

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

December 31, 2014

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GARY D. WELCH, CPA, PRINCIPAL
JIMMY M. PATE, CPA, PRINCIPAL
DENNIS C. FASON, CPA, PRINCIPAL
JOE L. WOOSLEY, CPA



HARRY C. KEATON, CPA
(1920-2006)
CLARENCE W. JORDAN, CPA
(1930-2009)
GLEN W. CRONE, JR., CPA
(1936-2016)

INDEPENDENT AUDITORS REPORT

To the City Council
City of Bryant, Arkansas

We have audited the accompanying financial statements the City of Bryant, Arkansas Water and Wastewater Department as of and for the year ended December 31, 2014, and the related notes to financial statements, which comprise the City of Bryant, Arkansas Water and Wastewater Department's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Bryant, Arkansas Water and Wastewater Department, as of December 31, 2014, and

the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such omitted 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. Our opinion on the basic financial statements is not affected by this omitted information.

Other Information

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2016, on our consideration of the City of Bryant, Arkansas Water and Wastewater Department's internal control over financial reporting 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 in 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 reports is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Bryant's Water and Wastewater Department's internal control over financial reporting and compliance.


Certified Public Accountants
Hot Springs, Arkansas

August 26, 2016

City of Bryant, Arkansas
Water and Wastewater Department
STATEMENT OF NET POSITION
December 31, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$ 6,866,322	
Accounts receivable	<u>76,085</u>	
Total Current Assets		\$ 6,942,407

Restricted Assets

Bond Fund	\$ 12,587	
Bond reserve	7,168	
Bond reserve investments	356,414	
Construction Fund	110	
Depreciation Fund	627,044	
Fair-share	2	
Impact fee	241,513	
Salem royalty	<u>43,992</u>	
Total Restricted Assets		1,288,830

Capital Assets

Property, plant and equipment – heavy equipment	\$ 41,735,967	
Water Storage Agreement	<u>1,264,056</u>	
Total	\$ 43,000,023	
Less accumulated depreciation	<u>11,839,424</u>	
	\$ 31,160,599	
Construction in progress	<u>502,132</u>	
Total Capital Assets		<u>31,662,731</u>

Total Assets

\$ 39,893,968

Deferred Outflows of Resources

Deferred cost of refunding	\$ 223,036	
Unamortized discount – bond expense	<u>208,898</u>	
Total Deferred Outflows of Resources		<u>431,934</u>

Total Assets and Deferred Outflows of Resources

\$ 40,325,902

See independent auditors report and notes to financial statements.

City of Bryant, Arkansas
Water and Wastewater Department
STATEMENT OF NET POSITION
December 31, 2014

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 71,100
Customer deposits payable	549,306
Short-term portion of long-term debt	968,418
Accrued interest	<u>91,014</u>

Total Current Liabilities \$ 1,679,838

Long-term Liabilities

Bonds payable:	
Wastewater 2012	\$ 5,205,064
Water 2011	6,076,974
Water/Wastewater Bond A 2008	1,295,000
Water/Wastewater Bond B 2008	4,840,000
Contract payable	910,288
Due to/from	<u>[46,186]</u>

Total Long-term Liabilities 18,281,140

Net Position

Net invested in capital assets	\$ 12,368,345
Restricted	\$ 285,505
Unrestricted	<u>7,711,074</u>

Total Net Position 20,364,924

Total Liabilities and Net Position \$ 40,325,902

See independent auditors report and notes to financial statements.

City of Bryant, Arkansas
Water and Wastewater Department
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014

