

**CITY OF GRAVETTE, ARKANSAS WATER  
AND WASTEWATER DEPARTMENT**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**



# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

DECEMBER 31, 2010 AND 2009

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PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the, **City of Gravette, Arkansas Water and Wastewater Department, (the Department)**, as of and for the years ended **December 31, 2010 and 2009**, as listed in the table of contents. These financial statements are the responsibility of the **Department's** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the water and waste water Department enterprise Department and do not purport to, and do not, present fairly the financial position of the City of Gravette, Arkansas, as of December 31, 2010, and the changes its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **City of Gravette, Arkansas Water and Wastewater Department** as of **December 31, 2010 and 2009**, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2011, on our consideration of the **City of Gravette, Arkansas Water and Wastewater Department** 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, 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 supplemental 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 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.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**August 24, 2011**

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**CITY OF GRAVETTE, ARKANSAS WATER AND WASTE WATER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

This section of the City of Gravette, Arkansas Water and Waste Water Department annual financial report presents the analysis of the Department's financial performance during the calendar year ended December 31, 2010. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Department ended the year December 31, 2010 with a net asset balance of \$6,620,246.
- The net income of the Department was \$102,997.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2010, cash and cash equivalents increased by \$244,359. Cash provided from the day-to-day operations of the department totaled \$471,030. Cash used toward fixed assets and debt service totaled \$288,058. While cash provided from restricted checking and savings accounts and interest income totaled \$92,380.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of the following parts: Management's Discussion and Analysis and Basic Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the Department report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Assets include information on the Department's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Department creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identify the Department's revenues and expenses for the fiscal year ended December 31, 2010. This statement provides information on the Department's operations over the past fiscal year and can be used to determine whether the Department has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the Department's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current fiscal year.

**CITY OF GRAVETTE, ARKANSAS WATER AND WASTE WATER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CONDENSED FINANCIAL INFORMATION**

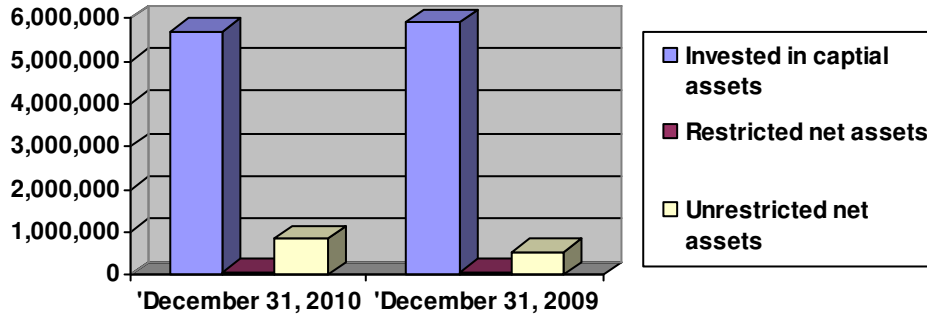
Condensed financial information from the statement of net assets as of December 31, 2010 and 2009 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Current assets	\$ 1,019,345	\$ 852,979
Noncurrent assets	67,893	70,345
Capital assets, net	<u>10,432,128</u>	<u>10,513,040</u>
Total assets	<u>11,519,366</u>	<u>11,436,364</u>
Current liabilities	139,940	200,080
Other liability	2,219,667	2,140,959
Long-term liabilities	<u>2,539,513</u>	<u>2,578,076</u>
Total liabilities	<u>4,899,120</u>	<u>4,919,115</u>
Net assets:		
Invested in capital assets, net of related debt	5,702,281	5,905,009
Restricted	71,469	85,477
Unrestricted	<u>846,496</u>	<u>526,763</u>
Total net assets	<u>\$ 6,620,246</u>	<u>\$ 6,517,249</u>
Operating revenues	<u>\$ 1,252,627</u>	<u>\$ 1,166,834</u>
Operating expenses, excluding depreciation	777,868	695,079
Depreciation	<u>229,221</u>	<u>228,726</u>
Total operating expenses, including depreciation	<u>1,007,089</u>	<u>923,805</u>
Operating income	245,538	243,029
Nonoperating revenues (expenses)	<u>(142,541)</u>	<u>190,676</u>
Change in net assets	102,997	433,705
Beginning of year net assets	<u>6,517,249</u>	<u>6,083,544</u>
End of year net assets	<u>\$ 6,620,246</u>	<u>\$ 6,517,249</u>

