

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS***

***ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2020***

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

<u>Table of Contents</u>	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-8
<b>Financial Section</b>	
Statement of Net Position	9-10
Statement of Revenues, Expenses and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13-23
<b>Required Supplementary Information</b>	
APERS Schedule of Proportionate Share of the Net Pension Liability	24
APERS Schedule of Pension Contributions	25
Notes to Required Supplementary Information	26
<b>Reports on Compliance and Internal Control</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Schedule of Findings and Responses	29
Schedule of Status of Prior Findings	30
<b>Miscellaneous Information</b>	
Miscellaneous Information Required by Loan Agreement with ANRC	31



**Independent Auditor's Report**

August 19, 2021

Honorable Mayor and Council Members  
of the City of Ashdown  
Ashdown Water and Sewer System Enterprise Fund  
Ashdown, Arkansas

We have audited the accompanying financial statements of the business-type activities of the Ashdown Water and Sewer System Enterprise Fund of the City of Ashdown, Arkansas (System) as of and for the year ended December 31, 2020 and the related notes to the financial statements which collectively comprise the System's basic financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatements.

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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Ashdown Water and Sewer System Enterprise Fund of the City of Ashdown, Arkansas, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note 1, the financial statements of the Ashdown Water and Sewer System Enterprise Fund of the City of Ashdown, Arkansas are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Water and Sewer System Enterprise Fund. They do not purport to, and do not present fairly the financial position of the Ashdown Water and Sewer System Enterprise Fund of the City of Ashdown, Arkansas as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, APERS schedule of the proportionate share of the net pension liability on page 24, and APERS schedule of pension contributions on page 25 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ashdown Water and Sewer System Enterprise Fund's financial statements. The miscellaneous information required by loan agreement with ANRC on page 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the miscellaneous information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Ashdown Water and Sewer System Enterprise Fund of the City of Ashdown, Arkansas' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Wilf & Henderson, P.C.".

WILF & HENDERSON, P.C.  
Certified Public Accountants  
Texarkana, Texas

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2020***

Our discussion and analysis of the Ashdown Water and Sewer System Enterprise Fund (System) financial performance provides an overview of the System's financial activities for the year ended December 31, 2020. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements.

**Financial Highlights**

For the year ended December 31, 2020, net position of the System increased by \$233,538.

- At December 31, 2020, Unrestricted Net Position totaled \$1,789,277. Unrestricted Net Position represents the net balance accumulated by the System above the amount of Net Investment in Capital Assets and the amount for Restricted Net Position (restricted as a result of constraints imposed by grantors, contributors, or by laws and regulations).
- At year-end, the total of Restricted Net Position was \$219,054.
- At year-end, the total of Net Investment in Capital Assets (after subtracting out debt owed on capital assets) was \$4,011,351.
- The System had \$717,572 of bonds payable ANRC outstanding at December 31, 2020.
- The most significant continuing revenue sources for the System consisted of \$763,332 of water and sewer services for the year ended December 31, 2020.

**Overview of the Financial Statements**

The annual financial report consists of two parts: Management's Discussion and Analysis and the Financial Section report. The Financial Section also includes notes that explain in more detail some of the information in the financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position (on Pages 9 through 10) provide long-term and short-term information about the System's overall financial status. The Statement of Net Position includes all assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). This financial statement reports net position and how it has changed. Net Position – the difference between assets and liabilities – is one way to measure health, or position. Over time, increases or decreases in net position is an indicator of whether the System's financial health is improving or deteriorating, respectively. The Statement of Net Position also provides the basis for computing rate of return, evaluating the capital structure and assessing liquidity and flexibility. You will need to consider other nonfinancial factors, however, to assess the overall health.

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the success of operations over the past year and can be used to determine whether operations have successfully recovered all System costs through user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

Our auditor has provided assurance in the independent auditor's report, located immediately following MD&A, that the Basic Financial Statements are fairly stated.

### Financial Analysis as a Whole

As stated previously, net position increased by \$233,538 as a result of this year's operations. The balance in net position represents the accumulated results of all past years' operations.

### Statement of Net Position

A summary of the Statement of Net Position is presented in the table below. The format allows the reader to view the overall financial position of the System. As we noted earlier and as can be seen in the table below, the net position increased from \$5,786,144 to \$6,019,682 up \$233,538 from the prior year. Looking down the table you will see the changes in each category.

#### Ashdown Water and Sewer System Enterprise Fund Condensed Statement of Net Position

	2020	2019	Dollar Change	Percent Change
Current assets (unrestricted)	\$ 2,297,710	\$ 1,841,722	\$ 455,988	24.76%
Restricted assets	340,617	344,756	(4,139)	-1.20%
Capital assets	4,728,923	5,009,242	(280,319)	-5.60%
Total assets	<u>7,367,250</u>	<u>7,195,720</u>	171,530	2.38%
Deferred outflows of resources	96,625	59,661	36,964	61.96%
Current liabilities (payable from current assets)	112,961	123,559	(10,598)	-8.58%
Current liabilities (payable from restricted assets)	115,191	113,120	2,071	1.83%
Noncurrent liabilities- bonded debt	717,572	794,944	(77,372)	-9.73%
Noncurrent liabilities- net pension liability	476,369	397,071	79,298	19.97%
Total liabilities	<u>1,422,093</u>	<u>1,428,694</u>	(6,601)	-0.46%
Deferred inflows of resources	22,100	40,543	(18,443)	-45.49%
Net investment in capital assets	4,011,351	4,214,298	(202,947)	-4.82%
Restricted	219,054	225,338	(6,284)	-2.79%
Unrestricted	1,789,277	1,346,508	442,769	32.88%
Total Net Position	<u>\$ 6,019,682</u>	<u>\$ 5,786,144</u>	\$ 233,538	4.04%

