

**Southeast White County Water Association
Public Water Authority**

Financial Statements
with
Independent Auditor's Report
and Supplementary Information

December 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southeast White County Water Association Public Water Authority (the Authority) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's 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 and the 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 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 respective financial position of the business-type activities of Southeast White County Water Association Public Water Authority as of December 31, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplemental information for cost-sharing employer plans on page 16 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 missing 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 missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2021, on our consideration of Southeast White County Water Association Public Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, 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 Southeast White County Water Association Public Water Authority's internal control over financial reporting and compliance.

Bell & Company, P.A.

North Little Rock, Arkansas
October 11, 2021

Southeast White County Water Association Public Water Authority
Statements of Net Position
December 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 359,217	\$ 422,997
Restricted checking and deposits	255,797	233,742
Accounts receivable, net of allowance for doubtful accounts	150,588	137,290
Inventory	18,671	24,273
Total current assets	<u>784,273</u>	<u>818,302</u>
Capital assets		
Land and easements	230,039	21,310
Structures and improvements	3,261,095	3,261,095
Equipment	705,941	700,971
Construction in progress	21,378	14,107
	<u>4,218,453</u>	<u>3,997,483</u>
Accumulated depreciation	<u>(2,590,352)</u>	<u>(2,487,576)</u>
Net capital assets	1,628,101	1,509,907
Other noncurrent assets		
Utility deposits	<u>10</u>	<u>10</u>
Total assets	2,412,384	2,328,219
Deferred Outflows		
Deferred outflows	<u>46,559</u>	<u>29,800</u>
Total assets and deferred outflows	<u><u>\$ 2,458,943</u></u>	<u><u>\$ 2,358,019</u></u>

Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable	\$ 37,986	\$ 34,074
Accrued expenses	14,783	16,833
Accrued sales tax	7,236	6,056
Accrued interest	819	819
Specific services payable	25,385	23,273
Customer meter deposits	145,639	140,259
Current portion of long-term debt	26,317	25,405
Total current liabilities	<u>258,165</u>	<u>246,719</u>
Long-term liabilities		
Long-term debt	333,867	360,184
Net pension liability	237,202	218,489
Total long-term liabilities	<u>571,069</u>	<u>578,673</u>
 Total liabilities	 829,234	 825,392
Deferred inflows		
Deferred inflows of resources related to pension	25,535	28,417
Net position		
Net investment in capital assets	1,267,917	1,124,318
Restricted	112,562	109,604
Unrestricted	223,695	270,288
Total net position	<u>1,604,174</u>	<u>1,504,210</u>
 Total liabilities, deferred inflows, and net position	 <u><u>\$ 2,458,943</u></u>	 <u><u>\$ 2,358,019</u></u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Metered water sales, net of bad debts	\$ 1,032,052	\$ 918,644
Connection and other fees	33,267	35,851
Sewer billing and line maintenance revenue	47,295	42,999
Late charges	13,841	16,168
Other revenue	18,030	18,844
Total operating revenues	<u>1,144,485</u>	<u>1,032,506</u>
Operating expenses		
Advertising	503	358
Depreciation	107,436	121,136
Dues and subscriptions	29,103	28,722
Employee benefits	47,219	45,315
Equipment rental	3,933	4,100
Insurance	25,219	24,807
Licenses and permits	9,677	9,729
Miscellaneous expense	2,969	2,363
Office expenses	13,613	9,900
Operating supplies	7,392	3,705
Pension plan expense	96,281	27,687
Net outflows (inflows) of resources related to pension	(4,312)	1,547
Postage	603	494
Professional services	27,213	27,817
Repairs and maintenance	41,936	44,533
Salaries	224,006	224,689
Taxes - payroll	18,137	17,843
Training	295	1,335
Utilities and telephone	13,968	14,546
Vehicle expense	7,536	10,451
Water purchases	364,767	350,302
Total operating expenses	<u>1,037,494</u>	<u>971,379</u>
Operating income	106,991	61,127

