

EARLE WATER AND SEWER WORKS
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

MEYER & WARD, P.A.
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Earle Water and Sewer Works
Earle, AR 72331

We have audited the accompanying financial statements of the business-type activities of Earle Water and Sewer Works as of and for the years ended December 31, 2019, and 2018, and the related notes to the financial statements, which collectively comprise the Earle Water and Sewer Works' 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 audits. We conducted our audits 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 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Earle Water and Sewer Works, as of December 31, 2019, and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–6 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note A, the accompanying financial statements of the Earle Water and Sewer Works are intended to present the financial position, and the changes in financial position and the cash flows of the City that is attributable to the transactions of the Earle Water and Sewer Works. They do not purport to and do not, present fairly the financial position of the City of Earle, Arkansas, as of December 31, 2019, and 2018, 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Earle Water and Sewer Works' basic financial statements. The schedule of water and sewer rates on page 17 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of water and sewer rates is the responsibility of management and was derived from and relates 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of water and sewer rates is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2020, on our consideration of the Earle Water and Sewer Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Earle Water and Sewer Works' internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, AR 72396

June 1, 2020

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Within this section of the Earle Water and Sewer Works' financial report, (the Entity) the Entity's management provides narrative discussion and analysis of the financial activities of the Entity for the years ended December 31, 2019 and 2018. The Entity's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Entity as a whole and present a longer term view of the Entity's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Earle Water and Sewer Works as a whole

Our analysis of the Entity as a whole follows in the next section. The Entity operates as a business-type activity providing water utilities to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Entity's finances is: "Is the Entity as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Entity as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Entity's net position and the changes which have occurred in the year. You can think of the Entity's net position (the difference between its assets and liabilities) as one way to measure the Entity's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and system, to assess the overall health of the Entity

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Financial Highlights:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Net Position	\$ 3,063,754	\$ 3,111,435	\$ 3,133,881
Increase (Decrease) in Net Position	<u>31,316</u>	<u>(47,681)</u>	<u>(22,446)</u>
Ending Net Position	<u>\$ 3,095,070</u>	<u>\$ 3,063,754</u>	<u>\$ 3,111,435</u>

Assets, liabilities, and net position for 2019, 2018, and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 122,872	\$ 104,292	\$ 116,324
Restricted Assets	755,775	693,206	653,972
Capital Assets	<u>3,245,185</u>	<u>3,367,549</u>	<u>3,490,498</u>
Total Assets	<u>4,123,832</u>	<u>4,165,047</u>	<u>4,260,794</u>
Current Liabilities	\$ 144,116	\$ 166,673	\$ 164,641
Long-term Liabilities	<u>884,646</u>	<u>934,620</u>	<u>984,718</u>
Total Liabilities	<u>1,028,762</u>	<u>1,101,293</u>	<u>1,149,359</u>
Net Position			
Unrestricted	295,022	252,128	257,034
Restricted for Debt Service	481,666	428,790	396,944
Net Investments in Capital Assets	<u>2,318,382</u>	<u>2,382,836</u>	<u>2,457,457</u>
Total Net Position	<u>3,095,070</u>	<u>3,063,754</u>	<u>3,111,435</u>
Total Liabilities and Net Position	<u>\$4,123,832</u>	<u>\$4,165,047</u>	<u>\$4,260,794</u>

The following schedule presents a summary of revenues and expenditures for the year ended December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues	\$ 445,522	\$ 454,175	\$ 424,748
Operating Expenses	<u>375,215</u>	<u>458,551</u>	<u>402,620</u>
Operating Income (Loss)	70,307	(4,376)	22,128
Other Income (Expense)	<u>(38,991)</u>	<u>(43,305)</u>	<u>(44,574)</u>
Change in Net Position	<u>31,316</u>	<u>(47,681)</u>	<u>(22,446)</u>

EARLE WATER AND SEWER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end December 31, 2019, the Entity had \$ 3,245,185 invested in capital assets. This represents a net decrease of \$ 122,363, which is the result of depreciation expense recognized of \$ 122,363.

Debt

At year end, the Entity had \$926,803 in outstanding debt. This represents a decrease of \$57,910 which is the result of principal payments made during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Entity has no plans for any major changes for the upcoming year.

CONTACTING THE ENTITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact George Stein, 870-792-8777.