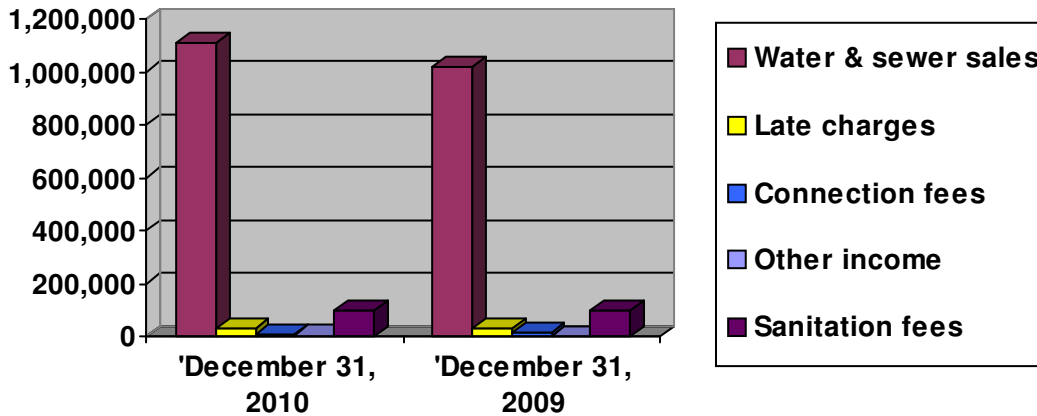
**CITY OF GRAVETTE, ARKANSAS WATER AND WASTE WATER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

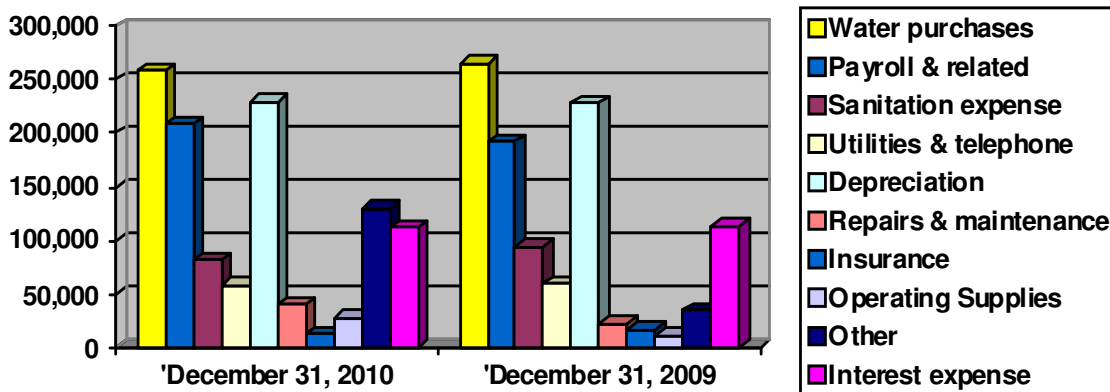
**Classifications of net assets presented in a graph format**



**Operating revenues presented in a graph format**



**Operating expenses presented in a graph format**



**CITY OF GRAVETTE, ARKANSAS WATER AND WASTE WATER DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CAPITAL ASSETS**

The Department's capital assets as of December 31, 2010 and 2009 amounted to \$10,432,128 and \$10,513,040 (net of accumulated depreciation) respectively. This investment in capital assets includes land, buildings, vehicles, equipment, the existing water and sewer system.

Current year additions consisted of the construction and engineering fees for the water storage facilities of \$83,525 plus interest and fees incurred that is charged to the project totaling \$62,045. A cash management system split with the City was also acquired totaling \$2,739. Current projects still underway consist of the water storage facilities project which consists of a 1 million gallon elevated water storage tank and a 12 inch main.

**LONG-TERM DEBT**

As of December 31, 2010, the Department had \$2,578,073 in existing outstanding debt from Rural Development and the Arkansas Natural Resources Commission. The Department paid \$33,916 toward the loan from Rural Development. The Department drew on the 2008 Series Bonds that were issued on December 2, 2008, in the amount of \$78,708 resulting in an outstanding balance of \$2,219,667. This went to fund the costs of the water storage facilities project noted above. The Department still has available \$200,333 to draw upon in 2011.

