



**City of Waldron, Arkansas
Water and Sewer Department**

**Financial Statements
December 31, 2020 and 2019**

(With Independent Auditor's Report Thereon)

**City of Waldron, Arkansas
Water and Sewer Department**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
 FINANCIAL STATEMENTS	
Statements of Net Position – Modified Cash Basis	3
Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis	4
Statements of Cash Flows – Modified Cash Basis	5
Notes to Financial Statements	7
 INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE WITH OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	 15



INDEPENDENT AUDITOR'S REPORT

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

We have audited the accompanying modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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 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 opinion.

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

Opinion on the Department

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the modified cash basis financial position of the Department as of December 31, 2020 and 2019, and the changes in modified cash basis financial position and cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements of the City of Waldron, Arkansas Water and Sewer Department are intended to present the modified cash basis financial position and the modified cash basis changes in financial position and cash flows of only that portion of the business-type activities of the City of Waldron, Arkansas that is directly attributable to the Department. They do not purport to, and do not, present fairly the financial position of the City of Waldron, Arkansas as of December 31, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended in conformity with the modified cash basis of accounting or accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.


Certified Public Accountants

Little Rock, Arkansas
March 16, 2021

City of Waldron, Arkansas

Water and Sewer Department

Statements of Net Position – Modified Cash Basis December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 61,591	\$ 154,292
Restricted Assets		
Cash and cash equivalents	1,676,440	662,480
Capital Assets, Net	<u>12,152,194</u>	<u>12,469,336</u>
Total Assets	<u>13,890,225</u>	<u>13,286,108</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Losses on Refundings of Bonds Payable	<u>12,897</u>	<u>1,195</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 13,903,122</u></u>	<u><u>\$ 13,287,303</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities Payable from Current Assets		
Customer deposits	\$ 104,023	\$ 94,921
Due to State of Arkansas	14,281	11,986
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	<u>146,313</u>	<u>145,911</u>
Total Current Liabilities	<u>264,617</u>	<u>252,818</u>
Long-Term Debt, Net of Current Portion	<u>4,953,860</u>	<u>4,042,654</u>
Total Liabilities	<u>5,218,477</u>	<u>4,295,472</u>
Net Position		
Net investment in capital assets	7,965,024	8,281,966
Restricted for:		
Debt service	736,069	629,997
Acquisitions, repairs and maintenance of capital assets	40,265	32,483
Unrestricted	<u>(56,713)</u>	<u>47,385</u>
Total Net Position	<u>8,684,645</u>	<u>8,991,831</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 13,903,122</u></u>	<u><u>\$ 13,287,303</u></u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales	\$ 1,809,472	\$ 1,779,023
Sewer services	335,884	310,946
Total Operating Revenues	<u>2,145,356</u>	<u>2,089,969</u>
OPERATING EXPENDITURES		
Salaries and wages	539,288	465,472
Fringe benefits	248,899	235,850
Depreciation	524,088	522,206
Utilities	218,227	192,750
Repairs and maintenance	116,241	120,013
Professional services	83,726	95,844
Operating supplies	384,871	281,099
Insurance	12,834	11,790
Vehicle operations	16,346	21,552
Office supplies	1,429	2,728
Miscellaneous	9,955	50,382
Dues and subscriptions	33,410	34,408
Uniforms	5,075	3,576
Travel and education	2,876	3,434
Total Operating Expenditures	<u>2,197,265</u>	<u>2,041,104</u>
Operating (Loss) Income	<u>(51,909)</u>	<u>48,865</u>
NONOPERATING REVENUES (EXPENDITURES)		
Interest income	1,923	7,839
Interest expenditures	(122,927)	(149,647)
Bond issuance costs	(131,842)	-
Net Nonoperating Expenditures	<u>(252,846)</u>	<u>(141,808)</u>
Loss Before Operating Transfers	(304,755)	(92,943)
OPERATING TRANSFERS (TO) FROM CITY OF WALDRON, NET	<u>(2,431)</u>	<u>137,585</u>
(Decrease) Increase in Net Position	(307,186)	44,642
NET POSITION, BEGINNING OF YEAR	<u>8,991,831</u>	<u>8,947,189</u>
NET POSITION, END OF YEAR	<u><u>\$ 8,684,645</u></u>	<u><u>\$ 8,991,831</u></u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Cash Flows – Modified Cash Basis Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from		
Water sales	\$ 1,818,574	\$ 1,787,727
Sewer services	335,884	310,946
Total Operating Receipts	<u>2,154,458</u>	<u>2,098,673</u>
Disbursements for		
Salaries, wages and fringe benefits	788,187	701,322
Goods and services	882,695	801,901
Total Operating Disbursements	<u>1,670,882</u>	<u>1,503,223</u>
Net Cash Provided by Operating Activities	<u>483,576</u>	<u>595,450</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers (to) from the City of Waldron, net	<u>(2,431)</u>	<u>137,585</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(10,911)	(140,563)
Payment to refunded bond escrow agent	(3,885,000)	-
Proceeds from long-term debt	4,795,506	-
Purchases of capital assets	(206,946)	(400,771)
Interest paid	(122,616)	(136,904)
Bond issuance costs	(131,842)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>438,191</u>	<u>(678,238)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from interest income	<u>1,923</u>	<u>7,839</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	921,259	62,636
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>816,772</u>	<u>754,136</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,738,031</u>	<u>\$ 816,772</u>