The largest category of net position is “Net Investment in Capital Assets” and comprises 67% of net position. This category totaling \$4,011,351 reflects the total invested in capital assets (land, buildings, equipment, water and sewer system improvements, etc.) net of any related debt used to acquire capital assets. These capital assets are used to provide services to citizens and do not represent resources available for future spending. The System’s investment in its capital assets is reported net of related debt. Related debt outstanding at December 31, 2020 totaled \$717,572. It should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The second category of net position, Restricted Net Position, represents net position that is subject to external restrictions on how they may be used. Restricted Net Position totals \$219,054.

The third category of net position, Unrestricted Net Position, represents net position that is not subject to external restrictions on how they may be used. Unrestricted Net Position totals \$1,789,277.

At the end of the current year, the System was able to report positive balances in all three categories of net position, and for the System as a whole.

There are two major components of Current Assets. Unrestricted cash and certificates of deposit totaling \$2,043,943 at December 31, 2020 is available to support current operations and for long-range improvement of the utility system. Accounts receivable balances of \$174,811 represent outstanding water, sewer, and sanitation billings at December 31, 2020.

Restricted assets, cash and certificates of deposit totaling \$340,617, are subject to external restrictions on how they may be used.

Capital Assets totaling \$4,728,923 (net of accumulated depreciation) represent the System’s investment in land and buildings, machinery and equipment, vehicles, and the water and sewer system improvements at December 31, 2020.

There are two major components of Current Liabilities; Garbage fees payable and other accrued expenses. Liabilities payable from current assets totaled \$112,961. Current liabilities payable from restricted assets totaled \$115,191 and consist primarily of customers deposit liabilities at December 31, 2020.

Noncurrent liabilities totaled \$1,193,941 at December 31, 2020; the System had \$717,572 in bonds payable ANRC outstanding at December 31, 2020, and the System had \$476,369 in net pension liability APERS.

### **Changes in Fund Net Position**

While the Statement of Net Position shows the change in financial position of net position, the Statement of Revenues, Expenses and Changes in Fund Net Position shows the changes in net position. As we noted earlier and as can be seen in the table below, the revenues, expenses and changes in fund net position resulted in a current year increase of \$233,538 in the net position. Looking down the table you will see the changes in each category. The increase of \$233,538 over the prior year increase of \$25,815 was primarily attributable to the increase in Transfers in from City – Sales tax revenue.



A Summary of the Statement of Revenues, Expenses and Changes in Fund Net Position is presented in the table below. The format allows the reader to view the overall changes in net position.

**Ashdown Water and Sewer System Enterprise Fund**  
**Condensed Statement of Revenues, Expenses and Changes in Fund Net Position**

	2020	2019	Dollar Change	Percentage Change
Operating revenues	\$ 818,867	\$ 844,256	\$ (25,389)	-3.01%
Nonoperating revenues	17,850	19,059	(1,209)	-6.34%
Total Revenues	<u>836,717</u>	<u>863,315</u>	<u>(26,598)</u>	<u>-3.08%</u>
Depreciation expense	280,319	283,752	(3,433)	-1.21%
Other operating expenses	939,390	978,654	(39,264)	-4.01%
Nonoperating expenses	24,522	26,623	(2,101)	-7.89%
Total Expenses	<u>1,244,231</u>	<u>1,289,029</u>	<u>(44,798)</u>	<u>-3.48%</u>
Income (Loss) before transfers	(407,514)	(425,714)	18,200	4.28%
Transfer in from City - Sales tax revenues	641,052	468,864	172,188	36.72%
Transfer out to City - Police department	-	(17,335)	17,335	100.00%
Increase (Decrease) Change in Net Position	233,538	25,815	207,723	804.66%
Net Position - Beginning of Year	<u>5,786,144</u>	<u>5,760,329</u>	<u>25,815</u>	<u>0.45%</u>
Net Position - End of Year	<u>\$ 6,019,682</u>	<u>\$ 5,786,144</u>	<u>\$ 233,538</u>	<u>4.04%</u>

**Capital Assets and Long-Term Debt**

**Capital Assets**

The cost of property, plant and equipment, net of accumulated depreciation, as of December 31, 2020 and 2019 was \$4,728,923 and \$5,009,242, respectively. More detailed information about capital assets is presented in Note 3 to the financial statements.

**Long-Term Debt**

At year-end, the System had \$717,572 in bonds outstanding ANRC. More detailed information about long term liabilities is presented in Note 4 and Note 5 to the financial statements.

## **Economic Factors and Current and Next Year's Budgets**

We anticipate that our net position will remain about the same in 2021. The System projects very little change in revenue. Due to a proactive repairs and maintenance program, unexpected expenses for major repairs in the future should decrease. The capital asset improvement plans for the future include but are not limited to: conducting a full fire hydrant rehabilitation program; construction of new water well; construction of new structure at the wastewater treatment facility; extension of power line electricity service to the wastewater treatment facility; and updating the water meter system to include electronic read water meters.