**ADDITIONAL FINANCIAL INFORMATION**

This financial report is designed to provide the Department's customers and other interested parties with an overview of the Department's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact the City of Gravette, Arkansas Water and Waste Water Department, 119 Main Street S.E., Gravette, AR 72736.

***FINANCIAL STATEMENTS***

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Statements of Net Assets

AS OF DECEMBER 31,	2010	2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 718,865	\$ 474,506
Restricted checking and savings accounts	103,100	194,820
Restricted certificates of deposit	15,000	15,000
Accounts receivable, less allowance for doubtful accounts	134,284	123,680
Prepaid expenses	7,207	4,084
Inventory	40,889	40,889
<b>Total Current Assets</b>	<b>1,019,345</b>	<b>852,979</b>
<b>Noncurrent Assets - Capital Assets</b>		
Land	38,470	38,470
Water and sewer system	10,739,183	10,739,183
Furniture, fixtures and tools	82,431	82,431
Warehouse/office	67,792	65,053
Vehicles	70,124	70,124
Construction in process	2,673,711	2,528,141
Total	13,671,711	13,523,402
Less accumulated depreciation	(3,239,583)	(3,010,362)
<b>Net Noncurrent Assets - Capital Assets</b>	<b>10,432,128</b>	<b>10,513,040</b>
<b>Other Noncurrent Assets</b>		
Bond issuance costs, net of accumulated amortization of \$43,722 and \$41,270 respectively	67,893	70,345
<b>Net Noncurrent Assets - Capital Assets</b>	<b>67,893</b>	<b>70,345</b>
<b>Total Assets</b>	<b>11,519,366</b>	<b>11,436,364</b>

See accompanying notes to financial statements.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Statements of Net Assets

AS OF DECEMBER 31,	2010	2009
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	26,278	29,845
Construction payables	-	72,753
Payroll taxes payable	2,055	371
Sales tax payable	-	5,615
Accrued interest	15,497	12,077
Customer deposits	57,550	42,506
Current portion of long-term debt	38,560	36,913
<b>Total Current Liabilities</b>	<b>139,940</b>	<b>200,080</b>
<b>Other Liability</b>	<b>2,219,667</b>	<b>2,140,959</b>
<b>Long-term Debt</b>	<b>2,539,513</b>	<b>2,578,076</b>
<b>Total Liabilities</b>	<b>4,899,120</b>	<b>4,919,115</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	5,702,281	5,905,009
Restricted	71,469	85,477
Unrestricted	846,496	526,763
<b>Total Net Assets</b>	<b>\$ 6,620,246</b>	<b>\$ 6,517,249</b>

See accompanying notes to financial statements.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Statements of Revenues, Expenses and Changes in Net Assets

FOR THE YEARS ENDED DECEMBER 31,	2010	2009
<b>Water and Sewer Revenues</b>	\$ 1,252,627	\$ 1,166,834
<b>Operating Expenses</b>		
Wages	154,038	147,003
Water purchases	258,835	264,868
Employee benefits	37,177	33,335
Advertising	583	890
Utilities	52,113	53,277
Telephone	5,852	6,041
Sanitation expense	81,190	93,617
Repairs and maintenance	40,085	22,379
Equipment expense	2,018	3,238
Operating supplies	27,762	11,461
Uniforms	1,939	2,923
Vehicle expense	8,699	7,510
Insurance	13,480	16,225
Equipment rental	3,071	2,691
Legal and professional	14,768	2,805
Miscellaneous	19,259	3,336
Payroll taxes	16,886	11,659
Licenses, dues and memberships	19,796	2,351
Contract labor	-	200
Postage	12,654	4,701
Training	3,990	80
Lab expense	1,221	2,037
Depreciation	229,221	228,726
Amortization	2,452	2,452
<b>Total Operating Expenses</b>	1,007,089	923,805
<b>Net Income From Operations</b>	245,538	243,029
<b>Other Income (Expenses)</b>		
Interest income	660	1,309
Rural Development grant	-	294,500
Insurance reimbursement	-	8,648
Transfers to General Fund	(30,993)	-
Interest expense	(112,208)	(113,781)
<b>Total Net Other Income (Expenses)</b>	(142,541)	190,676
<b>Change in Net Assets</b>	102,997	433,705
Net Assets at Beginning of Year	6,517,249	6,083,544
<b>Net Assets at End of Year</b>	\$ 6,620,246	\$ 6,517,249