	Department	
	Water	Wastewater
<u>Operating Revenues</u>		
Water	\$ 2,566,574	
Wastewater		\$3,413,609
Penalties	113,648	
Service charges	26,490	
Service connections	22,210	11,400
System development	14,263	
Other	143,492	1,163
Total Operating Revenues	<u>\$ 2,886,677</u>	<u>\$ 3,426,172</u>
<u>Operating Expenses</u>		
Building/grounds	\$ 88,388	\$ 337,638
Depreciation	620,756	785,991
Miscellaneous	35,509	19,999
Operational	343,508	48,636
Personnel costs	554,916	794,819
Professional services	40,681	50,743
Supplies/water purchases	1,141,113	203,469
Vehicle	34,947	62,050
Transfers	[27,396]	
Total Operating Expenses	<u>\$ 2,832,422</u>	<u>\$ 2,303,345</u>
<u>Net Operating Revenues</u>	<u>\$ 54,255</u>	<u>\$ 1,122,827</u>
<u>Non-operating Revenues [Expenses]</u>		
Interest income	\$ 2,894	\$ 2,570
Bond fees	[4,265]	
Interest expense	[493,470]	[2,639]
Net Non-operating Expenses	<u>\$[494,841]</u>	<u>\$[69]</u>
<u>Change in Net Position</u>	<u>\$[440,586]</u>	<u>\$ 1,122,758</u>

See independent auditors report and notes to financial statements.

City of Bryant, Arkansas
Water and Wastewater Department
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014

<u>Net Position January 1, 2014, as previously stated</u>	\$ 19,939,150
 <u>Restatement</u>	
Reduction to net position for prior years' adjustments to bond principal receipts (previously recorded as revenue) and bond principal payments (previously recorded as expenses)	[<u>256,398</u>]
 Net Position January 1, 2014, as restated	 \$ 19,682,752
 Net Change in Net Position for the year ended December 31, 2014	 <u>682,172</u>
 <u>Net Position – December 31, 2014</u>	 <u>\$ 20,364,924</u>

See independent auditors report and notes to financial statements.

City of Bryant, Arkansas
Water and Wastewater Department
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

<u>Cash Flows from Operating Activities</u>		
Receipts from customers	\$ 6,478,640	
Payments to employees	[966,954]	
Payments to suppliers	<u>[2,793,896]</u>	
Net Cash Provided by Operating Activities		\$ 2,717,790
<u>Cash Flows from Capital and Related Financing Activities</u>		
Purchase of capital assets	\$[984,953]	
Proceeds from capital debt	261,995	
Interest paid on capital debt	[416,950]	
Principal paid on capital debt	[483,727]	
Other receipts	2,454	
Revenue from debt-service surcharge/impact fees	<u>83,945</u>	
Net Cash Used in Capital and Related Financing Activities		[1,537,236]
<u>Cash Flows from Investing Activities</u>		
Interest	\$ 5,466	
Investment loss	<u>[4,495]</u>	
Net Cash Provided by Investing Activities		<u>971</u>
<u>Increase in Cash and Cash Equivalents</u>		\$ 1,181,525
<u>Cash and Cash Equivalents – January 1, 2014</u>		<u>6,973,627</u>
<u>Cash and Cash Equivalents - December 31, 2014</u>		<u>* \$ 8,155,152</u>

*Current assets \$6,866,322; restricted assets \$1,288,830

See independent auditors report and note to financial statements.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1: Summary of Significant Accounting Policies -

Organization. The Bryant Water and Wastewater Department is organized as a proprietary fund of the City of Bryant, Arkansas. The Department prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Deposits and Investments. The Department's cash and cash equivalents are considered cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statute authorizes the City to invest in obligations of the United States government, commercial paper and certain corporate bonds. For the purpose of reporting cash flows, cash includes both restricted and nonrestricted cash.

Receivables. A provision totaling \$44,135 has been made for delinquent accounts receivable that may be uncollectible at year end.

Property, Plant and Equipment. Property, plant and equipment are stated at historical cost if purchased or constructed. Contributed capital assets are stated at estimated fair-market value at the date of the contribution. Property, plant and equipment are depreciated using the straight-line method over the useful lives of the assets. Ordinance 2002-09 set the capitalized asset threshold at \$2,500.

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and 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.

Defining Operating Revenues and Expenses. Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses of the Department consist of charges for services and the cost of providing those services, including depreciation and excluding interest expense. All other revenues and expenses are reported as non-operating.

Restricted Assets. The proprietary fund restricts assets in accordance with requirements of bond obligation agreements. The assets consist primarily of cash and short-term investment funds.