EARLE WATER AND SEWER WORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current Assets		
Cash on Hand and in Banks	\$ 21,786	\$ 15,814
Certificates of Deposit	15,785	15,738
Accounts Receivable	85,301	70,702
Inventory	-	2,038
Total Current Assets	122,872	104,292
Restricted Assets		
Cash in Banks, including Certificates of Deposit	755,775	693,206
Total Restricted Assets	755,775	693,206
Property, Plant and Equipment		
Water Plant	4,000,164	4,000,164
Water Line Improvements	28,521	28,521
Sewage Plant	1,366,317	1,366,317
Equipment	274,139	274,139
	5,669,141	5,669,141
Less Accumulated Depreciation	(2,423,956)	(2,301,592)
Net property, Plant and Equipment	3,245,185	3,367,549
Total Assets	\$4,123,832	\$ 4,165,047

The accompanying notes are an integral part of the financial statements.

EARLE WATER AND SEWER WORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	<u>2019</u>	<u>2018</u>
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 42,157	\$ 50,093
Accounts Payable	44,065	57,363
Accrued Interest Payable	9,982	10,685
Accrued and withheld payroll taxes	2,671	2,054
Total Current Liabilities	<u>98,875</u>	<u>120,195</u>
Liabilities Payable from Restricted Assets:		
Customer Meter Deposits	45,241	46,478
Total Liabilities Payable from Restricted Assets	<u>45,241</u>	<u>46,478</u>
Long-term debt, net of current portion	<u>884,646</u>	<u>934,620</u>
Total Liabilities	<u>1,028,762</u>	<u>1,101,293</u>
Net Position:		
Invested in capital assets, net	2,318,382	2,382,836
Restricted for debt service	481,666	428,790
Unrestricted	295,022	252,128
Total Net Position	<u>3,095,070</u>	<u>3,063,754</u>
Total Liabilities and Net Position	<u>\$ 4,123,832</u>	<u>\$ 4,165,047</u>

The accompanying notes are an integral part of the financial statements.

EARLE WATER AND SEWER WORKS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
Operating Revenues:		
Water Fees	\$ 340,176	\$ 350,338
Sewage Fees	69,538	71,862
Penalty Charges and Other	35,808	31,975
Total Operating Revenues	445,522	454,175
Operating Expenses:		
Commisioner salaries	3,900	3,900
Contract labor	300	1,598
Depreciation	122,363	122,949
Insurance	30,688	34,480
Legal and Professional	4,000	4,000
Management and general	4,431	4,149
Maintenance and operating supplies	27,215	55,999
Office expense	7,512	5,525
Payroll tax	7,676	8,532
Permits and fees	3,504	3,539
Postage	3,098	3,539
Repairs	14,438	64,486
Salaries	105,987	116,193
Telephone	3,854	3,943
Uniform	750	1,500
Utilities	35,499	24,219
Total Operating Expenses	375,215	458,551
OPERATING INCOME (LOSS)	70,307	(4,376)
Non-operating Revenues (Expenses)		
Interest Income	1,366	996
Interest Expense	(40,357)	(44,301)
Total Non-operating Revenues (Expenses)	(38,991)	(43,305)
Change in Net Position	31,316	(47,681)
Beginning Net Postion	3,063,754	3,111,435
Ending Net Position	\$ 3,095,070	\$ 3,063,754

The accompanying notes are an integral part of the financial statements.

EARLE WATER AND SEWER WORKS
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 429,686	\$ 457,374
Payments to Suppliers	(157,508)	(218,518)
Payments to Employees	(105,987)	(116,193)
Net Cash Provided by (Used in) Operating Activities	166,191	122,663
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Capital Debt	(57,910)	(48,326)
Interest Paid on Capital Debt	(41,060)	(43,694)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(98,970)	(92,020)
Cash Flows from Investing Activities:		
Interest Income	1,366	996
Transfers (to) from certificates of deposit	(46)	(58)
Transfers (to) from Restricted Accounts	(62,569)	(39,234)
Net Cash Provided by (Used in) Investing Activities	(61,249)	(38,296)
Increase (Decrease) in Cash and Cash Equivalents	5,972	(7,653)
Cash and Cash Equivalents, Beginning of Year	15,814	23,467
Cash and Cash Equivalents, End of Year	\$ 21,786	\$ 15,814
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 70,307	\$ (4,376)
Depreciation and Amortization	122,363	122,949
(Increase) Decrease in Accounts Receivable	(14,599)	4,534
(Increase) Decrease in inventory	2,038	(97)
Increase (Decrease) in Accounts Payable	(13,298)	1,090
Increase (Decrease) in accrued payroll taxes	617	(102)
Increase (Decrease) in customer deposits	(1,237)	(1,335)
Net Cash Provided by Operating Activities	\$ 166,191	\$ 122,663

The accompanying notes are an integral part of the financial statements.