(Continued)

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Cash Flows – Modified Cash Basis *(Continued)* Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (Loss) Income	\$ (51,909)	\$ 48,865
Adjustments to Reconcile Operating (Loss) Income to Net Cash Provided by Operating Activities		
Depreciation	524,088	522,206
Loss on disposal of capital assets	-	19,077
Net increase in customer deposits	9,102	8,704
Net increase in due to State of Arkansas	2,295	5,675
Net decrease in due to City of Waldron	-	(9,077)
	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	<u><u>\$ 483,576</u></u>	<u><u>\$ 595,450</u></u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION - MODIFIED CASH BASIS		
Current Assets - Cash and Cash Equivalents	\$ 61,591	\$ 154,292
Restricted Assets - Cash and Cash Equivalents	1,676,440	662,480
	<u> </u>	<u> </u>
Total Cash and Cash Equivalents	<u><u>\$ 1,738,031</u></u>	<u><u>\$ 816,772</u></u>
 SUPPLEMENTAL DISCLOSURE OF CASH TRANSACTIONS		
Interest capitalized	<u><u>\$ 26,668</u></u>	<u><u>\$ 13,866</u></u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2020 and 2019**

NOTE 1: REPORTING ENTITY

The City of Waldron, Arkansas Water and Sewer Department (the Department) provides water sales and sewer treatment services, on an unsecured credit basis, to the citizens of the City of Waldron, Arkansas (the City), and to commercial and industrial customers located within the Department's service area. The City Council serves as the governing board of the Department and approves rates and fees for user charges.

These financial statements present only balances and transactions that are directly attributable to the Department, and are not intended to present, and do not present, the financial position and changes therein of the City or its other proprietary funds.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Although the Department is not included in the regulatory financial statements of the City, the Department is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the Department generally recognizes assets, deferred outflows of resources, deferred inflows of resources and liabilities, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect deferred outflows of resources, deferred inflows of resources and liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are improvements funded by City funds and depreciation of the Department's capital assets over the estimated useful lives of the assets.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2020 and 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The presentation of the Department's financial statements follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the distribution of water and treatment of wastewater are distinguished from nonoperating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenditures include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities, including those fees and charges levied for the purpose of capital improvements.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to first apply that expenditure to restricted net position to the extent available and then to unrestricted net position.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market mutual funds.

Capital Assets

The Department's capital assets are reported at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to fifty years.

The Department capitalizes all significant direct costs, including salaries, materials and supplies, related to construction and improvements completed by Department personnel, while costs of repairs and maintenance that do not add significant value or extend the useful life of the related asset are expensed as incurred. Interest cost related to acquiring or constructing capital assets is capitalized as part of the cost of the related asset.

Deferred Outflows of Resources

In addition to assets, the statements of net position – modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The only items that qualify for reporting in this category on the Department's financial statements are the

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2020 and 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources (Continued)

deferred losses on the refundings of bonds payable. Deferred losses on refundings result from the differences in the carrying value of refunded debt and the related reacquisition price. These deferred charges are amortized using the straight-line method over the shorter of the life of the refunded or refunding debt.