NOTE 2: Deposits and Investments - At December 31, 2014, the deposits and investments held by the Department were as follows:

See independent auditors report.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO THE FINANCIAL STATEMENTS
(continued)
December 31 2014

	<u>Carrying Value</u>
Deposits:	
Demand	\$ 7,798,128
Cash on Hand	610
Total Deposits	\$ 7,798,738
Investments – U. S. agency obligations	356,414
Total Deposits and Investments	\$ 8,155,152

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. At December 31, 2014 the carrying amount of the entire Department's deposits was \$7,798,128 with a corresponding bank balance of \$8,018,857. Of this amount, \$7,561,528 was subject to custodial credit risk. The City has collateralized pledged securities with Regions Bank in excess of amounts not covered by FDIC insurance.

NOTE 3: Capital Assets - Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 43,338			\$ 43,338
Buildings	732,724			732,724
Improvements	35,456,327	\$ 1,270,621		36,726,948
Machinery and equipment	3,963,812			3,963,812
Office furniture and fixtures	269,145			269,145
Water Storage Agreement	1,487,868		\$[223,812]	1,264,056
Subtotal	\$ 41,953,214	\$ 1,270,621	\$[223,812]	\$ 43,000,023
Accumulated depreciation	10,432,636	1,406,788		11,839,424
Net Capital Assets	\$ 31,520,578	\$[136,167]	\$[223,812]	\$ 31,160,599
Construction in progress	563,986	725,604	[787,458]	502,132
Total Capital Assets	\$ 32,084,564	\$ 589,437	\$[1,011,270]	\$ 31,662,731

NOTE 4: Long-Term Liabilities – Long-term liabilities consist of bond issues and notes payable. Bond issues outstanding are secured by pledged revenues of the Department and improvement district taxes. Notes payable are secured by the assets that were purchased with the proceeds.

Water Improvement District No. 3 Improvement Bonds - Dated September 21, 1998 (Wolf Creek)
 These bonds were issued for the purpose of installing a water distribution system with an original face value of \$121,000. Interest rate is 5.25%. Principal payments are due annually on September 1, and interest payments are due semiannually on March 1 and September 1.

See independent auditors report.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO THE FINANCIAL STATEMENTS
(continued)
December 31 2014

Water and Wastewater Refunding Revenue Bonds - Dated December 31, 2008

These bonds were issued for the purpose of refunding the Series 2003 bonds. The interest rates range from 3% to 5.5%. Original face value of the bonds was \$3,800,000 for the Series A bonds and \$4,885,000 for the Series B Bonds. Principal payments are due annually on December 1, and interest payments are due semi-annually on June 1, and December 1.

Bond Payable-Loan Advances-Arkansas Natural Resource Commission (ANRC)

Bond payable water and wastewater revenue bond series 2011 original face value of the bonds was \$6,500,000. Bond proceeds advanced as of December 31, 2014, are \$6,323,150. The interest rate is 1.95% with a 1% service fee. Principal and interest payments began April 15, 2014.

Bond payable water and wastewater revenue bond series 2012 original face value of the bonds \$8,500,000. Bond proceeds advanced as of December 31, 2014 \$5,522,306. The interest rate is 1.95% with a 1% service fee. Principal and interest payments began April 15, 2015.

Note Payable - Regions Bank

This note was issued for the purpose of purchasing a vacuum truck \$474,708 with interest at 4.45%. Principal and interest payments began January 2010.

Long-term liability activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bond advances	\$ 11,020,043	\$ 825,413		\$ 11,845,456
Bonds payable	6,974,000		\$ 434,000	6,540,000
Contracts payable	1,024,074		113,786	910,288
Notes payable	104,359		104,359	
	<u>\$ 19,122,476</u>	<u>\$ 825,413</u>	<u>\$ 652,145</u>	<u>\$ 19,295,744</u>

Debt-service requirements at December 31, 2014, were as follows: (With disclosure under ANRC fully funded status):

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,060,062	\$ 766,531	\$ 1,826,593
2016	1,193,476	730,684	1,924,160
2017	1,134,142	693,766	1,827,908
2018	1,174,548	669,275	1,843,823
2019	1,065,105	614,095	1,679,200
2020-2024	5,424,454	2,456,614	7,881,068
2025-2029	4,789,374	1,625,811	6,415,185
2030-2034	5,407,279	788,449	6,195,728
2035-2039	995,000	140,525	1,135,525
	<u>\$ 22,243,440</u>	<u>\$ 8,485,750</u>	<u>\$30,729,190</u>