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY – Earle Water and Sewer Works is a department of the City of Earle, Arkansas. Its purpose is to provide water and sewer services to the citizens of Earle, Arkansas. This report does not include all funds, account groups, and programs controlled by the City of Earle’s governing body. Other activities are included in a government wide audit performed by the Arkansas Division of Legislative Audit.

Basis of Presentation – The Entity accounts for its activities as a proprietary fund, and has elected to apply all Governmental Auditing Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements unless those FASB pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. GASB is the accepted standard for establishing governmental accounting, and financial reporting principles.

BASIS OF ACCOUNTING – The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounts Receivable - Accounts receivable are presented at estimated net realizable value. The specific charge-off method is used to record bad debt expense. No material difference results from use of the specific charge off method instead of allowance method as required by generally accepted accounting principles. Accounts receivable results from water and sewer services provided to consumers in Earle, Arkansas. Accounts receivable are collateralized by customer deposits.

Property, Plant and Equipment – Property and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 7 - 10 years for office furniture and equipment, to 50 years for the water system.

Cash and Cash Equivalents – The Earle Water and Sewer Works considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

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

Credit Risk – Financial instruments which subject the Entity to concentration of credit risk consist principally of temporary cash investments. The entity places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit risk exposure. The Entity’s policy is to limit such investments to amounts covered by FDIC coverage and securities pledged to collateralize deposits.

Arkansas Sales Tax – Sales are subject to Arkansas State Sales Tax. Revenues are reported net of sales taxes paid.

Advertising – Advertising costs are expensed when incurred.

EARLE WATER AND SEWER WORKS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Net Position – Net position is divided into three components:

- Invested in capital assets, net consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted for debt service – amounts that are restricted by Entity creditor's (for example, debt covenants) by law and regulations of other governments.
- Unrestricted – all other entity assets are reported in this category.

Operating Revenues and Expenses – Operating revenues and expenses of the Entity consist of charges for services, and the costs of providing those services, excluding interest costs.

NOTE B – ACCUMULATED DEPRECIATION:

The following is a summary of accumulated depreciation by class of assets:

	<u>2019</u>	<u>2018</u>
Water Plant	\$ 1,337,041	\$ 1,254,579
Equipment	256,814	245,416
Sewage Plant	830,101	801,597
	<u>\$ 2,423,956</u>	<u>\$ 2,301,592</u>

NOTE C – RESTRICTED ASSETS:

Restricted funds at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Customer's Deposit Revenue	\$ 39,486	\$ 40,048
Arkansas National Resource Loan Reserves:		
Debt Service	151,972	128,770
Depreciation Reserve	123,341	113,690
Construction - Water Tower	111,282	110,678
Debt Service - Water Tower	26,379	22,099
Debt Service - Water Tower	288,825	264,876
Debt Service - Water Tower	14,490	13,045
	<u>\$ 755,775</u>	<u>\$ 693,206</u>

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE C – RESTRICTED ASSETS: (CONT'D)

Restricted cash includes certificates of deposit of \$144,256 at December 31, 2019 and \$143,456 at December 31, 2018.

The customers deposit reserve is established to cover the Earle Water and Sewer Works' liability for customer deposits, of \$ 45,241 at December 31, 2019, and \$ 46,478 for December 31, 2018.

The reserve for repayment of Arkansas Natural Recourse Commission Loans was established by the management of Earle Water and Sewer Works for future loan repayments.

The Earle Water and Sewer Works loan agreements with the Arkansas Natural Resource Commission (See Note D) require that separate reserve for depreciation, debt service, and construction be established. The reserve accounts have been established and deposits were made as required.