## **Requests for Information**

This financial report is designed to provide a general overview of the Ashdown Water and Sewer System Enterprise Fund's finances and to demonstrate the System's accountability. If you have questions regarding this report or need additional information, contact the System at 161 W. Commerce Street, Ashdown, Arkansas 71822. The phone number for the System is (870) 898-3512.

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND***

***FINANCIAL SECTION***

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

**ASSETS**

**Current Assets - Unrestricted**

Cash on hand	1,025
Cash in revenue/operations and maintenance accounts	1,177,735
Certificates of deposit	865,183
Accounts receivable (net of allowance of \$30,136)	174,811
Sales taxes receivables	56,566
Inventories of materials and supplies	11,356
Prepaid insurance	11,034
<b>Total Current Assets - Unrestricted Assets</b>	<b>2,297,710</b>

**Current Assets - Restricted Assets**

Cash in customers deposit account	66,630
Certificates of deposit-customers deposit account	50,000
Cash in bond fund account	21,532
Certificates of deposit-depreciation reserve account	89,530
Certificates of deposit-debt service reserve account	95,822
Prepaid bond payment account	17,103
<b>Total Current Assets - Restricted Assets</b>	<b>340,617</b>

**Property, Plant and Equipment**

Land and land rights	134,958
Buildings and improvements	253,078
Water and sewer system	10,535,543
Vehicles, equipment and furniture	970,567
	11,894,146
Accumulated depreciation	(7,165,223)
<b>Total Property, Plant and Equipment</b>	<b>4,728,923</b>

**Total Assets** **\$ 7,367,250**

**Deferred Outflows of Resources**

Deferred Outflows Related to APERS	<b>\$ 96,625</b>
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The accompanying notes are an integral part of this statement.

**LIABILITIES****Current Liabilities (payable from current assets)**

Accounts payable	8,796
Garbage fees payable	61,003
Compensated absences liability	6,447
Other accrued expenses and liabilities	36,715
<b>Total Current Liabilities (payable from current assets)</b>	<b><u>112,961</u></b>

**Current Liabilities (payable from restricted assets)**

Accrued bond interest and fees payable	4,933
Customers deposit liability	110,258
<b>Total Current Liabilities (payable from restricted assets)</b>	<b><u>115,191</u></b>

**Noncurrent Liabilities**

Due within one year:	
Bonds payable ANRC	79,906
Due in more than one year:	
Bonds payable ANRC	637,666
Net pension liability APERS	476,369
<b>Total Noncurrent Liabilities</b>	<b><u>1,193,941</u></b>

**Total Liabilities** **\$ 1,422,093**

**Deferred Inflow of Resources**

Deferred Inflows Related to APERS **\$ 22,100**

**NET POSITION**

Net Investment in Capital Assets	4,011,351
Restricted for Debt Service	219,054
Unrestricted	1,789,277
<b>Total Net Position</b>	<b><u>\$ 6,019,682</u></b>

*ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2020*

<b>Operating Revenues</b>	
Water and sewer services	763,332
Penalties	39,648
Other revenue	15,887
<b>Total Operating Revenues</b>	<u>818,867</u>
<b>Operating Expenses</b>	
Chemicals and lab	18,528
System utilities	49,525
Wastewater permits	5,290
Water purchased	13,816
Management fees	80,000
Labor	333,018
Insurance - employee health	45,310
Employee retirement	72,640
Payroll tax and worker's compensation expense	24,498
Annual service fees	4,844
Repairs and maintenance	122,898
Repairs and maintenance - water tower	45,398
Small tools	1,100
Fuel and repairs vehicle expense	18,434
Travel and training	538
Office supplies	9,990
Telephone and office utilities	24,712
Postage	8,505
Janitorial services	6,500
Legal and auditing fees	16,294
Insurance - other	9,601
Miscellaneous expense	14,511
Bad debt expense	13,440
Depreciation expense	280,319
<b>Total Operating Expenses</b>	<u>1,219,709</u>
<b>Operating Income (Loss)</b>	<u>(400,842)</u>
<b>Non-operating Revenues (Expenses)</b>	
Interest income	17,850
Bond and loan interest and fees expense	(24,522)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(6,672)</u>
<b>Income (Loss) before Transfers</b>	<u>(407,514)</u>
<b>Transfers In (Out)</b>	
Transfer in from City - sales tax revenue	641,052
<b>Total Transfers In (Out)</b>	<u>641,052</u>
<b>Increase (Decrease) Change in Net Position</b>	233,538
<b>Net Position - Beginning of Year</b>	<u>5,786,144</u>
<b>Net Position - End of Year</b>	<u>\$ 6,019,682</u>

The accompanying notes are an integral part of this statement.

*ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020*

<b>Cash Flows from Operating Activities:</b>	
Cash received from providing services	\$ 798,131
Cash paid to employees	(333,018)
Cash paid to suppliers	<u>(595,850)</u>
<b>Cash Provided (Used) by Operating Activities</b>	<b><u>(130,737)</u></b>
 <b>Cash Flows from Noncapital Financing Activities:</b>	
Transfers in from City - sales tax revenue	<u>631,192</u>
<b>Cash Provided (Used) by Noncapital Financing Activities</b>	<b><u>631,192</u></b>
 <b>Cash Flows from Capital and Related Financing Activities:</b>	
Loan and bond principal payments	(77,372)
Interest and fees paid on loan and bond obligations	(25,054)
Decrease in prepaid bond payment account	<u>8,678</u>
<b>Cash Provided (Used) by Capital and Related Financing Activities</b>	<b><u>(93,748)</u></b>
 <b>Cash Flows from Investing Activities:</b>	
Interest income reinvested to investments in certificates of deposit	(14,655)
Interest income	<u>17,850</u>
<b>Cash Provided (Used) by Investing Activities</b>	<b><u>3,195</u></b>
 Increase (Decrease) in Cash and Cash Equivalents	 409,902
Cash and Cash Equivalents at Beginning of Year	<u>857,020</u>
Cash and Cash Equivalents at End of Year	<b><u>\$ 1,266,922</u></b>
 <b>Cash Flows from Operating Activities:</b>	
Operating income (loss)	\$ (400,842)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	280,319
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Decrease (increase) in accounts receivable	(20,736)
Decrease (increase) in inventories	(596)
Decrease (increase) in prepaid insurance	(4,778)
Increase (decrease) in accounts payable	(677)
Increase (decrease) in garbage fees payable	(3,889)
Increase (decrease) in compensated absences liability	(1,389)
Increase (decrease) in other accrued expenses and liabilities	(4,643)
Increase (decrease) in customers deposit liability	2,603
Increase (decrease) in deferred outflows/ inflows and pension liability, net	<u>23,891</u>
<b>Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (130,737)</u></b>

The accompanying notes are an integral part of these statements.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Note 1 - Summary of Significant Accounting Policies**

The City of Ashdown (City) is a municipality duly incorporated under the laws of the State of Arkansas and located in Little River County, Arkansas. The City operates under a council-mayor form of government and provides the following services: public safety (police and fire), highways and streets, water utility service, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements included in this report present only the Ashdown Water and Sewer System Enterprise Fund (System). They are not intended to present fairly the financial position and results of operations of the City of Ashdown, Arkansas as a whole entity.

The accounting and reporting policies of the City relating to the Ashdown Water and Sewer System Enterprise Fund conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled "Audits of State and Local Governmental Units" and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the System are described below.

*Basis of Presentation*

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position display information about only the Ashdown Water and Sewer System Enterprise Fund.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those often, found in the private sector. The measurement focus is based upon determination of net income. The City's proprietary fund is an Enterprise Fund. Enterprise Funds are used for activities (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer System Enterprise Fund is operated as a self-sustaining utility of the City of Ashdown, Arkansas.

*Basis of Accounting*

The financial statements of the System are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing water and sewer services and sanitation. The proprietary fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

*Investments*

Investments are stated at cost or amortized cost, which approximates market.



**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

*Accounts Receivable*

Accounts receivable is recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends.

*Inventories*

Inventories held by the System consist of materials and supplies and is recorded at the lower of cost (first-in, first-out) or market.

*Property, Plant and Equipment*

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment. Public domain ("infrastructure") assets have been capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method of depreciation. The estimated useful lives are as follows:

Buildings and improvements	15-40 years
Water and sewer system	10-50 years
Vehicles, equipment, and furniture	5-20 years

*Bond Issuance Costs*

Bond issuance costs on the revenue bonds are expensed in the year the bonds are issued.

*Restricted Assets*

Restricted assets consist of cash in bank and certificates of deposit restricted by bond ordinance or authorization of the board for the purpose indicated. When both restricted and unrestricted resources are available for use, it is the System's policy to use unrestricted resources first and then restricted resources as they are needed.

*Compensated Absences*

Regular full-time employees earn 5 to 20 days of vacation time and 20 days of sick leave per year. The City's policy allows employees to accumulate 10 days of vacation leave and 90 days of unused sick leave. The employee will be paid a rate of one-half pay for all unused sick leave hours accrued over 720 hours at the end of the calendar year. Upon termination of employment, any accumulated vacation time will be paid to the employee. Unused sick leave benefits will not be paid upon termination of employment whether voluntary or involuntary; except, however accrued sick leave benefits shall be paid upon retirement or death. Upon retirement or death, the employee or the estate will be paid at the full rate of pay for any unused sick leave. The System accrued a liability for vacation pay compensated absences, which has been earned but not taken by employees of \$6,447 at December 31, 2020.

*Pensions*

In the proprietary fund types in the fund financial statement, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Arkansas Public Employees Retirement System (APERS) and additions to/deductions from APERS's Fiduciary Net Position have been determined on the same basis as they are reported by APERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 was adopted for the year ending December 31, 2015. The City participates in the Arkansas Public Employees Retirement System (APERS). GASB Statement 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

GASB Statement 68 requires the employer to report the net pension asset or liability, pension expense, and related deferred inflows and outflows of resources associated with providing retirement benefits to their employees and former employees in their basic financial statements. This statement required governmental entities to record the net pension asset or liability and the related outflows and inflows retroactively.

*Other Postemployment Benefits*

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015 was adopted for the year ending December 31, 2018. The System participates in the APERS Other Postemployment Benefits plan. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Because the OPEB calculated amounts are immaterial for the Ashdown Water and Sewer System, these amounts are not recorded in the financial statements.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the System considers cash on hand; cash in non-interest-bearing demand deposit accounts, and cash in money market funds (including restricted assets) to be cash or cash equivalents. Certificates of deposit and the prepaid bond payment account are not considered to be cash equivalents.