	<u>2020</u>	<u>2019</u>
Nonoperating revenues (expenses)		
Gain (loss) on disposal of assets	(296)	9,294
Interest income	7,617	5,833
Interest expense	<u>(14,348)</u>	<u>(15,228)</u>
Net nonoperating revenues (expenses)	<u>(7,027)</u>	<u>(101)</u>
 Change in net position	 99,964	 61,026
 Net position - beginning of year	 <u>1,504,210</u>	 <u>1,443,184</u>
 Net position - end of year	 <u><u>\$ 1,604,174</u></u>	 <u><u>\$ 1,504,210</u></u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Cash receipts from customers and other sources	\$ 1,139,859	\$ 1,040,672
Cash payments to suppliers for goods and services	(699,516)	(612,227)
Cash payments to employees for services	(224,006)	(224,689)
Net cash flows provided by operating activities	<u>216,337</u>	<u>203,756</u>
Cash flows from investing activities		
Net restricted checking and deposits activity	(22,055)	(3,155)
Interest income	7,617	5,833
Net cash flows provided (used) by investing activities	<u>(14,438)</u>	<u>2,678</u>
Cash flows from capital and related financing activities		
Cash paid for property, plant, and equipment	(225,630)	(107,802)
Proceeds (loss) from disposal of property, plant, and equipment	(297)	9,479
Principal paid on long-term debt	(25,404)	(24,524)
Interest paid on long-term debt	(14,348)	(15,228)
Net cash flows used by capital and related financing activities	<u>(265,679)</u>	<u>(138,075)</u>
Net increase (decrease) in cash and cash equivalents	(63,780)	68,359
Cash and cash equivalents - beginning of year	<u>422,997</u>	<u>354,638</u>
Cash and cash equivalents - end of year	<u><u>\$ 359,217</u></u>	<u><u>\$ 422,997</u></u>

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 106,991	\$ 61,127
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	107,436	121,136
Pension related adjustments	(928)	4,441
Changes in:		
Accounts receivable	(13,298)	1,525
Inventory	5,602	3,772
Accounts payable	3,912	2,499
Accrued expenses	(2,050)	2,615
Accrued sales tax	1,180	474
Specific services payable	2,112	847
Customer meter deposits	5,380	5,320
Net cash provided by operating activities	<u>\$ 216,337</u>	<u>\$ 203,756</u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies

- a. Reporting Entity** - Southeast White County Water Association Public Water Authority (the "Authority"), formally known as Southeast White County Water Association (the "Association"), was originally formed as a nonprofit organization chartered under the laws of the State of Arkansas. On December 31, 2008, the Association reorganized as a Public Water Authority of the State of Arkansas. The Authority provides water service to the residences and businesses in southeast White County, Arkansas. The Authority also provides sewer billing and line maintenance services for several small communities in the service area.
- b. 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 Authority. The Authority accounts for its operations as an enterprise fund. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a matter similar to private business or where the board of directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

- c. Cash Equivalents** - The Authority considers unrestricted demand deposits, certificates of deposit, and money market funds to be cash equivalents.
- d. Accounts Receivable** - The Authority uses the valuation method as required by generally accepted accounting principles to value accounts receivable. The allowance for doubtful accounts represents management's estimate of uncollectible accounts receivable and totaled \$29,293 and \$25,800 as of December 31, 2020 and 2019, respectively.
- e. Inventory** - Inventory consists of expendable materials and supplies necessary for maintenance of the system and is recorded at cost.
- f. Capital Assets and Depreciation** - Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	Years
Structures and improvements	5-50
Equipment	5-40

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

g. Compensated Absences - The Authority permits employees to accumulate earned but unused vacation and sick pay benefits. There was no accrual necessary for unpaid accumulated sick leave and vacation time as of December 31, 2020 and 2019.

h. Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources on the Authority's financial statements. Net positions is classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of assets.

Restricted - This amount is restricted by creditors, granters, contributors, or laws or regulations of other governments.

Unrestricted - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position". Generally, these net assets represent those financial resources that are available to the Authority to meet any future obligations that might arise.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted funds first, then the unrestricted resources as needed.

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. Budget - The Authority is not required by law to submit a formal budget.

k. Water Purchases - The Authority purchases all of the water sold to customers from the City of Searcy, Arkansas.

l. Date of Management's Review – The Authority has evaluated events and transactions for subsequent events that would impact the financial statements through October 11, 2021, the date the financial statements were available to be issued.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

2. Restricted Assets

Restricted checking and deposits accounts at December 31, consists of the following:

	<u>2020</u>	<u>2019</u>
Meter deposit checking	\$ 25,326	\$ 19,441
Sewer billing account	28,727	15,515
Meter deposit CD	90,777	90,057
Debt service CD	77,899	76,207
Depreciation reserve CD	18,399	17,999
Employee group insurance trust CD	14,669	14,523
Total	<u>\$ 255,797</u>	<u>\$ 233,742</u>

3. Capital Assets

Activity of capital assets consists of the following:

	January 1, <u>2020</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2020</u>
Land	\$ 12,235	\$ 208,729	\$ -	\$ 220,964
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,261,095	-	-	3,261,095
Equipment	700,971	9,926	4,956	705,941
Construction in progress	14,107	7,271	-	21,378
Total	<u>\$ 3,997,483</u>	<u>\$ 225,926</u>	<u>\$ 4,956</u>	<u>\$ 4,218,453</u>

	January 1, <u>2019</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2019</u>
Land	\$ 12,235	\$ -	\$ -	\$ 12,235
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,261,095	-	-	3,261,095
Equipment	675,551	93,694	68,274	700,971
Construction in progress	-	14,107	-	14,107
Total	<u>\$ 3,957,956</u>	<u>\$ 107,801</u>	<u>\$ 68,274</u>	<u>\$ 3,997,483</u>