Long-Term Debt

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Tax Status

The City, and thus the Department, is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Recently Issued Accounting Standard

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB Statement No. 89), issued in June of 2018, will become effective for the Department on January 1, 2021. The objectives of GASB Statement No. 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. Management of the Department has not yet determined the impact that adoption of GASB Statement No. 89 will have on the Department's financial statements or related disclosures.

NOTE 3: CASH AND CASH EQUIVALENTS

State of Arkansas (the State) statutes require the City, and thus the Department, to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the Department. To mitigate this risk, it is generally the Department's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the City's name by an agent of the City. At December 31, 2020 and 2019, all balances held in demand deposit accounts in excess of FDIC limits were secured by collateral held in the City's name by the City's agent.

The money market mutual fund held by the Department is a U.S. Treasury obligation fund and has a Standard & Poor's and Moody's rating of AAAm and Aaa-mf, respectively, at December 31, 2020.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

Restricted cash and cash equivalents are as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Bond funds	\$ 119,527	\$ 124,511
Debt service reserves	616,542	505,486
Depreciation fund	40,265	32,483
Water and wastewater improvements	900,106	-
	<u>\$ 1,676,440</u>	<u>\$ 662,480</u>

The long-term debt agreements require the establishment and maintenance of certain reserve accounts (see Note 5). Debt covenants require monthly deposits into a bond fund account for the next installment of debt service and monthly deposits into a depreciation fund account restricted for acquisitions, repairs and maintenance of capital assets.

NOTE 4: CAPITAL ASSETS

The following is a summary of the major components of the Department's capital assets and related activities resulting from modified cash basis transactions for the year ended December 31:

		<u>2020</u>			
	<u>Estimated Useful Life</u>	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	824,171	154,237	-	978,408
Depreciable:					
Water treatment plants	50 years	8,036,062	12,030	-	8,048,092
Wastewater treatment plant	50 years	4,731,204	17,444	-	4,748,648
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	444,443	23,235	(4,292)	463,386
		23,101,563	206,946	(4,292)	23,304,217
Accumulated depreciation		(10,632,227)	(524,088)	4,292	(11,152,023)
Capital assets, net		<u>\$12,469,336</u>	<u>\$ (317,142)</u>	<u>\$ -</u>	<u>\$12,152,194</u>

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 4: CAPITAL ASSETS (Continued)

		2019			
	Estimated Useful Life	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	502,611	321,560	-	824,171
Depreciable:					
Water treatment plants	50 years	8,031,118	7,705	(2,761)	8,036,062
Wastewater treatment plant	50 years	4,766,059	39,672	(74,527)	4,731,204
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	420,131	31,834	(7,522)	444,443
		22,785,602	400,771	(84,810)	23,101,563
Accumulated depreciation		(10,175,754)	(522,206)	65,733	(10,632,227)
Capital assets, net		<u>\$ 12,609,848</u>	<u>\$ (121,435)</u>	<u>\$ (19,077)</u>	<u>\$ 12,469,336</u>

NOTE 5: LONG-TERM DEBT

Balances and repayment terms of the Department's long-term debt are as follows at December 31:

	2020	2019
\$413,000 Revenue Bond, Series 2009 (Series 2009); payable in monthly installments including interest at 3.625%, through 2040; secured by the Department's operating revenues (subordinate to the Series 2020 Bonds).	\$ 305,254	\$ 316,165
\$4,370,000 Refunding and Construction Revenue Bonds, Series 2015 (Series 2015); principal was fully redeemed on June 1, 2020.	-	3,885,000
\$4,765,000 Refunding and Construction Revenue Bonds, Series 2020 (Series 2020); payable in annual installments; interest payable semiannually at rates ranging from 2.0% to 3.125%, through 2045; secured by the Department's operating revenues.	4,765,000	-
	5,070,254	4,201,165
Unamortized premium, net	29,919	(12,600)
Total long-term debt	5,100,173	4,188,565
Less current portion	(146,313)	(145,911)
Long-term debt, net of current portion	<u>\$ 4,953,860</u>	<u>\$ 4,042,654</u>

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 5: LONG-TERM DEBT (Continued)

Long-term debt activity is summarized as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Beginning principal balance	\$ 4,201,165	\$ 4,341,728
Additions	4,765,000	-
Principal payments	<u>(3,895,911)</u>	<u>(140,563)</u>
Ending principal balance	<u><u>\$ 5,070,254</u></u>	<u><u>\$ 4,201,165</u></u>

