

THE CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the City of Barling, Arkansas Water and Sewer System, which comprise the Combined Statements of Net Position as of December 31, 2018 and 2017, and the related Combined Statements of Revenues and Expenses and Changes in Fund Net Position, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Barling, Arkansas Water and Sewer System, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Barling, Arkansas Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Barling, Arkansas as of December 31, 2018 and 2017, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Gammill, Boyd & Anderson, P.A.

Fort Smith, Arkansas
January 6, 2020

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Net Position
 December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
<u>Current Assets</u>		
Cash in bank	\$ 691,365	\$ 548,487
Certificate of deposit	310,708	407,036
Accounts receivable – customers	140,795	140,770
Interest receivable	-0-	36
Parts and supplies inventories	<u>43,362</u>	<u>40,516</u>
Total Current Assets	<u>1,186,230</u>	<u>1,136,845</u>
<u>Restricted Funds</u>		
Cash in bank	297,944	246,443
Certificate of deposit	99,575	-0-
Interest receivable	<u>-0-</u>	<u>22</u>
Total Restricted Funds	<u>397,519</u>	<u>246,465</u>
<u>Capital Assets</u>		
Land	127,000	127,000
Water plant in service	3,907,470	3,627,171
Sewage collection system	13,401,430	13,370,430
Maintenance equipment	225,129	317,432
Office equipment	12,774	12,774
Trucks	53,942	53,942
Capitalized costs	<u>112,374</u>	<u>112,374</u>
	17,840,119	17,621,123
Less: Accumulated depreciation	(6,584,973)	(6,205,673)
Net Capital Assets	<u>11,255,146</u>	<u>11,415,450</u>
<u>Other Assets</u>		
Construction in progress	25,101	54,254
Contribution to General Fund	<u>35,801</u>	<u>35,801</u>
Total Other Assets	<u>60,902</u>	<u>90,055</u>
Total Assets	<u>12,899,797</u>	<u>12,888,815</u>
<u>Deferred Outflows of Resources</u>		
Unamortized bond discounts and refunding loss	<u>230,785</u>	<u>241,907</u>
Total Assets and Deferred Outflows of Resources	\$ <u>13,130,582</u>	\$ <u>13,130,722</u>

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Net Position (continued)
 December 31, 2018 and 2017

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
<u>Current Liabilities</u> (Payable from current assets)		
Accounts payable	\$ 75,603	\$ 75,187
Due to City of Barling	37,640	35,786
Payroll taxes payable	3,113	2,130
Sales tax payable	<u>8,525</u>	<u>8,111</u>
Total Current Liabilities (Payable from current assets)	<u>124,881</u>	<u>121,214</u>
<u>Current Liabilities</u> (Payable from restricted assets)		
Revenue bonds due within one year:		
2011 water and sewer revenue bonds	110,000	105,000
Note payable – meter project-current due	19,252	-0-
Accrued interest	11,172	11,375
Customer meter deposits	<u>115,315</u>	<u>98,464</u>
Total Current Liabilities (Payable from restricted assets)	<u>255,739</u>	<u>214,839</u>
<u>Long-term Debt</u>		
Revenue bonds	3,325,000	3,430,000
Note payable – meter project	90,101	-0-
Less: Current maturities	(129,252)	(105,000)
Total Long-term Debt	<u>3,285,849</u>	<u>3,325,000</u>
Total Liabilities	<u>3,666,469</u>	<u>3,661,053</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	7,865,146	8,039,704
Restricted	397,519	246,465
Unrestricted	<u>1,201,448</u>	<u>1,183,500</u>
Total Net Position	<u>9,464,113</u>	<u>9,469,669</u>
Total Liabilities and Net Position	\$ <u>13,130,582</u>	\$ <u>13,130,722</u>

