

**THE CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
COMBINED STATEMENTS OF NET POSITION	3-4
COMBILED STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND NET POSITION	5
COMBINED STATEMENTS OF CASH FLOWS	6-7
NOTES TO FINANCIAL STATEMENTS	8-14
SUPPLEMENTAL INFORMATION	15-16

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Directors  
City of Barling  
Barling, Arkansas

I have audited the accompanying financial statements of the City of Barling, Arkansas Water and Sewer System, which comprise the Combined Statements of Net Position as of December 31, 2017 and 2016, and the related Combined Statements of Revenues, Expenses and Changes in Fund Net Position, and Cash Flows for the years then ended, and the related notes to the financial statements.

### **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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Barling, Arkansas Water and Sewer System, as of December 31, 2017 and 2016, and the 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.

My audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Maintenance and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements and in my opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the City of Barling, Arkansas Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Barling, Arkansas as of December 31, 2017 and 2016, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

*Hammond, Boyd & Anderson, P.A.*

Fort Smith, Arkansas  
February 4, 2019

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
**Combined Statements of Net Position**  
**December 31, 2017 and 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b><u>Current Assets</u></b>		
Cash in bank	\$ 548,487	\$ 574,868
Certificate of deposit	407,036	406,223
Accounts receivable – customers (Note 1)	140,770	111,590
Interest receivable	36	-0-
Parts and supplies inventories (Note 1)	<u>40,516</u>	<u>50,249</u>
Total Current Assets	<u>1,136,845</u>	<u>1,142,930</u>
<b><u>Restricted Funds</u></b> (Note 2) (Note 4)		
Cash in bank	246,443	204,162
Interest receivable	<u>22</u>	<u>37</u>
Total Restricted Funds	<u>246,465</u>	<u>204,199</u>
<b><u>Property and Equipment</u></b> (Note 1)		
Land	127,000	127,000
Water plant in service	3,627,171	3,346,158
Sewage collection system	13,370,430	13,370,430
Maintenance equipment	317,432	314,561
Office equipment	12,774	12,774
Trucks	53,942	53,942
Capitalized costs (Note 6)	<u>112,374</u>	<u>112,374</u>
	17,621,123	17,337,239
Less: Accumulated depreciation	( 6,205,673)	( 5,782,929)
Net Property and Equipment	<u>11,415,450</u>	<u>11,554,310</u>
<b><u>Other Assets</u></b>		
Construction in progress	54,254	30,401
Contribution to General Fund	<u>35,801</u>	<u>35,801</u>
Total Other Assets	<u>90,055</u>	<u>66,202</u>
Total Assets	<u>12,888,815</u>	<u>12,967,641</u>
<b><u>Deferred Outflows of Resources</u></b>		
Unamortized bond discounts and refunding loss (Note 1)	<u>241,907</u>	<u>253,029</u>
Total Assets and Deferred Outflows of Resources	\$ <u>13,130,722</u>	\$ <u>13,220,670</u>

The accompanying Notes to Financial Statements are an integral part of this report.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
Combined Statements of Net Position (continued)  
December 31, 2017 and 2016

**LIABILITIES AND NET POSITION**

	<u>2017</u>	<u>2016</u>
<b><u>Current Liabilities</u> (Payable from current assets)</b>		
Accounts payable	\$ 75,187	\$ 41,895
Due to City of Barling	35,786	33,554
Payroll taxes payable	2,130	1,588
Sales tax payable	<u>8,111</u>	<u>6,850</u>
Total Current Liabilities (Payable from current assets)	<u>121,214</u>	<u>83,887</u>
<b><u>Current Liabilities</u> (Payable from restricted assets)</b>		
Revenue bonds due within one year:		
2004 water and sewer revenue bonds (Note 3)	105,000	105,000
Accrued interest	11,375	11,552
Customer meter deposits	<u>98,464</u>	<u>75,824</u>
Total Current Liabilities (Payable from restricted assets)	<u>214,839</u>	<u>192,376</u>
<b><u>Long-term Debt</u></b>		
Revenue bonds (Note 3)	3,430,000	3,535,000
Less: Current maturities	( 105,000)	( 105,000)
Total Long-term Debt	<u>3,325,000</u>	<u>3,430,000</u>
Total Liabilities	<u>3,661,053</u>	<u>3,706,263</u>
<b><u>Net Position</u></b>		
Invested in capital assets, net of related debt	8,039,704	8,049,711
Restricted	246,465	204,199
Unrestricted	<u>1,183,500</u>	<u>1,260,497</u>
Total Net Position	<u>9,469,669</u>	<u>9,514,407</u>
Total Liabilities and Net Position	\$ <u>13,130,722</u>	\$ <u>13,220,670</u>