*Equity Classifications*

Net position represents the difference between assets and liabilities. The System reports three categories of net position, as follows:

*Net investment in capital assets* – consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the System's bonds. Restricted net position is reduced by liabilities related to the restricted assets.

*Unrestricted net position* – consists of all other net position that does not meet the definition of the above two components and is available for general use by the System.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The System's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Certain Disclosures Related to Debt*

*GASB Statement 88, Certain Disclosures Related to Debt, Including Direct Borrowing and Placements*

The primary objective of this statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses.

For notes to the financial statements related to debt, this Statement also requires existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

**Note 2 - Deposits and Investments**

**System Policies and Legal and Contractual Provisions Governing Deposits**

The Water and Sewer System is authorized by the City Council to invest funds in certificates of deposit at local financial institutions. The Water and Sewer System's deposits at the financial institution were fully secured at December 31, 2020 by federal depository insurance and investment securities pledged to the Ashdown Water Department as collateral.

*Credit Risk* - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the System limits investments to Obligations of the United States or its agencies and instrumentalities and certificates of deposits

*Custodial Credit Risk for Deposits* – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agents. The System had no custodial credit risk for deposits because the system complied with the law.

*Concentration of Credit Risk* - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the System diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

*Interest Rate Risk* - To limit the risk of changes in interest rates will adversely affect the fair value of investments; the System requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

*Foreign Currency Risk* - The System limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

**Note 3 - Property, Plant and Equipment**

The Water and Sewer System has inventoried property, plant and equipment at December 31, 2020 and established a detailed record for fixed assets.

There were no additions to the System's capital assets in fiscal year 2020. The System removed \$2,871 of small equipment items that were fully depreciated in fiscal year 2020.

A summary of property, plant and equipment follows:

	January 1, 2020	Additions	Deletions	December 31, 2020
Land and land rights	\$ 134,958	\$ -	\$ -	\$ 134,958
Buildings and improvements	253,078	-	-	253,078
Water and sewer system	10,535,543	-	-	10,535,543
Vehicles, equipment and furniture	973,438	-	(2,871)	970,567
	<u>11,897,017</u>	<u>-</u>	<u>(2,871)</u>	<u>11,894,146</u>
Less accumulated depreciation	(6,887,775)	(280,319)	2,871	(7,165,223)
Total	<u>\$ 5,009,242</u>	<u>\$ (280,319)</u>	<u>\$ -</u>	<u>\$ 4,728,923</u>

**Note 4 - Restricted Assets and Bond Ordinance Compliance**

*ANRC Loan:* The City issued bonds for the purpose of acquiring, constructing, and equipping the City's sewer system, in the aggregate amount of \$1,500,000. The bond ordinance provided for cash transfers from the Revenue Fund into a special fund with the Arkansas Development Finance Corporation designated as the "Prepaid Bond Payment Account", on the first business day of each month, until all outstanding bonds have been paid in full or provision made for such payment, a sum equal to 1/6 of the next installment of interest due on the Bonds and 1/12 of the next installment of principal due on the Bonds, and an amount sufficient to provide for trustees fees on all outstanding bonds. The prepaid bond payment account had a balance of \$17,103 at December 31, 2020. The System followed the covenants for year 2020.

**Note 5 - State Loan Assistance - ANRC Loan**

On November 10, 2003, the Board passed resolutions for the purposes of acquiring, constructing, and equipping the City's sewer system. The original estimated cost of the project and expenses of issuing the Bonds was \$1,200,000. On April 24, 2006, the Board passed a resolution increasing the amount to \$1,500,000. The City deemed it necessary and proper to apply for State loan assistance under Title VI of the Water Quality Act of 1987, Public Law 100-4. During the years ended December 31, 2006, 2007 and 2008, the System drew \$1,080,329, \$412,171, and \$7,500, respectively, of the ANRC Loan amount for a total of \$1,500,000.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

The ANRC loan is not a general obligation of the City but is a special obligation payable solely from the revenues derived from the operation of the Water and Sewer System. The loan is due servicing fee and interest only until April 15, 2009. Payments of principal, servicing fee and interest are due in semi-annual payments of \$51,292 beginning April 15, 2009 through October 15, 2028: servicing fee at 1.00% and interest at 2.25%. Total interest and fees expense incurred on ANRC loan amounted to \$24,522 in 2020.

The following is a summary of the state loan assistance – ANRC loan payable transactions:

	2020
Beginning balance, January 1	\$ 794,944
Bond principal paid	(77,372)
Ending balance, December 31	\$ 717,572

The annual debt service requirements are as follows:

Year Ending December 31	Principal	Notes from Direct Borrowing			Total
		Fees	Interest		
2021	79,906	6,978	15,700		102,584
2022	82,525	6,172	13,887		102,584
2023	85,229	5,340	12,015		102,584
2024	88,021	4,481	10,082		102,584
2025	90,905	3,593	8,085		102,583
2026-2028	290,986	5,161	11,611		307,758
Total	\$ 717,572	\$ 31,725	\$ 71,380		\$ 820,677

**Note 6 – Operating Lease**

The City executed an operating lease agreement to lease a Caterpillar Backhoe Loader in April 2019. Payments are \$1,621 for thirty-six months beginning May 2019. Payments for the year ended December 31, 2020 totaled \$19,452.