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2020:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 146,313	\$ 147,900	\$ 294,213
2022	151,730	142,300	294,030
2023	157,163	137,668	294,831
2024	157,611	132,870	290,481
2025	163,076	128,055	291,131
2026-2030	892,975	571,768	1,464,743
2031-2035	1,012,451	453,265	1,465,716
2036-2040	1,148,935	296,586	1,445,521
2041-2045	<u>1,240,000</u>	<u>118,299</u>	<u>1,358,299</u>
	<u><u>\$ 5,070,254</u></u>	<u><u>\$ 2,128,711</u></u>	<u><u>\$ 7,198,965</u></u>

On April 23, 2020, the City issued \$4,765,000 of Water and Sewer Refunding and Construction Revenue Bonds, Series 2020, with interest rates ranging between 2.0% and 3.125%. The City issued the bonds to current refund approximately \$3.9 million of the outstanding Water and Sewer Refunding and Construction Revenue Bonds, Series 2015 with interest rates ranging between 2.0% and 4.0% and to finance all or a portion of the costs of acquiring, constructing and equipping extensions, betterments and improvements to the Water and Wastewater Treatment plants. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$12,354 is reported as a deferred outflow of resources in the statements of net position – modified cash basis and is being amortized through the year 2041 using the straight-line method.

Both the Series 2009 and 2020 bond agreements require the Department to maintain rates sufficient to provide for the payment of the reasonable expenses of operation and maintenance of the Department in addition to the payment of the principal of and interest on all outstanding bonds to which revenues are pledged. At December 31, 2020 and 2019, rates were sufficient to satisfy the related bond covenant requirements that net revenues, as defined, at least equal 115 percent of the average annual debt service.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2020 and 2019

NOTE 5: LONG-TERM DEBT (Continued)

The Series 2009 and the 2020 bond agreements also require the establishment and maintenance of certain reserve accounts (See Note 3). At December 31, 2020 and 2019, these account balances were sufficient to satisfy the related debt covenant requirements.

NOTE 6: ECONOMIC DEPENDENCY

Water sales to one industrial customer accounted for approximately 59% and 58% of total operating revenues of the Department for the years ended December 31, 2020 and 2019, respectively.

NOTE 7: RETIREMENT PLANS

Plan Description

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multi-employer defined benefit plan created by the State Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by State statute. APERS issues a stand-alone financial report which may be obtained by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Funding Policy

Employees covered by APERS have the option to contribute a portion of their salary. Those that choose to contribute must contribute 5.00% of their salary. Effective July 1, 2018, the City was required to contribute 15.32% of eligible payroll for employees covered by APERS. Contributions attributable to Department employees for the years ended December 31, 2020, 2019 and 2018 were approximately \$80,300, \$69,100, and \$58,400, respectively, and were equal to the annual required contributions.

NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON

Certain employees of the City may perform administrative duties for the Department. The cost of these services are not reflected in the Department's financial statements as management believes that any amounts allocable to the Department are not readily determinable and would not be material. At times during the year, transfers may be made to and from the City's general fund, as needed, to meet certain cash flow requirements of the Department or the City. During the years ended December 31, 2020 and 2019, the Department transferred \$130,000 and \$150,000, respectively, to the City, which is included in operating transfers from (to) the City of Waldron, net on the statements of revenues, expenditures and changes in net position – modified cash basis.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2020 and 2019**

NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON (Continued)

During the years ended December 31, 2020 and 2019, the City paid costs related to construction in progress and paid certain administrative expenses on behalf of the Department. Amounts received from the City during the years ended December 31, 2020 and 2019 totaled \$127,569 and \$287,585, respectively, and are included in operating transfers from (to) City of Waldron, net on the statements of revenues, expenditures and changes in net position – modified cash basis.

NOTE 9: RISK MANAGEMENT

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased insurance to address these risks. There have been no significant reductions in the Department's coverage during the years ended December 31, 2020 and 2019. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

NOTE 10: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Department and financial results will depend on future developments, including the duration and spread of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.



**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**

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

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 modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department), which comprise the statements of net position – modified cash basis as of December 31, 2020, and the related modified cash basis statements of revenues, expenditures and changes in net position – modified cash basis, and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2021.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Certified Public Accountants

Little Rock, Arkansas
March 16, 2021