The accompanying Notes to Financial Statements are an integral part of this report.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
**Combined Statements of Revenues and**  
**Expenses and Changes in Fund Net Position**  
**For the Years Ending December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>Water and Sewer Revenue</u>	\$ 1,523,789	\$ 1,418,912
Sewer Fees and Water Purchased	<u>476,669</u>	<u>439,084</u>
<u>Gross Profit</u>	1,047,120	979,828
<u>Operating Expenses</u>		
Maintenance - Scheduled	464,549	456,138
Administrative - Scheduled	<u>52,392</u>	<u>52,333</u>
Total Operating Expenses	<u>516,941</u>	<u>508,471</u>
<u>Operating Income Before Depreciation Expense</u>	530,179	471,357
Depreciation Expense	<u>430,333</u>	<u>415,625</u>
<u>Operating Income</u>	99,846	55,732
<u>Non-operating Revenues (Expenses)</u>		
Gain on sale of equipment	-0-	5,978
Interest income	3,060	1,549
Miscellaneous income	17,445	20,704
Interest and paying agent's fees	( 142,941)	( 145,003)
Amortization of bond discounts and fees (Note 1)	( 11,122)	( 11,122)
Transfer to street fund	<u>( 11,026)</u>	<u>( 10,785)</u>
Net Non-operating Revenues (Expenses)	<u>( 144,584)</u>	<u>( 138,679)</u>
<u>Decrease in Net Position</u>	( 44,738)	( 82,947)
<u>Beginning Net Position</u>	<u>9,514,407</u>	<u>9,597,354</u>
<u>Ending Net Position</u>	\$ <u>9,469,669</u>	\$ <u>9,514,407</u>

The accompanying Notes to Financial Statements are an integral part of this report.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
**Combined Statements of Cash Flows**  
**For the Years Ending December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows From Operations</u></b>		
Receipts from customers	\$ 1,517,249	\$ 1,432,710
Payments to suppliers	( 696,604)	( 729,181)
Payments to employees	( 197,554)	( 185,736)
Payments for other administration costs	( 52,392)	( 52,333)
Net Cash Provided by Operating Activities	<u>570,699</u>	<u>465,460</u>
<b><u>Cash Flows From Non-capital Financing Activities</u></b>		
(Addition) Deletion to certificates of deposit	( 813)	<u>359,132</u>
Net Cash Provided (Used) by Non-capital Financing Activities	( 813)	<u>359,132</u>
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>		
Proceeds from sale of equipment	-0-	5,978
Purchase of property, plant and equipment	( 315,326)	( 427,201)
Principal payment of notes and bonds payable	( 105,000)	( 100,000)
Interest paid on notes and bonds payable	( 140,551)	( 142,550)
Agent fees paid on bonds payable	( 2,567)	( 2,617)
Transfer to street fund and general fund	( 11,026)	( 10,785)
Net Cash Used by Capital and Related Financing Activities	( 574,470)	( 677,175)
<b><u>Cash Flows From Investing Activities</u></b>		
Interest received	3,039	1,584
Miscellaneous income	<u>17,445</u>	<u>20,704</u>
Net Cash Provided by Investing Activities	<u>20,484</u>	<u>22,288</u>
Increase in Cash	15,900	169,705
<b><u>Cash, at Beginning of Year</u></b>	<u>779,030</u>	<u>609,325</u>
<b><u>Cash, at End of Year</u></b>	\$ <u>794,930</u>	\$ <u>779,030</u>
<b><u>Reconciliation of Cash to the Statement of Net Assets</u></b>		
Unrestricted cash	\$ 548,487	\$ 574,868
Restricted cash	<u>246,443</u>	<u>204,162</u>
	\$ <u>794,930</u>	\$ <u>779,030</u>

