

**CITY OF PRAIRIE GROVE  
WATER AND SEWER DEPARTMENT  
Prairie Grove, Arkansas  
FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION  
For the Years Ended  
December 31, 2023 and 2022  
and  
INDEPENDENT AUDITOR'S REPORT**

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**Prairie Grove, Arkansas**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**For the Years Ended December 31, 2023 and 2022**

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## **INDEPENDENT AUDITOR'S REPORT**

**Honorable David Faulk, Mayor  
and Members of the City Council  
City of Prairie Grove Water and Sewer Department  
Prairie Grove, Arkansas**

### **Opinions**

We have audited the accompanying financial statements of the City of Prairie Grove Water and Sewer Department, as of and for the years ended December 31, 2023 and 2022, 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 Prairie Grove Water and Sewer Department as of December 31, 2023 and 2022, 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 Prairie 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 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 Prairie Grove, Arkansas, as of December 31, 2023 and 2022, 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.

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 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.

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Honorable David Faulk, Mayor  
and Members of the City Council  
City of Prairie Grove  
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### **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.

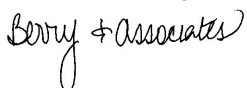
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Prairie 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Prairie 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2024 on our consideration of the City of Prairie 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 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 City of Prairie Grove Water and Sewer Department's internal control over financial reporting and compliance.



BERRY & ASSOCIATES, P.A.  
Little Rock, Arkansas  
June 24, 2024

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT  
STATEMENTS OF NET POSITION  
December 31, 2023 and 2022**

**ASSETS**

	<u>2023</u>	<u>2022</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,811,415	\$ 3,917,050
Investments	10,126	19,943
Accounts receivable	323,491	275,890
Inventory	114,233	106,450
Prepaid expenses	15,500	14,500
Total current assets	<u>4,274,765</u>	<u>4,333,833</u>
<b>NON-CURRENT ASSETS</b>		
Restricted assets		
Cash and cash equivalents	5,391,168	1,037,502
Capital assets		
Capital assets, net of depreciation	<u>21,632,514</u>	<u>15,887,518</u>
<b>TOTAL ASSETS</b>	<u>\$ 31,298,447</u>	<u>\$ 21,258,853</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 315,000	\$ 310,000
Accounts payable	101,592	88,439
Retainage payable	279,544	96,304
Payroll taxes payable	1,908	-
Sales tax payable	18,242	14,019
Accrued interest payable	15,865	17,419
Total current liabilities	<u>732,151</u>	<u>526,181</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Meter deposits	289,570	274,811
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt, net of current portion	<u>3,825,000</u>	<u>4,140,000</u>
<b>TOTAL LIABILITIES</b>	<u>4,846,721</u>	<u>4,940,992</u>
<b>NET POSITION</b>		
Net investment in capital assets	17,492,513	11,437,518
Unrestricted	8,959,213	4,880,343
Total net position	<u>26,451,726</u>	<u>16,317,861</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 31,298,447</u>	<u>\$ 21,258,853</u>