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Revenues and
 Expenses and Changes in Fund Net Position
 For the Years Ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Water and Sewer Revenue</u>	\$ 1,501,155	\$ 1,523,789
Sewer Fees and Water Purchased	<u>475,638</u>	<u>476,669</u>
<u>Gross Profit</u>	1,025,517	1,047,120
<u>Operating Expenses</u>		
Maintenance - Scheduled	410,217	464,549
Administrative - Scheduled	<u>58,602</u>	<u>52,392</u>
Total Operating Expenses	<u>468,819</u>	<u>516,941</u>
<u>Operating Income Before Depreciation Expense</u>	556,698	530,179
Depreciation Expense	<u>429,847</u>	<u>430,333</u>
<u>Operating Income</u>	126,851	99,846
<u>Non-operating Revenues (Expenses)</u>		
Gain on sale of equipment	7,745	-0-
Interest income	7,236	3,060
Miscellaneous income	16,771	17,445
Interest and paying agent's fees	(141,902)	(142,941)
Amortization of bond discounts and fees	(11,122)	(11,122)
Transfer to street fund	<u>(11,135)</u>	<u>(11,026)</u>
Net Non-operating Revenues (Expenses)	<u>(132,407)</u>	<u>(144,584)</u>
<u>Decrease in Net Position</u>	(5,556)	(44,738)
<u>Beginning Net Position</u>	<u>9,469,669</u>	<u>9,514,407</u>
<u>Ending Net Position</u>	\$ <u>9,464,113</u>	\$ <u>9,469,669</u>

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Cash Flows
 For the Years Ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operations</u>		
Receipts from customers	\$ 1,517,981	\$ 1,517,249
Payments to suppliers	(709,409)	(696,604)
Payments to employees	(176,457)	(197,554)
Payments for other administration costs	(58,602)	(52,392)
Net Cash Provided by Operating Activities	<u>573,513</u>	<u>570,699</u>
<u>Cash Flows From Non-capital Financing Activities</u>		
Addition to certificates of deposit	(3,247)	(813)
Net Cash Used by Non-capital Financing Activities	(3,247)	(813)
<u>Cash Flows From Capital and Related Financing Activities</u>		
Proceeds from sale of equipment	49,500	-0-
Proceeds from note payable	99,450	-0-
Purchase of property, plant and equipment	(281,313)	(315,326)
Principal payment of notes and bonds payable	(114,349)	(105,000)
Interest paid on notes and bonds payable	(139,590)	(140,551)
Agent fees paid on bonds payable	(2,515)	(2,567)
Transfer to street fund and general fund	(11,135)	(11,026)
Net Cash Used by Capital and Related Financing Activities	(399,952)	(574,470)
<u>Cash Flows From Investing Activities</u>		
Interest received	7,294	3,039
Miscellaneous income	<u>16,771</u>	<u>17,445</u>
Net Cash Provided by Investing Activities	<u>24,065</u>	<u>20,484</u>
Increase in Cash	194,379	15,900
<u>Cash, at Beginning of Year</u>	<u>794,930</u>	<u>779,030</u>
<u>Cash, at End of Year</u>	\$ <u>989,309</u>	\$ <u>794,930</u>

Reconciliation of Cash to the Statement of Net Assets

Unrestricted cash	\$ 691,365	\$ 548,487
Restricted cash	<u>297,944</u>	<u>246,443</u>
	\$ <u>989,309</u>	\$ <u>794,930</u>

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
 Combined Statements of Cash Flows (continued)
 For the Years Ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Reconciliation of Operating Income to Net Cash</u> <u>Provided by Operating Activities</u>		
Operating income	\$ 126,851	\$ 99,846
Adjustment to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	429,847	430,333
Decrease (Increase) in receivables	(25)	(29,180)
Decrease (Increase) in inventory	(2,846)	9,733
Increase (Decrease) in accounts payable	(416)	33,292
Increase (Decrease) in due to City of Barling	1,854	2,232
Increase (Decrease) in payroll taxes payable	983	542
Increase (Decrease) in sales tax payable	414	1,261
Increase (Decrease) in customer meter deposits	<u>16,851</u>	<u>22,640</u>
Total Adjustments	<u>446,662</u>	<u>470,853</u>
Net Cash Provided by Operating Activities	\$ <u>573,513</u>	\$ <u>570,699</u>

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

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

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

USE OF ESTIMATES

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

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

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

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

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

BASIS OF ACCOUNTING

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

Revenues are recognized when earned and expenses are recognized when incurred. The System implemented *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements. Under GASB 34, the System qualifies as a special purpose government

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

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

engaged only in business type activities. Accordingly, only the financial statements required for enterprise funds are presented.