The accompanying Notes to Financial Statements are an integral part of this report.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
**Combined Statements of Cash Flows (continued)**  
**For the Years Ending December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Reconciliation of Operating Income to Net Cash</u></b> <b><u>Provided by Operating Activities</u></b>		
Operating income	\$ 99,846	\$ 55,732
Adjustment to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	430,333	415,625
Decrease (Increase) in receivables	( 29,180)	4,223
Decrease (Increase) in inventory	9,733	( 2,754)
Increase (Decrease) in accounts payable	33,292	( 18,629)
Increase (Decrease) in due to City of Barling	2,232	2,053
Increase (Decrease) in payroll taxes payable	542	83
Increase (Decrease) in sales tax payable	1,261	( 448)
Increase (Decrease) in customer meter deposits	<u>22,640</u>	<u>9,575</u>
Total Adjustments	<u>470,853</u>	<u>409,728</u>
Net Cash Provided by Operating Activities	\$ <u>570,699</u>	\$ <u>465,460</u>

The accompanying Notes to Financial Statements are an integral part of this report.

CITY OF BARLING, ARKANSAS  
WATER AND SEWER SYSTEM

Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Barling provides water and sewer service to the residents and businesses of Barling, Arkansas and surrounding areas. The revenue to finance the System is provided through user charges based on usage and monthly service charges.

USE OF ESTIMATES

The System's management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

CRITERIA USED IN DETERMINING THE SCOPE OF THE REPORTING ENTITY FOR FINANCIAL PURPOSES

The City of Barling, Arkansas Water and Sewer System is a component unit of the City of Barling. As such, a presentation of financial position and results of operations in accordance with accounting principles generally accepted in the United States of America for the City of Barling would require inclusion of the City of Barling, Arkansas Water and Sewer System in the financial statements of the City of Barling. The City of Barling exercises oversight responsibility over the City of Barling, Arkansas Water and Sewer System. Factors considered in determining this relationship were as follows:

- a. Financial interdependency
- b. Selection of governing authority
- c. Designation of management
- d. Ability to significantly influence operations
- e. Accountability for fiscal matters

These financial statements present only the City of Barling, Arkansas Water and Sewer System and are not intended to present fairly the financial position and results of operations of the City of Barling in conformity with accounting principles generally accepted in the United States of America.

BASIS OF ACCOUNTING

The City of Barling, Arkansas Water and Sewer System maintains its books on a modified cash basis. The books have been converted to an accrual basis for audited financial statement presentation. Under the accrual basis of accounting, all assets and liabilities (whether current or noncurrent) associated with the activities of the water and sewer system are recorded on its statement of net position.

Revenues are recognized when earned and expenses are recognized when incurred. The System implemented *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements.

CITY OF BARLING, ARKANSAS  
WATER AND SEWER SYSTEM  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

The accompanying financial statements include the following funds of the Water and Sewer System:

Revenue Fund  
Operating and Maintenance Fund  
Deposits Fund  
2011 Water and Sewer Revenue and Refunding Bond Fund  
2011 Depreciation Fund

Transfers between funds have been eliminated in combining these funds.

REGULATORY ENVIRONMENT

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Department of Environmental Quality. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Department of Environmental Quality (ADEQ).

DEPOSITORY ACCOUNTS

The City of Barling, Arkansas Water and Sewer System maintains depository accounts in excess of \$250,000 with two local banks. The FDIC insures up to \$250,000 for all time and savings accounts, all demand deposit accounts, and all funds deposited in bond and interest sinking funds. The banks have pledged securities which provide adequate collateral for these deposits. The amount of deposits over FDIC coverage as of December 31, 2017, amounted to \$702,896.

ACCOUNTS RECEIVABLE

Uncollectible accounts receivable are charged directly against income in the year they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

INVENTORIES

Inventories were stated at average cost at December 31, 2017 and 2016.

PROPERTY AND EQUIPMENT

Additions and major renewals and improvements which have the effect of extending the useful lives of property are carried at cost. Depreciation of property and equipment of the Water and Sewer System is computed using the straight-line method over the following useful lives:

CITY OF BARLING, ARKANSAS

WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2017 and 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Water plant in service	15 - 40 years
Sewage collection system	10 - 40 years
Meters and meter boxes	20 years
Maintenance equipment	5 - 7 years
Office equipment	5 years
Leasehold improvements	10 years
Maintenance building	20 - 31.5 years
Trucks	5 years

Additions and deletions to the major groups of property and equipment are as follows:

	Balance 12-31-16	Additions	Deletions	Balance 12-31-17
Land	\$ 127,000	\$ -0-	\$ -0-	\$ 127,000
Water plant in service	3,346,158	281,013	-0-	3,627,171
Sewer collection system	13,370,430	-0-	-0-	13,370,430
Maintenance equipment	314,561	10,459	( 7,588)	317,432
Office equipment	12,774	-0-	-0-	12,774
Trucks	53,942	-0-	-0-	53,942
Capitalized costs	112,374	-0-	-0-	112,374
Total	\$ 17,337,239	\$ 291,472	\$ ( 7,588)	\$ 17,621,123

Depreciation expense for 2017 and 2016 was \$430,333 and \$415,625, respectively.