See independent auditors report.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO THE FINANCIAL STATEMENTS
(continued)
December 31 2014

NOTE 5: Arkansas Public Employee Retirement System (APERS) - Plan Description: The City contributes to the Arkansas Public Employee Retirement System (APERS) a cost-sharing multi-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under the system. APERS provides retirement, disability and death benefits and annual cost-of-living adjustments to plan members and beneficiaries. Benefit and contribution provisions are established by state law and can be amended only by the Arkansas General Assembly. APERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. This report may be obtained by writing to Arkansas Public Employee Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 800-682-7377.

NOTE 6: Restricted Assets – The City has restricted cash and investments totaling \$1,288,830 in the Water and Wastewater bond and customer related funds.

NOTE 7: Bryant Water Improvement District No. 2 – Midway - The City of Bryant, Arkansas entered into an inter-local cooperation agreement with the Bryant Water Improvement District No. 2 and the Arkansas Soil and Water Conservation Commission whereby water improvements were constructed in the Midway area that totaled approximately \$245,000. The improvements were financed by Improvement District bonds. During the time that the bonds are outstanding, the system is owned by the Soil and Water Commission and is leased to the City. The Water Department is responsible for operation and maintenance.

NOTE 8: Bond Advance Refunding - On December 1, 2008, the Bryant Water and Wastewater Department issued \$8,685,000 in revenue refunding bonds with interest rates ranging between 3% and 5.5%. The Department issued the bonds to advance refund \$9,600,000 of the outstanding Series 2003 and 2005 revenue bonds with a various interest rates. The Department used the net proceeds along with other resources to purchase U. S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2005 series bonds. As a result, that portion of the 2005 series bonds is considered defeased, and the Department has removed the liability from its financial statements. The outstanding principal of the defeased bonds was \$4,610,000 at December 31, 2008.

NOTE 9: Water/Wastewater Rates and Customers - Customers pay for the first 2,000 gallons of water consumption each month or portion thereof, rates that vary from \$9.58 for a 5/8" meter up to \$479.22 for a 6" meter. All water consumption in excess of 2,000 gallons is \$.494 for each 100 gallons. There were approximately 7,760 water customers at December 31, 2014.

Wastewater customers pay \$15.22 for the first 2,000 gallons of water consumed. Consumption in excess of 2,000 gallons is \$.746 for each 100 gallons. There were approximately 7,739 wastewater users at December 31, 2014. The total annual billable water for customers in 2014 was \$2,566,574 including 664 for commercial and 7,388 for residential customers.

See independent auditors report.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO THE FINANCIAL STATEMENTS
(continued)
December 31 2014

NOTE 10: Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities – The following is a reconciliation of the increase in net assets as reflected in the statement of cash flows at Exhibit C to net cash provided by operating activities:

Operating income	\$ 1,177,082
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	1,406,788
Decrease in accounts receivable	141,631
Decrease in prepaid expenses	18,598
Decrease in accounts payable	[50,469]
Increase in meter deposits	<u>24,160</u>
Net Adjustments	1,540,708
Net Cash Provided by Operating Activities	<u>\$ 2,717,790</u>

NOTE 11: Subsequent Events – Management has evaluated subsequent events through August 26, 2016, which is the date the financial statements were available to be issued and have determined there is no additional information requiring reporting or disclosing in the financial statements for the year ended December 31, 2014.

See independent auditors report.

SUPPLEMENTARY INFORMATION

**City of Bryant, Arkansas Water and Wastewater Department
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2014**

<u>Federal CFDA Number</u>	<u>Grant</u>	<u>Loan Proceeds</u>
	U. S. Environmental Protection Agency passed through Arkansas Natural Resources Protection Commission:	
66.468	Drinking Water State Revolving Loan Fund	\$ 6,323,150
66.458	Clean Water State Revolving Loan Fund	<u>5,522,306</u>
	Total	<u>\$ 11,845,456</u>

See independent auditors report.