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

4. Long-Term Debt

Long-term debt of the Authority consists of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Rural Development - Payments are made monthly in the amount of \$1,009 and include interest of 5.000%. The loan is scheduled to mature in April 2036.	\$ 129,313	\$ 134,805
Rural Development - Payments are made monthly in the amount of \$1,369 and include interest of 3.250%. The loan is scheduled to mature in March 2035.	186,988	197,159
National Rural Water Association - Payments are made monthly in the amount of \$935 and include interest of 3.0%. The loan is secured by assets of the Authority and is schedule to mature in February 2025.	<u>43,883</u>	<u>53,625</u>
Total long-term debt	360,184	385,589
Less current maturities	<u>26,317</u>	<u>25,405</u>
Long-term debt	<u><u>\$ 333,867</u></u>	<u><u>\$ 360,184</u></u>

The Authority has a security agreement with the Rural Economic and Community Development Services which establishes a lien on all structures and improvements and a pledge of revenue to assure payment of principal and interest on the indebtedness until paid. Debt activity is summarized as follows:

	January 1,			December 31,	Amounts Due
	<u>2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>2020</u>	<u>Within One Year</u>
Long-term debt	\$ 385,589	\$ -	\$ 25,405	\$ 360,184	\$ 26,317

	January 1,			December 31,	Amounts Due
	<u>2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>2019</u>	<u>Within One Year</u>
Long-term debt	\$ 410,114	\$ -	\$ 24,525	\$ 385,589	\$ 25,405

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

4. Long-Term Debt (Continued)

Debt is scheduled to be repaid as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 26,317	\$ 13,436	\$ 39,753
2022	27,265	12,488	39,753
2023	28,248	11,505	39,753
2024	29,268	10,485	39,753
2025	20,874	9,532	30,406
2026-2030	107,037	35,643	142,680
2031-2035	117,536	12,529	130,065
2036	3,639	33	3,672
Total	<u><u>\$ 360,184</u></u>	<u><u>\$ 105,651</u></u>	<u><u>\$ 465,835</u></u>

5. Reserve for Customer Deposits

The Authority collects a deposit for each new customer. The individual deposit amounts, included in total customer deposits vary, from \$10 in the 1970's to \$100 currently. The Authority is required to maintain cash reserves equal to the total amount of customer meter deposits. At December 31, 2020, the total amount of customer deposits was \$145,639 with a total cash reserve balance of \$116,103 resulting in a deficit of \$29,536. In 2010, the general operating account borrowed \$11,625 which has not been paid.

6. Pension Plan

Plan Description

The Authority participates in the Arkansas Public Employees Retirement Systems (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

6. Pension Plan (Continued)

The state of Arkansas issues an annual 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 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy

The Authority contributes an actuarially determined amount to the plan, which was 15.32% of annual covered payroll at December 31, 2020. For 2020, there was a correction made for 3 employees that totaled \$64,787. Total contributions made by the Authority were \$92,897, \$24,793, and \$27,006 for the years ended December 31, 2020, 2019, and 2018, respectively.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service as follows:

Contributory Plan: 2.00% of FAC times years of service (2.03% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009.

Non-Contributory Plan: 1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009. If retirement is prior to age 62, an additional .33% of FAC times years of service will be paid until age 62. The portion of the APERS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at the time of retirement.

The minimum monthly benefit is \$150 minus any age and beneficiary option reductions. Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.

Members may retire with a full benefit, after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age. Members may retire with a reduced benefit after either (a) age 55 with 5 years of service, or (b) 25 years of actual service, regardless of age.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

6. Pension Plan (Continued)

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. If a death occurs while in APERS covered employment, member's accumulated contributions are refundable. If a member had 5 years of service, monthly benefits are payable instead. The surviving spouse receives a benefit computed as if a member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately. Each dependent receives benefit of 10% of compensation (maximum of 25% for all children). If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (AC.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (AC.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2020.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/publications>.