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

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 1,502,513	\$ 1,349,446
Sewer revenues	1,345,098	1,366,999
Connections fees	169,182	427,700
Late charges	64,907	54,781
Other income	113,631	132,490
	<u>3,195,331</u>	<u>3,331,416</u>
<b>OPERATING EXPENSES</b>		
Salaries expense	644,711	588,890
Payroll taxes	45,452	45,548
Employee benefits	95,998	89,560
Office expenses	48,237	35,328
Dues and subscriptions	26,849	26,253
Professional fees	15,463	31,372
Insurance	77,422	72,364
Chemicals and other supplies	225,848	129,696
Small tools	-	6,623
Other sewer expense	118,924	55,477
Utilities and telephone	140,070	130,261
Travel and training expenses	2,518	2,780
Uniform expense	5,985	7,549
Repairs and maintenance	405,383	522,057
Depreciation	532,934	504,694
Water purchases	432,279	418,441
Advertising expenses	603	1,458
Miscellaneous expenses	25,161	9,136
	<u>2,843,837</u>	<u>2,677,487</u>
<b>OPERATING INCOME</b>	<u>351,494</u>	<u>653,929</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest income	89,527	11,715
Other income	3,220	-
Unrealized capital losses	-	(2,497)
Grant income	4,475,000	-
Interest expense	(98,027)	(107,127)
Net nonoperating revenues (expenses)	<u>4,469,720</u>	<u>(97,909)</u>
<b>OTHER FINANCING SOURCES</b>		
Transfers in	5,490,740	2,071,931
<b>CHANGE IN NET POSITION</b>	10,311,954	2,627,951
<b>NET POSITION - BEGINNING OF YEAR, originally stated</b>	<u>16,317,861</u>	<u>13,689,910</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>(178,089)</u>	<u>-</u>
<b>NET POSITION - BEGINNING OF YEAR , restated</b>	<u>16,139,772</u>	<u>13,689,910</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 26,451,726</u>	<u>\$ 16,317,861</u>

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

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 3,147,730	\$ 3,324,746
Cash payments to suppliers	(1,472,451)	(1,501,856)
Cash payments to employees	(644,711)	(588,890)
Net cash provided from operating activities	<u>1,030,568</u>	<u>1,234,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of capital assets	(763,039)	(97,608)
Costs paid on construction in progress	(5,692,980)	(2,869,104)
Other income received	3,220	-
Principal payments on long-term debt	(310,000)	(290,000)
Change in restricted cash and cash equivalents	(4,353,666)	(181,199)
Grant income received	4,475,000	-
Interest payments on long-term debt	(99,581)	(108,581)
Net cash used by capital and related financing activities	<u>(6,741,046)</u>	<u>(3,546,492)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers in	5,490,740	2,071,931
Net cash provided by non-capital financing activities	<u>5,490,740</u>	<u>2,071,931</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase of investments	9,817	118,649
Increase in meter deposits payable	14,759	17,965
Interest received	89,527	11,715
Net cash provided by investing activities	<u>114,103</u>	<u>148,329</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(105,635)</u>	<u>(92,232)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,917,050</u>	<u>4,009,282</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 3,811,415</u>	<u>\$ 3,917,050</u>

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

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT  
STATEMENTS OF CASH FLOWS, CONTINUED  
For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating Income	\$ 351,494	\$ 653,929
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	532,934	504,694
Provision for unrealized loss on investments	-	(2,497)
(Increase) Decrease in:		
Accounts receivable	(47,601)	(6,670)
Inventory	(7,783)	6,624
Prepaid expenses	(1,000)	4,200
Increase (Decrease) in:		
Accounts payable	13,153	28,407
Payroll taxes payable	1,908	-
Sales tax payable	4,223	677
Retainage payable	183,240	96,304
Due to city	-	(51,668)
	<u>679,074</u>	<u>580,071</u>
Net cash provided by operating activities	<u>\$ 1,030,568</u>	<u>\$ 1,234,000</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Non-cash capital and related financing activities:		
Removal of Street Fund project fees included in prior year costs	<u>\$ 178,089</u>	<u>\$ -</u>

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



**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization**

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

**Basis of Presentation and Accounting**

The accounts of the 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 invested in capital assets, net of related debt; 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, 2023 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2023 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.

**Leases**

The Department calculates 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.

**Capitalized Interest**

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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:

Table with 2 columns: Asset and Years. Rows include Machinery & equipment (5-7), Buildings (40), Building improvements (5-10), Office equipment (5-7), Vehicles (5), and Water and sewer system (40).

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.

Inventories

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

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- This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of debt is included in the same net position component as the unspent proceeds.

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 PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**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, 2023.