City of Bryant, Arkansas
Water and Wastewater Department
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
For the Year Ended December 31, 2014

NOTE 1: Summary of Significant Accounting Policies -

Basis of Accounting. The Department's assistance program funds are accounted for on the accrual basis of accounting. Program receipts are recorded when earned and authorized under the program requirements, and expenditures are recorded as authorized costs are incurred.

NOTE 2: Federal Awards - During the year ended December 31, 2014, the Department was the recipient of various federal grant funds. These funds were received indirectly through a State of Arkansas pass-through agency.

See independent auditors report.

COMPLIANCE REPORTS

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**INDEPENDENT AUDITORS 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 City Council
City of Bryant, Arkansas Water and Wastewater Department

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 City of Bryant, Arkansas Water and Wastewater Department's, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Bryant, Arkansas Water and Wastewater Department's basic financial statements and have issued our report thereon dated August 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bryant, Arkansas Water and Wastewater 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 City of Bryant, Arkansas Water and Wastewater Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City Bryant, Arkansas Water and Wastewater 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 that

we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See Findings 2014-02 and 2014-03.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Bryant, Arkansas Water and Wastewater 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs, See Finding 2014-01.

City of Bryant, Arkansas Water and Wastewater Department's Response to Findings

City of Bryant, Arkansas Water and Wastewater Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Bryant, Arkansas Water and Wastewater 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.


Certified Public Accountants
Hot Springs, Arkansas

August 26, 2016

GARY D. WELCH, CPA, PRINCIPAL
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**INDEPENDENT AUDITORS REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Council
City of Bryant, Water and Wastewater Department

Report on Compliance for Each Major Federal Program

We have audited the City of Bryant, Arkansas Water and Wastewater Department's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the City of Bryant, Arkansas Water and Wastewater Department's major federal programs for the year ended December 31, 2014. City of Bryant, Arkansas Water and Wastewater Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Bryant, Arkansas Water and Wastewater Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Bryant, Arkansas Water and Wastewater Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Bryant, Arkansas Water and Wastewater Department's compliance.

Basis for Modified Opinion on CFDA 66.458 Clean Water Revolving Loan Fund and CFDA 66.468 Drinking Water State Revolving Loan Fund

As described in the accompanying schedule of findings and questioned costs, the City of Bryant, Arkansas Water and Wastewater Department did not comply with requirements regarding reporting requirements as identified in Finding 2014-01. Compliance with such requirements is necessary, in our opinion, for the City of Bryant, Arkansas Water and Wastewater Department to comply with the requirements applicable to that program.

Modified Opinion on CFDA 66.458 Clean Water Revolving Loan Fund and CFDA 66.468 Drinking Water State Revolving Loan Fund

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, the City of Bryant, Arkansas Water and Wastewater Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 66.458 Clean Water State Revolving Loan Fund and CFDA 66.468 Drinking Water State Revolving Loan Fund for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items See Finding 2014-01, Finding 2014-02, and Finding 2014-03. Our opinion on each major federal program is not modified with respect to these matters.

City of Bryant, Arkansas Water and Wastewater Department's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Bryant, Arkansas Water and Wastewater Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Bryant, Arkansas Water and Wastewater Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Bryant, Arkansas Water and Wastewater Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Bryant, Arkansas Water and Wastewater Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that

material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item Finding 2014-01 to be significant deficiencies.

City of Bryant, Arkansas Water and Wastewater Department's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Bryant, Arkansas Water and Wastewater Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants
Hot Springs, Arkansas

August 26, 2016

**City of Bryant, Arkansas Water and Wastewater Department
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2014**

A. Summary of Audit Results

1. The independent auditors report expresses an unmodified opinion on the basic financial statements of the City of Bryant, Arkansas Water and Wastewater Department.
2. Two significant deficiencies (Findings 2014-02 and 2014-03) relating to the audit of the financial statements are reported in the 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.
3. One instance of noncompliance (Finding 2014-01) was disclosed during the audit of the financial statements of the City of Bryant, Arkansas Water and Wastewater Department and is required to be reported in accordance with *Government Auditing Standards*.
4. The three findings listed above are considered significant deficiencies relating to the audit of the major federal award programs and are reported in the independent auditors report on compliance for each major program and on internal control in accordance with *OMB Circular A-133*.
5. The independent auditors report on compliance for each major program and on internal control over compliance required by *OMB Circular A-133* expresses a modified opinion.
6. The programs tested as major included:

	<u>CFDA</u>	
U. S. Environmental Protection Agency	66.458	Clean Water State Revolving Loan Fund
U. S. Environmental Protection Agency	66.468	Drinking Water State Revolving Loan Fund
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. City of Bryant, Arkansas Water and Wastewater Department was determined not to be a low-risk auditee.