AMORTIZATION OF BOND DISCOUNTS AND FEES

Bond discounts and refunding losses are amortized over the life of the bonds on the straight-line method. Amortization expense for 2017 and 2016 was \$11,122 and \$11,122. At December 31, 2017, unamortized bond discounts and refunding losses consisted of the following:

2011 Revenue and Refunding Bonds	\$241,907
----------------------------------	-----------

INCOME TAX

The System is municipally owned and is exempt from federal and state income tax.

ADVERTISING

The System follows the policy of charging advertising to expense as incurred. Advertising expense for 2017 and 2016 was -0- and -0-.

CITY OF BARLING, ARKANSAS  
WATER AND SEWER SYSTEM  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

CASH FLOWS

For the purpose of the Statements of Cash Flows, the System considers cash equivalents to be all highly liquid securities with an original maturity of three months or less. At December 31, 2017 and 2016, the System had no cash equivalents.

NONOPERATING REVENUE

Revenue derived from sources other than customers of the Water and Sewer System are classified as nonoperating and reported under the nonoperating revenues/expenses section of the Combined Statement of Revenues, Expenses and Changes in Fund Net Position.

NOTE 2 - RESTRICTED FUNDS

WATER AND SEWER SYSTEM REVENUE FUND

The Water and Sewer System Revenue Fund is a restricted fund into which all income and revenues arising from the operation or ownership of the water and sewer system are to be paid. Payment is to be made from this fund monthly in the amount of 1/12 of the next installment of principal and interest due on the 2011 Water and Sewer Revenue and Refunding Bonds. The remainder of the water and sewer revenue is to be paid into the Water and Sewer System Operating and Maintenance Fund to pay the reasonable and necessary monthly expenses of operations, repairs, maintenance, and insurance of the Water and Sewer System.

2011 WATER AND SEWER REFUNDING REVENUE BONDS

The 2011 Bond Fund is a restricted fund to be used solely for the payment of principal and interest on the 2011 Refunding Revenue Bonds and for the establishment of a debt service reserve.

DEPOSITS FUND

The Deposits Fund is a restricted fund used to hold customer meter deposits.

2011 DEPRECIATION FUND

The 2011 Depreciation Fund is a restricted fund used to hold 3% of gross customer billings that are set aside to fund needed repairs to the water and sewer system.

COMPLIANCE WITH COVENANTS OF BOND ORDINANCES

The above restricted funds were created by various ordinances of the City. At December 31, 2017 and 2016, the City of Barling, Arkansas Water and Sewer System was in substantial compliance with all covenants of the bond ordinances.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
Notes to Financial Statements  
December 31, 2017 and 2016

**NOTE 3 - LONG-TERM DEBT**

Long-term notes and bonds payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2017:

	<u>Interest Rate</u>	<u>Balance 2017</u>
City of Barling, Arkansas 2011 Water and Sewer Refunding Revenue Bonds with principal payment due each December 1 in amounts ranging from \$105,000 to \$235,000. Interest is payable each June 1 and December 1. These bonds mature serially through 2039	2.00%-4.60%	\$ 3,430,000
Less: Current Maturities		<u>105,000</u>
		\$ <u>3,325,000</u>

The repayment schedule for the revenue bonds is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 105,000	\$ 138,398
2019	110,000	135,930
2020	110,000	133,015
2021	115,000	129,825
2022	115,000	126,260
2023-2027	650,000	567,087
2028-2032	785,000	430,850
2033-2037	980,000	243,225
2038-2039	460,000	31,970

Activity of the long-term notes and bonds payable consists of the following:

	<u>Balance at 01/01/2017</u>	<u>Loan Advances</u>	<u>Loan Repayments</u>	<u>Balance at 12/31/2017</u>
City of Barling, Arkansas, Series 2011 Water and Sewer Refunding Revenue Bonds	\$ 3,535,000	\$ -0-	\$ 105,000	\$ 3,430,000