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

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

Transfers between funds have been eliminated in combining these funds.

REGULATORY ENVIRONMENT

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

DEPOSITORY ACCOUNTS

The City of Barling, Arkansas Water and Sewer System maintains depository accounts in excess of \$250,000 with two local banks. The FDIC insures up to \$250,000 for all time and savings accounts, all demand deposit accounts, and all funds deposited in bond and interest sinking funds. The banks have pledged securities which provide adequate collateral for these deposits. The amount of deposits over FDIC coverage as of December 31, 2018, amounted to \$1,147,391.

ACCOUNTS RECEIVABLE

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

INVENTORIES

Inventories were stated at average cost at December 31, 2018 and 2017.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

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

CAPITAL ASSETS

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

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

Additions and deletions to the major groups of capital assets are as follows:

	Balance <u>12-31-17</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-18</u>
Land	\$ 127,000	\$ -0-	\$ -0-	\$ 127,000
Water plant in service	3,627,171	280,299	-0-	3,907,470
Sewer collection system	13,370,430	31,000	-0-	13,401,430
Maintenance equipment	317,432	-0-	(92,303)	225,129
Office equipment	12,774	-0-	-0-	12,774
Trucks	53,942	-0-	-0-	53,942
Capitalized costs	<u>112,374</u>	<u>-0-</u>	<u>-0-</u>	<u>112,374</u>
Total	\$ <u>17,621,123</u>	\$ <u>311,299</u>	\$ (<u>92,303</u>)	\$ <u>17,840,119</u>

Depreciation expense for 2018 and 2017 was \$429,847 and \$430,333, respectively.

AMORTIZATION OF BOND DISCOUNTS AND FEES

Bond discounts and refunding losses are amortized over the life of the bonds on the straight-line method. Amortization expense for 2018 and 2017 was \$11,122 and \$11,122. At December 31, 2018, unamortized bond discounts and refunding losses consisted of the following:

2011 Revenue and Refunding Bonds	\$230,785
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INCOME TAX

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

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

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

CASH FLOWS

For the purpose of the Statements of Cash Flows, the System considers cash equivalents to be all highly liquid securities with an original maturity of three months or less. At December 31, 2018 and 2017, the System had no cash equivalents.

NONOPERATING REVENUE

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

NOTE 2 - RESTRICTED FUNDS

WATER AND SEWER SYSTEM REVENUE FUND

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

2011 WATER AND SEWER REFUNDING REVENUE BONDS

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

DEPOSITS FUND

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

2011 DEPRECIATION FUND

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

WATER AND SEWER REVENUE NOTE FUND

The Water and Sewer Revenue Note Fund is a restricted fund used to service a note obtained to fund part of the 2018 meter upgrade project.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 2 - RESTRICTED FUNDS (continued)

COMPLIANCE WITH COVENANTS OF BOND ORDINANCES

The above restricted funds were created by various ordinances of the City. At December 31, 2018 and 2017, the City of Barling, Arkansas Water and Sewer System was in substantial compliance with all covenants of the bond ordinances.

NOTE 3 - LONG-TERM DEBT

Long-term notes and bonds payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2018:

	<u>Interest Rate</u>	<u>Balance 2018</u>
City of Barling, Arkansas 2011 Water and Sewer Refunding Revenue Bonds with principal payment due each December 1 in amounts ranging from \$105,000 to \$235,000. Interest is payable each June 1 and December 1. These bonds mature serially through 2039.	2.00%-4.60%	\$ 3,325,000
Commercial loan from local bank to partially fund short term capital project. Monthly payments of \$1,757. Matures June 20, 2020.	2.25%	90,101
		\$ 3,415,101
Less: Current Maturities		(129,252)
		\$ 3,285,849

The repayment schedule for the log-term note and revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 129,252	\$ 137,760
2020	180,849	133,884
2021	115,000	129,825
2022	115,000	126,260
2023	120,000	122,465
2024-2028	675,000	542,995
2029-2033	820,000	397,952
2034-2038	1,025,000	198,910
2039	235,000	10,810