The annual future requirements for are as follows:

Year Ending December 31	Amount
2021	19,452
2022	4,863

Additionally, the City executed an operating lease agreement to lease a Caterpillar Excavator in April 2019. Payments are \$1,109 for thirty-six months beginning May 2019. Payments for the year ended December 31, 2020 totaled \$13,308.

The annual future requirements for are as follows:

Year Ending December 31	Amount
2021	13,308
2022	3,329

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Note 7 - Water Supply Contract**

The City has a water supply contract with the Southwest Arkansas Water District (SAWD) that reserved to the City the right to storage space in the Millwood Reservoir for 5,000,000 gallons of water per day. The City cancelled the contract September 15, 2013. On December 14, 2015, the Board voted to activate for use from the SAWD 5 MGD water rights from Lake Millwood. The contract was not executed until May 23, 2016. The City will be responsible for reimbursing SAWD for the interest charges of said water space for the three-year time period beginning September 15, 2013 and ending September 15, 2016. The estimated payment is 30 annual payments of \$1,036. The City will also be responsible for the annual charges for the use of the water supply storage space estimated payment is 30 annual payments of \$12,780. Said sums shall be paid by the City to SAWD in annual payments beginning January 15, 2017 and ending January 15, 2046. The water supply contract charges totaled \$13,816 for the year ended December 31, 2020.

**Note 8 - Retirement Pension Plan**

*Plan Description:* On February 10, 1998, the City of Ashdown passed Resolution 1-97 electing to participate in Arkansas Public Employees Retirement System (APERS). APERS is a cost sharing, multiple employers defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957 to provide retirement benefits for eligible employees and elected officials of state and local government entities in Arkansas. The City participated in the non-contributory retirement plan where only employers contribute. Act 2084, enacted by the 2005 General Assembly, directed APERS to establish a new contributory retirement provision that became effective July 1, 2005. All covered employees first hired on or after July 1, 2005, contribute 5% of their salary to the plan. Employees hired before June 30, 2005, who were in the non-contributory system, were given the option to join the new contributory system by December 31, 2005. Non-contributory members who did not join the new contributory program remain non-contributory members.

*Pension Plan Fiduciary Net Position:* The actuarial accrued liability at June 30, 2020, for the APERS, as a whole was \$11,633 million. The APERS actuarial value of assets was \$8,769 million leaving unfunded actuarial accrued liability of \$2,864 million. The actuarial accrued liability at June 30, 2019, for the APERS, as a whole was \$11,246 million. The APERS actuarial value of assets was \$8,833 million leaving unfunded actuarial accrued liability of \$2,413 million. APERS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the APERS, One Union National Plaza, Suite 400, 124 West Capitol, Little Rock, Arkansas 72201-1070.

*Benefits Provided:* Generally, municipal employees who are hired to work more than 90 consecutive calendar days in a fiscal year and who work at least 80 hours per month must be enrolled and reported to APERS. Members are eligible for full benefits (a) after either 65 with 5 years of service or (b) 28 years of actual service, regardless of age. The normal retirement benefit amount, paid on a monthly basis, is determined by the member's final average salary and the number of years of service. A member may retire with a reduced benefit after age 55 with 5 years of service; or any age with 25 years of actual service, but less than 28 years of actual service. APERS also provide disability and survivor benefits.

*Contributions:* Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees and shall be based on the actuary's determination of the rate required to fund the Plan. The employees were enrolled as non-contributory members prior to June 30, 2005. For the valuation date June 30, 2019, the actuary used the entry age normal actuarial cost method and the level percentage of payroll, closed amortization method with a 25-year remaining amortization period. The asset valuation method used was the 4-year smooth market with 25% corridor. These were the actuarial assumptions: investment rate of return 7.15%; projected salary increases 3.25% to 9.85%; wage inflation rate 3.25%; price inflation 2.5% and post-retirement cost-of-living adjustment 3.0% annual compounded increase.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

For the valuation date June 30, 2020, the actuary used the entry age normal cost actuarial cost method and the level percent of payroll, closed amortization method with a 25-year closed remaining amortization period. The asset valuation method used was the 4-year smooth market with 25% corridor. These were the actuarial assumptions: discount rate 7.50%; investment rate of return 7.50%; projected salary increases 3.25% to 9.85%; wage inflation rate 3.25%; price inflation rate 2.50% and post retirement cost of living adjustment 3.00% annual compounded increase, mortality rate table RP-2000 Combined Healthy, projected to 2020 using projection scale BB, set forward two years for males and one year for females.

The municipalities contributed 15.32% of employees' earnings for the annual period beginning July 1, 2020 through June 30, 2021. The municipalities contributed 15.32% of employees' earnings for the annual period beginning July 1, 2019 through June 30, 2020. The contribution rate is set by the Legislature and is subject to change. All covered employees first hired on or after July 1, 2005, contributed 5% of their salary to the plan. Employees hired before June 30, 2005 remained non-contributory members. During the year ended December 31, 2020, the System contributed \$48,748, which represents 15.32% of covered employees' earnings totaling \$318,198. Covered employees first hired on or after July 1, 2005 contributed \$10,131, which represented 5% of their salary to the plan. During the year ended December 31, 2019, the System contributed \$49,496, which represents 15.32% of covered employees' earnings totaling \$323,081. Covered employees first hired on or after July 1, 2005 contributed \$9,120, which represented 5% of their salary to the plan.

**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 projected of cash flows used to determine this single discount rate assumed the plan member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between actually determined contribution rates and the member rate. Based on these assumptions, the pension's 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.