See accompanying notes to financial statements.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,	2010	2009
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	\$ 1,252,739	\$ 1,172,022
Cash payments to suppliers for goods and services	(627,671)	(557,056)
Cash payments to employees for services	(154,038)	(147,003)
<b>Net Cash Provided By Operating Activities</b>	471,030	467,963
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Insurance reimbursement	-	8,648
Transfers to General Fund	(30,993)	-
<b>Net Cash Flows Provided (Used ) By Noncapital and Related Financing Activities</b>	(30,993)	8,648
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of property, plant and equipment	(159,017)	(2,103,236)
Grant proceeds	-	294,500
Draws on revenue bonds	78,708	1,829,103
Repayment of debt	(36,916)	(37,865)
Interest and fees paid on debt	(170,833)	(137,658)
<b>Net Cash Used By Capital and Related Financing Activities</b>	(288,058)	(155,156)
<b>Cash Flows From Investing Activities</b>		
Net activity of restricted checking and savings accounts	91,720	(123,385)
Interest income	660	1,309
<b>Net Cash Used By Investing Activities</b>	92,380	(122,076)
<b>Net Increase in Cash and Cash Equivalents</b>	244,359	199,379
Cash and Cash Equivalents At Beginning of Year	474,506	275,127
<b>Cash and Cash Equivalents At End of Year</b>	\$ 718,865	\$ 474,506

See accompanying notes to financial statements.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,	2010	2009
<b>Reconciliation of Operating Income To Net Cash</b>		
<b>Provided By Operating Activities</b>		
Operating Income	\$ 245,538	\$ 243,029
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	229,221	228,726
Amortization	2,452	2,452
(Increase) decrease in:		
Accounts receivable	(10,604)	7,458
Prepaid expenses	(3,123)	6,185
Inventory	-	(12,445)
Increase (decrease) in:		
Trade accounts payable	(3,567)	(7,060)
Payroll taxes payable	1,684	(250)
Sales tax payable	(5,615)	(73)
Customer meter deposits	15,044	(59)
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 471,030</b>	<b>\$ 467,963</b>
<b>Supplemental Schedule of Noncash Financing and Investing Activities</b>		
Increase in property, plant, and equipment	\$ 148,309	\$ 2,206,258
Plus: prior year construction payables	72,753	-
Less: current year construction payables	-	(72,753)
Less: current year increase due to capitalized interest	(62,045)	(30,269)
<b>Net cash used in the acquisition of property, plant, and equipment</b>	<b>\$ 159,017</b>	<b>\$ 2,103,236</b>

See accompanying notes to financial statements.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### Nature of Operations

The City of Gravette Water and Waste Water Department (the Department) is a proprietary type fund and is a component unit of the City of Gravette, Arkansas. The purpose of the Department is to provide and maintain water and sewer services to the residents of the City of Gravette. Activities of the fund include administration, operation and maintenance of the water and sewer department, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for the Department's debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the fund.

### 1. Summary of Significant Accounting Policies

#### a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Department. The Department accounts for its operations as an enterprise fund.

*Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the entity has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

The Department is considered to be a component unit of the City of Gravette. These financial statements reflect only the Water and Sewer Department Enterprise Fund of the City of Gravette, Arkansas and, accordingly, do not reflect other activities, funds and account groups of the City.

#### b. Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents excluding restricted cash.

#### c. Income Taxes

The Department is exempt from income taxes as a governmental agency.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### d. Capital Outlays and Depreciation

Capital outlays of the system are stated at cost. Depreciation of property, plant and equipment is computed on the straight-line method over the estimated useful lives of the assets as follows:

	<u>Life</u>
Water and sewer system	25-50 years
Furniture, fixtures and tools	10 years
Warehouse/office	10-33 years
Vehicles	5 years

Maintenance and repairs are charged to expense, whereas significant replacements and improvements of \$500 or more are capitalized.

Depreciation expense for the years ended December 31, 2010 and 2009, was \$229,221 and \$228,726 respectively.

#### e. Inventory

Inventory consists of supplies on hand and is valued at cost using the first-in, first-out method

#### f. Accounts Receivable

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$53,971 and \$51,642, respectively, as of December 31, 2010 and 2009.

#### g. Compensated Absences

Compensated absences are not accrued because they are immaterial to the financial statements.