**NOTE 3 – CAPITAL ASSETS:**

Capital asset activity for the years ended December 31, 2023 and 2022 was as follows:

	Balance 12/31/22	Additions	Retirements and transfers	Balance 12/31/23
Land	\$ 51,346	\$ -	\$ -	\$ 51,346
Major Tools & Equipment	183,260	-	-	183,260
Buildings	80,000	-	-	80,000
Building Improvements	39,142	2,900	-	42,042
Office Equipment	5,784	30,749	-	36,533
Vehicles	334,388	-	-	334,388
Water and Sewer system	21,282,873	1,396,944	-	22,679,817
Construction in Progress	3,066,828	6,244,281	(1,396,944)	7,914,165
	<u>25,043,621</u>	<u>7,674,874</u>	<u>(1,396,944)</u>	<u>31,321,551</u>
Less Accumulated Depreciation	(9,156,103)	(532,934)	-	(9,689,037)
Total Net Capital Assets	<u>\$ 15,887,518</u>	<u>\$ 7,141,940</u>	<u>\$ (1,396,944)</u>	<u>\$ 21,632,514</u>

	Balance 12/31/21	Additions	Retirements and transfers	Balance 12/31/22
Land	\$ 51,346	\$ -	\$ -	\$ 51,346
Major Tools & Equipment	183,260	-	-	183,260
Buildings	80,000	-	-	80,000
Building Improvements	3,580	35,562	-	39,142
Office Equipment	5,784	-	-	5,784
Vehicles	272,342	62,046	-	334,388
Water and Sewer system	21,282,873	-	-	21,282,873
Construction in Progress	197,724	2,869,104	-	3,066,828
	<u>22,076,909</u>	<u>2,966,712</u>	<u>-</u>	<u>25,043,621</u>
Less Accumulated Depreciation	(8,651,409)	(504,694)	-	(9,156,103)
Total Net Capital Assets	<u>\$ 13,425,500</u>	<u>\$ 2,462,018</u>	<u>\$ -</u>	<u>\$ 15,887,518</u>

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 4 – LONG-TERM DEBT:**

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
Revenue bond payable to First Community Bank, annual installments of variable amounts, including interest at rates ranging from 2.00% to 3.00% through November 2040. (1)	\$ 4,140,000	\$ 4,450,000
	4,140,000	4,450,000
Less Current Portion	<u>(315,000)</u>	<u>(310,000)</u>
Long Term Portion	<u>\$ 3,825,000</u>	<u>\$ 4,140,000</u>

(1) The revenue bonds have no restrictive covenants. Debt service reserve requirements for the bonds are satisfied by a Reserve Insurance Policy with Build America Mutual Assurance Company.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 315,000	\$ 94,931	\$ 409,931
2025	325,000	85,481	410,481
2026	335,000	75,731	410,731
2027	330,000	65,681	395,681
2028	345,000	59,081	404,081
2029-2033	1,625,000	188,388	1,813,388
2034-2038	605,000	69,756	674,756
2039-2040	260,000	8,775	268,775
	<u>\$ 4,140,000</u>	<u>\$ 647,824</u>	<u>\$ 4,787,824</u>

Long-term liability activity for the years ended December 31, 2023 and 2022 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					
Water Revenue Bonds	\$ 4,450,000	\$ -	\$ (310,000)	\$ 4,140,000	\$ 315,000
	<u>4,450,000</u>	<u>-</u>	<u>(310,000)</u>	<u>4,140,000</u>	<u>315,000</u>
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>12/31/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/22</u>	<u>One Year</u>
Long Term Debt					
Water Revenue Bonds	\$ 4,740,000	\$ -	\$ (290,000)	\$ 4,450,000	\$ 310,000
	<u>4,740,000</u>	<u>-</u>	<u>(290,000)</u>	<u>4,450,000</u>	<u>310,000</u>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$4,140,000 in revenue bonds. Proceeds from the bonds were used for building of the Department's water and sewer system. Principal and interest on the bonds are payable through 2040, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$310,000 and \$99,581, respectively. Principal and interest paid in the year ended December 31, 2022 were \$290,000 and \$108,581, respectively.

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2023 and 2022**

**NOTE 5 – PENSION PLAN:**

Plan Description. The City of Prairie Grove 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. 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% of annual covered payroll. The Department’s contributions to APERS for the years ending December 31, 2023 and 2022 were \$95,998 and \$89,560, respectively, 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.