The above liability is not a general obligation of the City, but a special obligation that is secured and is payable solely from revenues derived from operation of the City of Barling, Arkansas Water and Sewer System.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
Notes to Financial Statements  
December 31, 2017 and 2016

**NOTE 4 - RESTRICTION OF NET ASSETS**

The following details the amount of all restrictions on net assets by the Water and Sewer System at December 31, 2017:

a. Restricted for repayment of bonds	\$ 145,958
b. Restricted for system repairs	41,571
c. Restricted for customer meter deposits	<u>58,936</u>
 Total Restricted Net Assets	 \$ <u>246,465</u>

**NOTE 5 - WATER AND SEWER COMMITMENTS**

The City of Barling has a contract with the City of Fort Smith in which the City of Barling is committed to purchase water from the City of Fort Smith, and is therefore subject to rate changes for water services.

The City of Barling has outstanding construction commitments at the end of 2017 in the amount of \$-0- for capital improvement projects.

**NOTE 6 - CAPITALIZED COSTS**

The System incurred construction and engineering costs during 1995, 1993 and 1992, relating to improvements to the water system, water tank, and pump station. These costs of \$112,374 have been capitalized to reflect their long-term nature.

**NOTE 7 - RETIREMENT PLAN**

Eligible employees of the System may elect to participate in the Section 457 Deferred Compensation Plan maintained by the City. Participating employees may defer up to \$7,500 of wages. The City matches up to 3% of participating employees' wages. For 2017 and 2016, the System's matching expense was \$3,668 and \$3,636, respectively. Employee deferrals made for 2017 and 2016 were \$6,645 and \$5,786, respectively.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

As various employees of the City perform duties that benefit funds other than the fund from which they are paid, reimbursements are paid from fund to fund to more closely match expenses. For 2017 and 2016, the Water and Sewer System paid other funds \$48,115 and \$46,926, respectively, to reimburse them for work that employees of those funds performed that benefitted the Water and Sewer System. This amount is included under maintenance expense in salaries and payroll transfers.

**NOTE 9 - CONTINGENCIES AND SUBSEQUENT EVENTS**

Subsequent events were evaluated through February 4, 2019 - the date the financial statements were available for issuance.

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**  
Notes to Financial Statements  
December 31, 2017 and 2016

**NOTE 9 - CONTINGENCIES AND SUBSEQUENT EVENTS – (continued)**

The System is cooperating with the Arkansas Department of Environmental Quality regarding excess chlorine in the effluent from the City's water and treatment lagoons. Testing has determined that the source of the excess chlorine is coming from the Fort Smith side of the line. Currently the System and representatives from Fort Smith are attempting to locate the source of the excess chlorine.

The City of Fort Smith has alleged that the System was under billed over \$1,000,000 between 2013 and 2017 under the current water purchase agreements take or pay provision. The System and Fort Smith are in negotiations to come up with a revised water purchase agreement to resolve this matter in lieu of legal action and it is anticipated that an equitable revised rate will be agreed upon.

SUPPLEMENTAL INFORMATION

**CITY OF BARLING, ARKANSAS**  
**WATER AND SEWER SYSTEM**

Supplemental Information  
Schedules of Maintenance and Administrative Expenses  
For the Years Ending December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>Maintenance Expenses</u></b>		
Salaries and payroll transfers	\$ 197,554	\$ 185,736
Payroll taxes and retirement	14,308	13,733
Repairs and maintenance	107,402	145,101
Vehicle expense	5,396	5,875
Utilities and telephone	25,396	23,298
Miscellaneous	7,303	2,175
Insurance	33,495	24,613
Materials and supplies	41,315	30,133
Water sampling and testing	21,780	15,074
Licenses and permits	<u>10,600</u>	<u>10,400</u>
Total Maintenance Expenses	\$ <u>464,549</u>	\$ <u>456,138</u>
<b><u>Administrative Expenses</u></b>		
Office supplies	\$ 10,267	\$ 11,071
Professional fees	10,448	12,110
Postage	7,965	7,511
Insurance	<u>23,712</u>	<u>21,641</u>
Total Administrative Expenses	\$ <u>52,392</u>	\$ <u>52,333</u>

The accompanying Notes to Financial Statements are an integral part of this report.