u>	<u>98,258</u>
Total Net Position	<u><u>\$ 770,871</u></u>	<u><u>\$ 789,521</u></u>

**HOLLY GROVE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
December 31, 2023**

The following schedule presents a summary of revenues and expenditures for the year ended December 31, 2023 and 2022 are as follows.

	2023	2022
Operating Revenues	\$ 361,837	\$ 330,468
Operating Expenses	<u>337,699</u>	<u>279,989</u>
Operating Income	24,138	50,479
Other Income (Expenses)	<u>(42,788)</u>	<u>(26,886)</u>
	<u><u>\$ (18,650)</u></u>	<u><u>\$ 23,593</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end December 31, 2023, the Department's had \$ 1,158,291 invested in capital assets. This represents a net decrease of \$ 50,824 which is the result of depreciation expense recognized of \$ 107,920 and capital asset additions of \$ 57,096.

Debt

At year end, the Department's had \$ 513,675 in outstanding debt. This represents a net decrease of \$ 101,160, which is the result of principal payments made of \$ 101,160.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Department's has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Willie Stokes, Holly Grove City Mayor.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

ASSETS

Current Assets			
Cash on Hand and in Banks	\$	12,232	
Accounts Receivable		59,878	.
Total Current Assets		<u>72,110</u>	.
Restricted Assets			
Cash in Banks		5,537	
Certificates of Deposit		101,882	.
		<u>107,419</u>	.
Capital Assets, Net		<u>1,158,292</u>	.
		.	
Total Assets	\$	<u><u>1,337,821</u></u>	:

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

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

LIABILITIES AND NET POSITION

Current Liabilities:	
Current Portion of Long-Term Debt	\$ 106,028
Accounts Payable	16,728
Payroll Taxes Payable	3,911
Accrued Interest	575
Total Current Liabilities	<u>127,242</u>
Liabilities Payable from Restricted Assets:	
Customer Meter Deposits	<u>32,061</u>
Long-Term Debt, Net of Current Portion	<u>407,647</u>
Total Liabilities	<u>566,950</u>
Net Position:	
Net Investment in Capital Assets	591,342
Restricted for Debt Service	96,882
Unrestricted	82,647
Total Net Position	<u>770,871</u>
Total Liabilities and Net Position	<u>\$ 1,337,821</u>

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

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

Operating Revenues:	
Water Fees	\$ 295,441
Sewer Fees	46,835
Other Revenues	19,561
Total Operating Revenues	<u>361,837</u>
Operating Expenses:	
Contract Services	92,589
Depreciation	107,920
Dues and subscriptions	5,888
Fuel and travel	2,569
Miscellaneous	4,453
Operating Supplies and Maintenance	38,153
Rent	12,000
Payroll taxes	6,707
Salaries	36,368
Utilities	31,052
Total Operating Expenses	<u>337,699</u>
OPERATING INCOME (LOSS)	<u>24,138</u>
Non-operating Revenues (Expenses):	
Interest Income	3,337
Transfers out	(22,414)
Interest Expense	(23,711)
Total Non-operating Revenues (Expenses)	<u>(42,788)</u>
Change in Net Position	(18,650)
Beginning Net Postion	789,521
Ending Net Position	<u>\$ 770,871</u>

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

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Cash Flows from Operating Activities	
Receipts from Customers	\$ 358,490
Payments to Suppliers	(186,003)
Payments to Employees	<u>(36,368)</u>
Net Cash Provided by (Used in) Operating Activities	<u>136,119</u>
 Cash Flows from Non-Capital Financing Activities	
Transfers (to) from Other Funds	<u>(22,414)</u>
 Cash Flows from Capital and Related Financing Activities	
Principal Paid on Capital Debt	(101,060)
Aquisition of Capital Assets	(57,096)
Interest Paid on Capital Debt	(23,824)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(181,980)</u>
 Cash Flows from Investing Activities	
Interest Income	3,337
Transfers (to) from Restricted Accounts	<u>34,761</u>
Net Cash Provided by (Used in) Investing Activities	<u>38,098</u>
 Increase (Decrease) in Cash and Cash Equivalents	(30,177)
Cash and Cash Equivalents, Beginning of Year	<u>42,409</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,232</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 24,138
Depreciation and Amortization	107,920
(Increase) Decrease in Accounts Receivable	(3,320)
Increase (Decrease) in Accounts Payables	9,027
Increase (Decrease) in Payroll Taxes Payable	(1,619)
Increase (Decrease) in Customer Deposits	<u>(27)</u>
Net Cash Provided by Operating Activities	<u>\$ 136,119</u>