#### h. Bond Issuance Costs And Loan Fees

Bond issuance costs and loan fees are being amortized using the straight-line method over the life of the bonds and loans.

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### i. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### j. Advertising

The Department expenses advertising costs as incurred. Total advertising costs for the years ended December 31, 2010 and 2009, were \$583 and \$890, respectively.

### 2. Cash Deposits

The Department had deposits in two area banks which were classified as follows:

<b>As Of December 31, 2010</b>	Book Value	Bank Value
FDIC Insured	\$ 500,000	\$ 500,000
Collateralized	\$ 239,818	\$ 261,399
Uninsured/uncollateralized	\$ 96,947	\$ 104,216
<b>Total</b>	<b>\$ 836,765</b>	<b>\$ 865,615</b>

<b>As Of December 31, 2009</b>	Book Value	Bank Value
FDIC Insured	\$ 484,047	\$ 500,000
Collateralized	\$ 200,079	\$ 113,669
Uninsured/uncollateralized	\$ -	\$ 81,563
<b>Total</b>	<b>\$ 684,126</b>	<b>\$ 695,232</b>

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### 3. Restricted Assets

Restricted checking and savings accounts consists of the following:

<b>As Of December 31,</b>	<b>2010</b>	<b>2009</b>
Meter Deposits	\$ 31,134	\$ 34,693
2080 Water Construction Fund	-	77,572
Capital Improvements	-	30,993
Operating & Maintenance Reserve Fund	30,720	16,553
1999 Bond Fund	41,245	31,361
Water Reimbursement Fund	-	3,626
Sewer System Improvements	-	22
<b>Total restricted assets</b>	<b>\$ 103,099</b>	<b>\$ 194,820</b>

Restricted certificate of deposit at December 31, consists of the following:

<b>As Of December 31,</b>	<b>2010</b>	<b>2009</b>
Depreciation Reserve	\$ 15,000	\$ 15,000
<b>Total restricted assets</b>	<b>\$ 15,000</b>	<b>\$ 15,000</b>

### 4. Long-Term Debt

<b>As Of December 31,</b>	<b>2010</b>	<b>2009</b>
Rural Development, issued June 23, 2004, in the original amount of \$2,756,000. The note bears an annual interest rate of 4.375%. The note is secured by properties and equipment in the project and the final maturity of the note is June 23, 2044. Payments of \$12,430 are made monthly.	\$ 2,545,525	\$ 2,582,441
Arkansas Natural Resources Commission (ANRC) - payments will be made annually in the amount of \$2,612 beginning June 1, 2015 and include interest of 5.00%. The note is secured by properties and equipment in the project and is scheduled to mature in 2034.	32,548	32,548
Total	2,578,073	2,614,989
Less current portion	38,560	36,913
Long-Term Debt	\$ 2,539,513	\$ 2,578,076

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### 4. Long-Term Debt (continued)

Principal is scheduled to mature as follows:

December 31,	Principal	Interest	Total
2011	\$ 38,560	\$ 110,600	\$ 149,160
2012	40,281	108,879	149,160
2013	42,080	107,080	149,160
2014	43,958	105,202	149,160
2015	46,905	104,732	151,637
2016-2020	267,952	490,908	758,860
2021-2025	333,524	425,336	758,860
2026-2030	415,147	343,713	758,860
2031-2035	514,132	242,107	756,239
2036-2040	628,080	117,720	745,800
2041-2045	207,454	6,974	214,428
<b>Total</b>	<b>\$ 2,578,073</b>	<b>\$ 2,163,251</b>	<b>\$ 4,741,324</b>

Activity of the long-term debt consists of the following:

<b>As Of</b>	<b>January 1, 2010</b>	<b>Additions &amp; Contributions</b>	<b>Retirements</b>	<b>December 31, 2010</b>
2008 Water Revenue Bonds	\$ 2,140,959	\$ 78,708	\$ -	\$ 2,219,667
ANRC	32,548	-	-	32,548
Rural Development	2,582,441	-	36,916	2,545,525
<b>Total</b>	<b>\$ 4,755,948</b>	<b>\$ 78,708</b>	<b>\$ 36,916</b>	<b>\$ 4,797,740</b>