Federal Awards Findings and Questioned Costs: 2014-01

Criteria: CFDA 66.468 Drinking Water State Revolving Loan Fund and CFDA 66.458 Clean Water State Revolving Loan Fund. The City of Bryant, Arkansas agreement with the Arkansas Natural Resource Commission, (pass-through agency) requires the City to provide audited financial statements to the Commission and the Arkansas Division of Legislative Audit in a timely manner. The single audit submission also must be submitted to the Federal Audit Clearing House within nine months of year end.

Condition: The City of Bryant, Arkansas Water and Wastewater Department has not submitted the 2014 audited financial statements or Federal Audit Clearing House submission in the required time frames.

Effect: The City of Bryant, Arkansas Water and Wastewater Department is out of compliance with the grant agreements.

Cause: Failure to obtain audited financial statements and audit under OMB circular A-133 in a timely manner.

City of Bryant, Arkansas Water and Wastewater Department
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)
For the Year Ended December 31, 2014

Questioned Costs: None

Recommendations: The City of Bryant, Arkansas Water and Wastewater Department should take steps to ensure that audited financial statements can be obtained in a timely manner consistent with the requirements of the grant.

Management Response: The City takes this issue very seriously and is currently addressing the issue.

Planned Corrective Action: The City plans to complete the other outstanding OMB Circular A-133 single audits in a timely manner and remain up-to-date regarding future audit requirements.

Findings - Financial Statement Audit – 2014-02

Condition: During our audit, we noted that significant cash accounts were not being reconciled on a timely basis and were materially out of balance at year end.

Criteria: Under *Government Audit Standards*, the City of Bryant, Arkansas Water and Wastewater Department should have internal control procedures in place sufficient to ensure cash accounts reconcile accurately on a timely basis.

Cause of Condition: The City changed accounting software and lack of training on the new software as well as turnover in management of the finance department led to failure to adequately monitor cash accounts and reconcile balances monthly.

Effect: Cash was materially misstated at year-end prior to adjustment.

Questioned Costs: None

Recommendation: The City of Bryant, Arkansas Water and Wastewater Department should institute procedures to ensure bank accounts are reconciled each month and any variances corrected in a timely manner.

Management Response: The City takes this issue very seriously and is currently addressing the issue.

Planned Corrective Action: Bank reconciliations are being completed and reviewed each month prior to the City Council meeting. Once corrections from prior audits are implemented, any new issues will be addressed on a monthly basis.

City of Bryant, Arkansas Water and Wastewater Department
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)
For the Year Ended December 31, 2014

Finding-Financial Statement Audit 2014-03

Condition: The City of Bryant, Arkansas: Water and Wastewater Department is recording all purchases of capital assets as expenses and relying on their auditor's to maintain capital asset schedule.

Criteria: Under *Government Auditing Standards*, The City is expected to have accounting personnel adequately skilled and properly trained to identify capital purchases and record those assets correctly as well as maintaining the Department's capital asset schedule.

Cause of Condition: Turnover in the management of the finance department and the City's decision to rely on the prior auditor to maintain capital asset schedule.

Effect: The City's statement of net position and statement of revenue, expenses, and change in net position materially misstated at year end prior to adjustment.

Questioned Costs: None

Recommendation: The City should institute internal control procedures sufficient to identify and properly record capital purchases as well as develop and internal capital asset schedule.

Management Response: The City takes this issue very seriously and is currently addressing the issue.

Planned Corrective Action: As recommended, the City plans to internally maintain its fixed asset schedule

**City of Bryant, Arkansas Water and Wastewater Department
SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
For the Year Ended December 31, 2014**

The December 31, 2013 audit under the requirements of OMB Circular A-133 (single audit) has not been completed as of the date of the issuance of these financial statements.