Measurement Date

The collective Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Actuarial Assumptions

Assumptions were established based upon an Experience Study covering the period July 1, 2012 through June 30, 2017 (report dated May 14, 2018). The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

6. Pension Plan (Continued)

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	26 years
Asset Valuation Method	4-Year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation (2.50% price inflation, 0.75% for real wage growth)
Salary Increases	3.25%-9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Investment Rate of Return	7.15%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for each major asset class that is included in the pension plan's current asset allocation as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37.00%	6.22%
International Equity	24.00%	6.69%
Real Assets	16.00%	4.81%
Absolute Return	5.00%	3.05%
Domestic Fixed	18.00%	0.57%
	<u>100.00%</u>	

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

6. Pension Plan (Continued)

Long-Term Expected Return on Plan Assets (Continued)

Total Real Rate of Return	4.93%
Plus: Price Inflation - Actuary's Assumption	2.50%
Net Expected Return	<u>7.43%</u>

Single Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher:

	Current	
1%	Single Rate	1%
Decrease	Assumption	Increase
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
\$ 361,277	\$ 237,202	\$ 134,813

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The Authority's proportionate share of pension expense was \$41,913 for the year ended June 30, 2020. The Authority's proportion of the collective net pension liability, based on the ratio of employer contributions to total employer contributions from all member employers less contributions from APERS, was 0.00828341% during that period. At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2020 and 2019

6. Pension Plan (Continued)

Pension Liabilities. Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,149	\$ 157
Net difference between projected and actual earnings in pension plan investments	25,099	-
Changes in assumptions	2,972	4,064
Changes in proportion and differences between employer contributions and share contributions	10	21,314
Authority contributions subsequent to the measurement date	15,329	-
Total	<u>\$ 46,559</u>	<u>\$ 25,535</u>

\$15,329 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Net Deferred Outflows (Inflows) of Resources
2021	\$ (8,566)
2022	1,384
2023	5,661
2024	7,216
	<u>\$ 5,695</u>

Southeast White County Water Association Public Water Authority
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7. Concentrations of Credit Risk

The Authority maintains cash balances at two financial institutions located in Arkansas, which at times may exceed the Federal Deposit Insurance Corporation (FDIC). The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The uninsured cash balance at two of the financial institutions totaled approximately \$121,000 at December 31, 2020.

Financial instruments that potentially subject the Authority to credit risk consist primarily of accounts receivable. The Authority sells only to its customers in and around southeast White County, Arkansas.

8. Risk Management

The Authority 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 Authority carries commercial insurance and workers compensation insurance through two major insurance companies.

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

Supplementary Information

**Southeast White County Water Association Public Water Authority
Required Supplemental Information for Cost-Sharing Employer Plans
For the Year Ended December 31, 2020**

Schedule of Proportionate Share of Net Pension Liability and Related Ratios Last Fiscal Year

	APERS at <u>6/30/2020</u>	APERS at <u>6/30/2019</u>	APERS at <u>6/30/2018</u>
Organization's portion of the net pension liability (asset)	0.00828341%	0.00905645%	0.00923034%
Organization's proportionate share of the net pension liability	\$ 237,202	\$ 218,489	\$ 203,615
Organization's covered-employee payroll	\$ 153,912	\$ 112,968	\$ 125,901
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	154.12%	193.41%	161.73%
Plan fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%

Schedule of Required Contributions Last Fiscal Year

	APERS at <u>6/30/2020</u>	APERS at <u>6/30/2019</u>	APERS at <u>6/30/2018</u>
Contractually required contribution	\$ 24,761	\$ 26,551	\$ 25,502
Contributions in relation to the contractually required contribution	<u>(24,761)</u>	<u>(26,551)</u>	<u>(25,502)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Organization's covered-employee payroll	\$ 153,912	\$ 112,968	\$ 125,901
Contributions as a percentage of covered-employee payroll	16.09%	23.50%	20.26%

Note to Schedules:

Only the seven fiscal years are presented because 10-year data is not yet available.

<u>APERS at</u> <u>6/30/2017</u>	<u>APERS at</u> <u>6/30/2016</u>	<u>APERS at</u> <u>6/30/2015</u>	<u>APERS at</u> <u>6/30/2014</u>
0.01005405%	0.01079762%	0.01194904%	0.01201647%
\$ 259,811	\$ 258,209	\$ 220,069	\$ 170,503
\$ 177,099	\$ 268,282	\$ 214,365	\$ 212,453
146.70%	96.25%	102.66%	80.25%
75.65%	75.50%	80.39%	84.21%

<u>APERS at</u> <u>6/30/2017</u>	<u>APERS at</u> <u>6/30/2016</u>	<u>APERS at</u> <u>6/30/2015</u>	<u>APERS at</u> <u>6/30/2014</u>
\$ 26,275	\$ 28,367	\$ 31,640	\$ 31,613
<u>(26,275)</u>	<u>(28,367)</u>	<u>(31,640)</u>	<u>(31,613)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 177,099	\$ 268,282	\$ 214,365	\$ 212,453
14.84%	10.57%	14.76%	14.88%

See independent auditor's report.

Report Required by Government Auditing Standards



N. Little Rock | Conway

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**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, 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 business-type activities of Southeast White County Water Association Public Water Authority (the Authority), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 11, 2021, which was modified to reflect the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

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 of 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 compliances. Accordingly, this communication is not suitable for any other purpose.

Bell & Company, P.A.

North Little Rock, Arkansas
October 11, 2021