**Discount Rate Sensitivity Analysis.** Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following represents 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 the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.15%) in measuring the Net Pension Liability as of June 30, 2020.

	1% Decrease in Discount Rate (6.15%)	Current Discount Rate (7.15%)	1% Increase in Discount Rate (8.15%)
System's proportionate share of the net pension liability	725,545	476,369	270,742

**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-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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 for the 10-year period from 2020 to 2029 were based upon capital market assumptions provided by plan's investment consultant(s).

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

For each major class that is included in the pensions plan's current asset allocation as of June 30, 2020 are summarized in the following table:

<u>Asset Allocation</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	<u>100%</u>	
Total Real Rate of Return	4.71%	
Plus: Price Inflation - Actuary's Assumption	<u>2.50%</u>	
Net Expected Return	<u>7.21%</u>	

**Long-Term Municipal Bond Rate.** The long-term municipal bond rate used was 2.45%. Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's Index "20 Year Municipal GO AA Index" as of June 30, 2020. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At December 31, 2020, the System reported a pension liability of \$476,369 for its proportionate share of the APERS's net pension liability. The 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. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period July 1, 2019 thru June 30, 2020. Actual employer contributions totaled \$49,727 for the measurement period ended June 30, 2020.

At June 30, 2020, the System's employer's proportion of the collective net pension liability was 0.0166354%.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was no change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. The contribution rate for employers continued at 15.32% for the annual period beginning July 1, 2020 through June 30, 2021.

For the year ended December 31, 2020, the System recognized pension expense of \$72,640. The pension contributions paid to APERS subsequent to the measurement date of June 30, 2020 are reported as deferred charges of \$25,195.



**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

At December 31, 2020, the System reported its proportionate share of the APERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,324	\$ (315)
Changes in actuarial assumptions	5,969	(8,162)
Difference between projected and actual investment earnings	50,434	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	8,703	(13,623)
Contributions paid to APERS subsequent to the measurement date (to be calculated by employer)	25,195	-
Total	\$ 96,625	\$ (22,100)

In accordance with GASB Statement No. 68, the recognition period for outflows (inflows) of resources from the net difference between projected and actual earnings on the pension plan investments was 5 years. All other deferred outflows (inflows) of resources related to pensions were amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan. For fiscal year 2016, this was 4.4487 years; for fiscal year 2017, it was 4.3774 years; for fiscal year 2018, it was 4.1233 years; and for fiscal year 2019, it was 4.1431 years; and for fiscal year 2020, it was 4.0486 years.

**Note 9 - Risk Financing and Related Insurance Issues**

In the normal course of operations, the System is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The System attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**Note 10 - Contingent Liabilities**

The System periodically is subject to claims and lawsuits arising in the ordinary course of business. It is the opinion of management that there is currently no litigation pending or threatened against the System which could have a material adverse impact on the System's financial position.

**Note 11 - Credit Risk**

The System provides water and sewer services to the residents and commercial entities of the City of Ashdown, Arkansas, and is funded by user charges for these services. The System's ability to meet its obligations is dependent upon economic conditions in the surrounding area.

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**Note 12 – Net Position**

Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and adding back unspent proceeds or reserve funds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Note 13 – Transfers In (Out)**

The City of Ashdown, Arkansas issued Sales and Use Tax Refunding and Improvement Bonds, Series 2000 (the “2000 Bonds”) for the purchase of advance refunding the 1994 Bonds and financing the costs of police and firefighting improvements. The issuance of the bonds was approved by a majority of the voters of the City at a special election held November 9, 1999. In January 2000, the City issued \$2,005,000 of 2000 Bonds. The City of Ashdown, Arkansas issued Sales and Use Tax Refunding and Improvement Bonds, Series 2012 (the “2012 Bonds”) for the purpose of advance refunding the 2000 Bonds. The City issued \$1,020,000 of the 2012 Bonds. The 2012 Bonds were paid off during the year ended December 31, 2020.

Pursuant to the Act, the Commissioner of Revenues of the State performs all functions incidental to the administration, collection, enforcement, and operation of the tax. Tax receipts not needed to pay the principal, interest and trustee’s fees in connection with the 2012 Bonds and to maintain the debt service reserve in the required amount are released from the pledge in favor of the 2012 Bonds, and 2/3 of the balance is used to operate and maintain water and sewer facilities and 1/3 of the balance is used to operate and maintain police and firefighting facilities and apparatus.

All tax receipts collected, less certain charges payable and retainage due to the Commissioner for administrative services are remitted by the State Treasurer of the City Treasurer for deposit in a special fund of the City. The Water and Sewer System received \$641,052 in sales and use tax funds that could be used for water and sewer services for the year ended December 31, 2020. These taxes and use tax fund are reflected as a transfer from the City.

**Note 14– Subsequent Events**

On April 6, 2020, the Governor of the state of Arkansas declared Arkansas in a state of disaster as a result of the COVID-19 pandemic. The Governors of the surrounding states of Texas, Oklahoma and Louisiana have also declared their respective states in a state of disaster as a result of COVID -19 pandemic. In each subsequent month effective through May 30, 2021, declarations have been issued renewing the disaster declaration for the State of Arkansas. The pandemic will most probably have a significant effect on governmental and private entities. The extent of the effect cannot, at this time, be estimated or quantified.

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through August 19, 2021, which is the financial statements issuance date.