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

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Organization and Financial Reporting – Holly Grove Water and Sewer Department is a component unit of the City of Holly Grove, Arkansas. The accompanying financial statements present only the Holly Grove Water and Sewer Department and do not include all funds, account groups, and programs controlled by the City of Holly Grove. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Department consists of an enterprise fund with the purpose of providing water and sewer services to the general public within the City's service area. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business.

Basis of accounting – The Holly Grove Water and Sewer Department uses the accrual basis of accounting in accordance with generally accepted accounting principles.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents – The Holly Grove Water and Sewer Department considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted per loan agreements or other purposes are excluded from Cash Equivalents.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE A- ORGANIZATION AND SUMMARY OF SIGNFICANT
ACCOUNTING POLICIES (CONT'D)**

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are collateralized by customer meter deposits.

Allowance for Bad Debts- No allowance for uncollectible accounts has been established. Bad Debts are recognized using the specific charge-off method. This method is not in accordance with generally accepted accounting principles, but use of this method does not result in a material misstatement of the financial statements.

Capital Assets – Capital assets consist of Department's plant and equipment. These assets are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 7 - 10 years for office furniture and equipment, to 50 years for the water and sewer system.

Restricted Assets – Restricted assets consist of funds established and maintained to account for and hold debt service reserves.

Risk Management - The Holly Grove Water and Sewer Department minimizes risk of loss through purchase of commercial insurance coverage.

Operating Revenues and Expenses – Operating Revenues and Expenses consists of those revenues that result from ongoing operations and are primarily charges for services. 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 services. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Department's policy to apply those expenses first to restricted net assets to the extent such as are available and then to unrestricted net assets.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNFICANT
ACCOUNTING POLICIES (CONT'D)**

Sales Tax – The Holly Grove Water and Sewer Department collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

Net Position – Net Position is categorized as net investments in capital assets, restricted for debt services (pursuant to debt agreements), or unrestricted.

Advertising – Advertising costs are expenses when incurred.

Credit Risk – Financial instruments which subject the Department's to concentration of credit risk consist principally of temporary cash investments. The entity places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit risk exposure. The Department's policy is to limit such investments to amounts covered by FDIC coverage and securities pledged to collateralize deposits. Credit risk from accounts receivable is limited due to the large number of customers and security deposits held as collateral.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Department's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Department's deposits are categorized to give an indication of the level of risk assumed by the Department. The categories are described as follows:

Category 1- Insured or collateralized by the FDIC

Category 2- Collateralized with securities held by the pledging financial institution's trust department or by its agent in the Department's name.

Category 3- Uncollateralized.

At December 31, 2023, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
<u>\$ 119,651</u>	<u>\$ 119,651</u>	<u>\$ -</u>	<u></u>

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE C- PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Department is presented below:

	December 31 2022	Additions	Deletions	December 31 2023
Not Subject to Depreciation:				
Land	\$ 14,700	\$ -	\$ -	\$ 14,700
Total	<u>14,700</u>	<u>-</u>	<u>-</u>	<u>14,700</u>
Subject to Depreciation:				
Utility Plant in Service	3,855,040	57,096	-	3,912,136
Office Equipment	19,777	-	-	19,777
Buildings	25,875	-	-	25,875
Equipment and Service Vehicles	219,084	-	-	219,084
Total	<u>4,119,776</u>	<u>57,096</u>	<u>-</u>	<u>4,176,872</u>
Less Accumulated Depreciation:	<u>(2,925,360)</u>	<u>(107,920)</u>		<u>(3,033,280)</u>
Net Capital Assets	<u>\$ 1,209,116</u>	<u>\$ (50,824)</u>	<u>\$ -</u>	<u>\$ 1,158,292</u>

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE D- LONG-TERM DEBT

The following is a summary of the Holly Grove Water Department's long-term notes payable:

Note payable to Co Bank, due in monthly installments through 10/20/2028	\$ 503,694
Note payable to Communities Unlimited, due in monthly installments through 7/21/2024	<u>9,981</u>
	513,675
Less Current Portion	<u>(106,028)</u>
Long-Term Debt, Net of Current Portion	<u><u>\$ 407,647</u></u>

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE D- LONG-TERM DEBT (cont'd)

<u>1/1/2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2023</u>
\$ 614,735	\$ -	\$ 101,060	\$ 513,675

A schedule of the future payments required on notes payable is as follows:

For the years ending
December 31,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	106,028	19,585	125,613
2025	100,174	15,268	115,442
2026	104,419	11,034	115,453
2027	108,843	6,623	115,466
2028	94,211	2,017	96,228

For the remaining years
ending December 31,

2033	-	-	-
Total	<u>\$ 513,675</u>	<u>\$ 54,527</u>	<u>\$ 568,202</u>

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE E – RESTRICTED ACCOUNTS

Restricted Accounts at December 31, 2023 consists of the following:

Cash:	
Meter deposit	<u>\$ 5,537</u>
Certificate of Deposit	
Depreciation Reserve	5,000
Debt Service Reserve	<u>96,882</u>
	<u>101,882</u>
Total Restricted Accounts	<u><u>\$ 107,419</u></u>

NOTE F – CONTINGENCIES

The Department is subject to governmental regulations regarding water quality and waste disposal. Fines may result from noncompliance.

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report; no items were noted which would require disclosure.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE H RENT:

The Department leases its office from the City of Holly Grove under a month to month operating lease. Total amount paid for year ended December 31, 2023, was \$ 12,000.

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WYNNE, ARKANSAS 72396

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

To the Mayor and City Council
Holly Grove, Arkansas

We have audited, in accordance with the 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 business-type activities of the Holly Grove Water and Sewer Department, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Holly Grove Water and Sewer Department's basic financial statements and have issued our report thereon dated December 5, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Holly Grove Water and Sewer 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 Holly Grove Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Holly Grove Water and Sewer Department's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. See #23-01 .

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Holly Grove Water and Sewer Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Holly Grove Water and Sewer Department' Response to Findings

The Holly Grove Water and Sewer Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Holly Grove Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

December 5, 2024

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

MATERIAL WEAKNESS:

23-01 Segregation of Duties

CONDITION: The Holly Grove Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Entity's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Entity's management should consider segregation of duties issues when additional employees are hired.

RESPONSE: We agree with the recommendation.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2023**

Prior year finding #22-01 – Lack of Segregation of Duties

This finding has been repeated as current year finding #23-01.

**HOLLY GROVE WATER AND SEWER DEPARTMENT
CITY OF HOLLY GROVE, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Water Fees	\$ 295,441	\$ 348,838	\$ (53,397)
Sewer Fees	46,835	47,655	(820)
Other Revenues	19,561	40,473	(20,912)
Total Operating Revenues	<u>361,837</u>	<u>436,966</u>	<u>(75,129)</u>
Operating Expenses:			
Contract Services	92,589	2,125	(90,464)
Depreciation	107,920		(107,920)
Dues and subscriptions	5,888	11,652	5,764
Fuel and Travel	2,569	5,075	2,506
Insurance	-	2,638	2,638
Loan Payments	-	102,480	102,480
Miscellaneous	4,453	1,324	(3,129)
Office Supplies and Postage	-	4,751	4,751
Operating Supplies and Maintenance	38,153	35,305	(2,848)
Payroll Taxes	6,707	49,168	42,461
Rent	12,000	9,000	(3,000)
Salaries	36,368	87,820	51,452
Sales tax		14,131	14,131
Transfers		56,587	56,587
Utilities	31,052	29,587	(1,465)
Total Operating Expenses	<u>337,699</u>	<u>411,643</u>	<u>73,944</u>
OPERATING INCOME (LOSS)	<u>24,138</u>	<u>25,323</u>	<u>(1,185)</u>
Non-operating Revenues (Expenses)			
Interest Income	3,337	299	3,038
Transfers	(22,414)		(22,414)
Interest Expense	(23,711)	(4)	(23,707)
Total Non-operating Revenues (Expenses)	<u>(42,788)</u>	<u>295</u>	<u>(43,083)</u>
Change in Net Position	<u>\$ (18,650)</u>	<u>\$ 25,618</u>	<u>\$ (44,268)</u>