**NOTE 6 – SUBSEQUENT EVENTS:**

Management has evaluated all the activities of the Department though June 24, 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 – RESTRICTED ASSETS:**

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for debt service reserves (see Note 2).

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

	2023	2022	
Bond Fund	\$ 623,659	\$ 778,603	
Customer Meter Deposits	291,773	258,899	
Construction Funds	4,475,736	-	
	\$ 5,391,168	\$ 1,037,502	

**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 8 – COMMITMENTS:**

The Department entered into an agreement with the Washington County Property Owners Improvement District No. 5 (POID) to treat and dispose of untreated wastewater delivered by the POID. The POID pays the Department at a rate of \$6.21 per 1,000 gallons of delivered wastewater. The POID is responsible for the construction and maintenance of facilities required to deliver untreated wastewater into the Prairie Grove collection system. This contract beginning on March 8, 2018 has a term for the life of all loans/bonds obtained by the POID for the construction of the facilities required and shall continue thereafter as long as the POID continues to deliver untreated wastewater to the City of Prairie Grove. During the year ended December 31, 2023, the POID paid \$156,590 in wastewater treatment fees, recorded as sewer revenue.

The Department started a construction project to expand the wastewater treatment plant during the year ended December 31, 2021. The Department has entered into a contract with a construction contractor for the amount of \$7,629,643. As of December 31, 2023 the Department has incurred costs of \$5,176,896 on this contract.

The Department also started a construction project to expand and replace downtown waterlines during the year ended December 31, 2021. The Department has entered into a contract with an engineering contractor for the amount of \$264,946. As of December 31, 2023 the Department has incurred costs of \$179,544 on this contract. The Department has entered into a contract with a construction contractor for the amount of \$1,525,828. As of December 31, 2023 the Department has incurred costs of \$1,524,328 on this contract.

**NOTE 9 – PRIOR PERIOD ADJUSTMENT:**

For the year ended December 31, 2022, the Department's construction in progress included amounts for a project for the City's Street Fund. Construction in progress was overstated by \$178,089. Adjustments related to the correction of this error resulted in a decrease to unrestricted net assets of \$178,089 as of December 31, 2023.



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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 David Faulk, Mayor  
and Members of the City Council  
City of Prairie Grove Water and Sewer Department  
Prairie Grove, 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 Prairie 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 City of Prairie Grove Water and Sewer Department's basic financial statements and have issued our report thereon dated June 24, 2024.

**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. However, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2023-01 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Prairie Grove 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedules of findings as item 2023-02.

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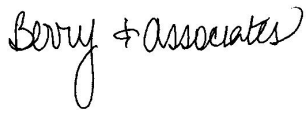
Honorable David Faulk, Mayor  
and Members of the City Council  
City of Prairie Grove  
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**Department's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



Berry & Associates, P.A.  
Little Rock, Arkansas  
June 24, 2024



**CITY OF PRAIRIE GROVE WATER AND SEWER DEPARTMENT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended December 31, 2023**

**2023-01 Internal Control – Segregation of Duties**

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

Condition: Presently the same individual who is responsible for service billing and adjustment, receives customer payments, and posts payments to subsidiary accounts receivable ledger. Also, the same individual who is responsible for general ledger activity including posting and writing checks also reconciles the bank statement. This finding was also noted in 2022.

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

View of Responsible Officials: The 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.

**2023-02 Internal Control – Complete Set of Accounting Records**

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2023 the Department's general ledger did not include current year's transactions for two trust accounts that are administered by third parties that are a material part of the financial statements. This finding was also noted in 2022.

Cause: The Department did not properly record transactions and maintain accounting records.

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Department's internal financial statements. With these accounts missing, it does not permit the preparation of accurate and reliable financial statements.

Recommendation: We recommend that management of the Department properly records all transactions and appropriately maintains all accounting records in a timely manner.

View of Responsible Officials: The Department concurs with the recommendation.