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND***

***REQUIRED SUPPLEMENTAL INFORMATION***

**ASHDOWN WATER AND SEWER ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)**  
**SCHEDULE OF SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

Plan Year End	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
System's Portion of the Net Pension Liability (Asset)	0.016315%	0.017074%	0.017610%	0.016782%	0.015925%	0.016459%	0.016635%
System's Proportionate Share of the Net Pension Liability (Asset)	\$231,496	\$314,463	\$421,110	\$433,682	\$351,289	\$397,071	\$476,369
System's Covered Employee Payroll	\$286,956	\$306,999	\$306,634	\$299,862	\$298,286	\$314,962	\$324,586
System's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its System's Covered Employee Payroll	80.67%	102.43%	137.33%	144.63%	117.77%	126.07%	146.76%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of June 30 period covered as of the measurement date of June 30

Seven years of data is presented in accordance with GASB 68, Paragraph 138 " The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

*ASHDOWN WATER AND SEWER ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
REQUIRED SUPPLEMENTARY INFORMATION  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)  
SCHEDULE OF SYSTEM'S CONTRIBUTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2020*

Fiscal Year Ended	2014	2015	2016	2017	2018	2019	2020
Actuarially Determined Contribution	\$42,699	\$45,313	\$44,462	\$43,850	\$46,125	\$49,496	\$48,748
Contributions in relation to the actuarially determined contribution	\$42,699	\$45,313	\$44,462	\$43,850	\$46,125	\$49,496	\$48,748
Contribution deficiency (excess)	-	-	-	-	-	-	-
System's Covered employee payroll	\$286,956	\$306,999	\$306,634	\$299,862	\$306,667	\$323,081	\$318,198
Contributions as a percentage of covered employee payroll	14.88%	14.76%	14.50%	14.62%	15.04%	15.32%	15.32%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of June 30.

Seven years of data is presented in accordance with GASB 68, Paragraph 138 " The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

*ASHDOWN WATER AND SEWER ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)  
FOR THE YEAR ENDED DECEMBER 31, 2020*

**Valuation Date:**  
 June 30, 2018 (excluding District Judges)  
 June 30, 2019 (District Judges)

**Notes**  
 Actuarially determined contribution rates are calculated as of June 30 and become effective July 1 - 13 months later

**Methods and assumptions Used to Determine Fiscal Year 2020 Contribution Rates:**

<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Amortization Method</b>	Level Percentage of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
<b>Remaining Amortization Period</b>	26 years (7.6 years for District Judges New Plan / Paid Off Old Plan and 16 years for District Judge Still Paying Old Plan)
<b>Asset Valuation Method</b>	4 year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
<b>Inflation</b>	3.25% wage inflation and 2.5% price inflation
<b>Salary Increases</b>	3.25% to 9.85% including inflation (3.25% to 6.96% including inflation for District Judges)
<b>Investment Rate of Return</b>	7.15%
<b>Retirement Age Mortality</b>	Experienced-based table of rates that are specific to the eligibility condition Based on the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND***

***REPORTS ON COMPLIANCE AND INTERNAL CONTROL***



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Ashdown, Arkansas  
Water and Sewer System Enterprise Fund  
Ashdown, Arkansas

Members of the Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City of Ashdown, Arkansas Water and Sewer System Enterprise Fund (the System) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated August 19, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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. We did not identify any significant deficiencies.

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 consider 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 System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wilf & Henderson, P.C.*

**WILF & HENDERSON, P.C.**  
**Certified Public Accountants**  
**Texarkana, Texas**

**August 19, 2021**

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**I. Summary of the Auditor's Results:**

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Ashdown Water Sewer System Enterprise Fund were prepared in accordance with GAAP.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the Ashdown Water Sewer System Enterprise Fund were disclosed during the audit.

**II. Findings – Financial Statement Audit.**

No findings reported.

**ASHDOWN WATER AND SEWER ENTERPRISE FUND  
CITY OF ASHDOWN, ARKANSAS  
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

No prior year audit findings.

***ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND***

***MISCELLANEOUS INFORMATION***

**ASHDOWN WATER AND SEWER SYSTEM ENTERPRISE FUND**  
**CITY OF ASHDOWN, ARKANSAS**  
*Miscellaneous Information Required by Loan Agreement with ANRC*  
*For the Year Ended December 31, 2020*

UNAUDITED

Current System Water Rates:

	2,000 Gallons	\$10.25	(minimum)
Next	2,001 - 4,000 Gallons	\$1.85	per 1,000 gallons
Next	4,001 - 9,000 Gallons	\$1.75	per 1,000 gallons
Next	9,001 - 20,000 Gallons	\$1.65	per 1,000 gallons
All over	20,001 Gallons	\$1.50	per 1,000 gallons

Current System Sewer Rates:

First	2,000 Gallons	\$12.75	(minimum)
Each additional	1,000 Gallons	\$1.80	per 1,000 gallons

Number of Water Users at December 31, 2020	1,808
Number of Sewer Users at December 31, 2020	1,740
Annual billable gallons of water for 2020	124,846,100
Annual billable gallons of sewer for 2020	127,510,300

Ashdown Water and Sewer System maintains insurance coverage as follows:

System has property coverage through Arkansas Municipal League Municipal Property Program

System has vehicle coverage through Arkansas Municipal League Municipal Vehicle Program

System has workmen's compensation through Arkansas Municipal League Workmen's Compensation Program