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 3 - LONG-TERM DEBT (continued)

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

	<u>Balance at</u> <u>01/01/2018</u>	<u>Loan</u> <u>Advances</u>	<u>Loan</u> <u>Repayments</u>	<u>Balance at</u> <u>12/31/2018</u>
City of Barling, Arkansas, Series 2011 Water and Sewer Refunding Revenue Bonds	\$ 3,430,000	\$ -0-	\$ 105,000	\$ 3,325,000
Commercial loan	-0-	99,450	9,349	90,101
	\$ <u>3,430,000</u>	\$ <u>99,450</u>	\$ <u>114,349</u>	\$ <u>3,415,101</u>

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

NOTE 4 - RESTRICTION OF NET ASSETS

Net position of the System are classified in three components. Net position invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase of construction of those assets. Restricted net position are noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the System, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

The following details the description and amount of all restrictions on net position by the Water and Sewer System at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
a. Restricted for repayment of debt	\$ 249,218	\$ 145,958
b. Restricted for system repairs	68,412	41,571
c. Restricted for customer meter deposits	<u>79,889</u>	<u>58,936</u>
Total Restricted Net Assets	\$ <u>397,519</u>	\$ <u>246,465</u>

NOTE 5 - WATER AND SEWER COMMITMENTS

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

The City of Barling has outstanding construction commitments at the end of 2018 in the amount of \$-0- for capital improvement projects.

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6 - CAPITALIZED COSTS

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

NOTE 7 - RETIREMENT PLAN

Eligible employees of the System may elect to participate in the Section 457 Deferred Compensation Plan maintained by the City. Participating employees may defer up to \$7,500 of wages. The City matches up to 3% of participating employees' wages. For 2018 and 2017, the System's matching expense was \$3,773 and \$3,668, respectively. Employee deferrals made for 2018 and 2017 were \$6,490 and \$6,645, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

As various employees of the City perform duties that benefit funds other than the fund from which they are paid, reimbursements are paid from fund to fund to more closely match expenses. For 2018 and 2017, the Water and Sewer System paid other funds \$48,747 and \$48,115, respectively, to reimburse them for work that employees of those funds performed that benefitted the Water and Sewer System. This amount is included under maintenance expense in salaries and payroll transfers.

NOTE 9 - CONTINGENCIES AND SUBSEQUENT EVENTS

Subsequent events were evaluated through January 6, 2020 - the date the financial statements were available for issuance.

The System is cooperating with the Arkansas Department of Environmental Quality regarding excess chlorine in the effluent from the City's water and treatment lagoons. Testing has determined that the source of the excess chlorine is coming from the Fort Smith side of the line. During 2019 the System agreed to settle this matter for a fine of \$2,200.

The City of Fort Smith filed a lawsuit on November 13, 2019 alleging that the System failed to meet provisions of a take or pay provision under a 2002 agreement between the parties. The System has answered the suit denying the claim and has asserted certain affirmative defenses. The matter is in discovery phase and the likelihood of an unfavorable outcome cannot be determined at this time.

SUPPLEMENTAL INFORMATION

CITY OF BARLING, ARKANSAS
WATER AND SEWER SYSTEM

Supplemental Information

Schedules of Maintenance and Administrative Expenses
For the Years Ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Maintenance Expenses</u>		
Salaries and payroll transfers	\$ 176,457	\$ 197,554
Payroll taxes and retirement	12,689	14,308
Repairs and maintenance	88,186	107,402
Vehicle expense	4,766	5,396
Utilities and telephone	25,040	25,396
Miscellaneous	1,528	7,303
Insurance	30,045	33,495
Materials and supplies	27,672	41,315
Water sampling and testing	37,634	21,780
Licenses and permits	<u>6,200</u>	<u>10,600</u>
Total Maintenance Expenses	\$ <u>410,217</u>	\$ <u>464,549</u>
<u>Administrative Expenses</u>		
Office supplies	\$ 11,938	\$ 10,267
Professional fees	18,735	10,448
Postage	7,463	7,965
Insurance	<u>20,466</u>	<u>23,712</u>
Total Administrative Expenses	\$ <u>58,602</u>	\$ <u>52,392</u>

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