<b>As Of</b>	<b>January 1, 2009</b>	<b>Additions &amp; Contributions</b>	<b>Retirements</b>	<b>December 31, 2009</b>
2008 Water Revenue Bonds	\$ 311,856	\$ 1,829,103	\$ -	2,140,959
ANRC	32,548	-	-	32,548
Rural Development	2,617,780	-	35,339	2,582,441
Bank of Gravette	2,526	-	2,526	-
<b>Total</b>	<b>\$ 2,964,710</b>	<b>\$ 1,829,103</b>	<b>\$ 37,865</b>	<b>\$ 4,755,948</b>

# CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT

## Notes to Financial Statements

DECEMBER 31, 2010

### 5. Other Liability

The other liability as shown on the statement of net assets consists of the amounts drawn as of December 31, against the 2008 Revenue Bonds that were issued on December 2, 2008. The bonds were issued in the amount of \$2,420,000 and will bear interest as 2.750% and are scheduled to mature October 15, 2031. The bonds are secured by the revenues generated by the Department.

### 6. Other Assets

Costs associated with the issuance of debt are being amortized on the straight-line basis over the life of the debt which ranges from 10 to 30 years. Amortization expense for the years ended December 31, 2010 and 2009 was \$2,452 and \$2,452 respectively.

### 7. Property, Plant and Equipment

Activity of property, plant and equipment consists of the following:

<b>As Of</b>	<b>January 1, 2010</b>	<b>Additions &amp; Contributions</b>	<b>Retirements</b>	<b>December 31, 2010</b>
Land	\$ 38,470	\$ -	\$ -	\$ 38,470
Water and Sewer system	10,739,183	-	-	10,739,183
Furniture, fixtures and tools	82,431	-	-	82,431
Warehouse/office	65,053	2,739	-	67,792
Vehicles	70,124	-	-	70,124
Construction in process	2,528,141	145,570	-	2,673,711
<b>Total</b>	<b>\$ 13,523,402</b>	<b>\$ 148,309</b>	<b>\$ -</b>	<b>\$ 13,671,711</b>

<b>As Of</b>	<b>January 1, 2009</b>	<b>Additions &amp; Contributions</b>	<b>Retirements</b>	<b>December 31, 2009</b>
Land	\$ 9,630	\$ 28,840	\$ -	\$ 38,470
Water and Sewer system	10,739,183	-	-	10,739,183
Furniture, fixtures and tools	82,431	-	-	82,431
Warehouse/office	65,053	-	-	65,053
Vehicles	60,209	9,915	-	70,124
Construction in process	360,638	2,167,503	-	2,528,141
<b>Total</b>	<b>\$ 11,317,144</b>	<b>\$ 2,206,258</b>	<b>\$ -</b>	<b>\$ 13,523,402</b>

# **CITY OF GRAVETTE, ARKANSAS WATER AND WASTEWATER DEPARTMENT**

## **Notes to Financial Statements**

**DECEMBER 31, 2010**

### **8. Capitalized Interest**

The Department follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the year ended December 31, 2010, total interest incurred was \$174,253 of which \$62,045 was capitalized, and \$112,208 was charged to operations. For the year ended December 31, 2009, total interest incurred was \$144,050 of which \$30,269 was capitalized, and \$113,781 was charged to operations.

### **9. Employee Retirement Plan**

The Department is a participant in the Arkansas Public Employees Retirement System. All employees who work a minimum of 80 hours per month for more than 90 consecutive calendar days are covered under the plan. Contribution and benefit provisions are established by state law and may be amended only by the Arkansas General Assembly.

The employee contribution rate for all contributory employees is 5%. The employer contribution rate for all employees' earnings ranged from 13.47% to 11.09% for 2010 and 2009. For the year ended December 31, 2010 and 2009, the Department contributed \$18,125 and \$16,171 respectively.

### **10. Concentrations of Credit Risk**

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

### **11. Risk Management**

The Department is exposed to various levels of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department carries commercial insurance through a local agency and Arkansas Municipal League.

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

### **12. Subsequent Events**

The Fund has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2010 through August 24, 2011, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

***ADDITIONAL REQUIRED REPORT***



PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

**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***

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

We have audited the financial statements of the **City of Gravette, Arkansas Water and Wastewater Department** as of and for the year ended **December 31, 2010**, and have issued our report thereon dated August 24, 2011. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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 Department's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and City Council, management, Rural Development, and the Arkansas Natural Resources Commission and is not intended to be and should not be used by anyone other than these specified parties



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**August 24, 2011**