NOTE D- LONG-TERM DEBT

Notes Payable at December 31, 2019 and 2018 consists of the following:

	2019	2018
4.89% Note payable to Ally Finance, due in monthly installments of \$ 387 through September, 2021 secured by equipment	\$ -	\$ 11,604
Arkansas Natural Resource Commission Loans:		
5% Note Payable, due in annual installments of \$6,100 through 2019	-	5,899
5% Note Payable, due in annual installments of \$12,472, beginning June 1, 2010 through 2029	96,304	103,596
4.15% Note Payable, due in semi-annual installments of \$25,679 through 2036	621,942	646,716
4.16% Note Payable, due in annual installments of \$17,370 through 2036	208,557	216,898
	926,803	984,713
Less Current Portion	(42,157)	(50,093)
	\$ 884,646	\$ 934,620

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE D- LONG-TERM DEBT- CONT'D)

A summary of Long-Term Debt Activity is as follows:

	Balance <u>12/31/2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2019</u>
Ally Finance	\$ 11,604	\$ -	\$ 11,604	\$ -
AR Natural Resource Commission	5,899		5,899	-
AR Natural Resource Commission	103,596		7,292	96,304
AR Natural Resource Commission	646,716		24,774	621,942
AR Natural Resource Commission	216,898		8,341	208,557
	<u>\$ 984,713</u>	<u>\$ -</u>	<u>\$ 57,910</u>	<u>\$ 926,803</u>

A summary of future payments required for notes payable is as follows:

	Principal	Interest	Total
For years ending December 31,			
2020	\$ 42,157	\$ 39,015	\$ 81,172
2021	43,981	37,191	81,172
2022	45,887	35,285	81,172
2023	47,876	33,296	81,172
2024	49,949	31,223	81,172
For 5 year periods ending December 31,			
2029	284,173	121,685	405,858
2034	282,509	60,991	343,500
2039	130,271	7,164	137,435
	<u>\$ 926,803</u>	<u>\$ 365,850</u>	<u>\$ 1,292,653</u>

NOTE E – Concentration of Credit Risk

The Entity's policy is for deposits to be secured by collateral valued at market, or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance coverage. The entity's deposits are categorized to give an indication of the level of risk assumed by the entity at December 31, 2019. The categories are described as follows:

Category 1 – Insured or collateralized by securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institutions trust department or by its agent in the entity's name.

Category 3 – Uncollateralized

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE E – Concentration of Credit Risk – (CONT'D)

At December 31, 2019, Cash and certificates of deposit categorized by level of risk are:

Carrying Amount	Category		
	1	2	3
\$ 793,346	\$ 266,861	\$ 526,485	\$ -

NOTE F – Inventory

Inventories consist of repair parts and supplies and are stated at cost based on the first-in, first-out method.

NOTE G – Number of Customers

Active customers at year-end December 31, 2019 and 2018 are as follows:

	2019	2018
Water	658	688
Sewer	600	629

NOTE H – Related Parties

Earle Water and Sewer Works collects payments for garbage collection and mosquito spraying for the City of Earle. Accounts payable includes Accounts payable to the City of Earle of \$34,588 at December 31, 2019 and \$49,520 at December 31, 2018.

NOTE I – Property, Plant and Equipment

A summary of property, plant and equipment activity is as follows:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
Water Plant	\$ 4,000,164	\$ -	\$ -	\$ 4,000,164
Sewer Plant	1,366,317			1,366,317
Water Line Improvement	28,521			28,521
Equipment	274,139			274,139
	<u>\$ 5,669,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,669,141</u>

EARLE WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE J – Subsequent Events

Management has evaluated subsequent events through the date of this report. No events were noted which would require disclosure.

EARLE WATER AND SEWER WORKS
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2019

2019 Minimum Water Rates

	Minimum Water	Minimum Sewer
Residential	25.90	13.50
Commercial	26.90	13.50
2" Meter	52.05	13.50
Commercial 1"	36.90	13.50
Commercial 3"	66.90	13.50
Residential 2 Sewer	25.90	22.75
Residential 4 Sewer	25.90	41.25

EARLE WATER AND SEWER WORKS
BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2019

	ACTUAL	BUDGET	OVER (UNDER)
OPERATING REVENUE:			
Water fees	\$ 340,176	\$ 654,500	\$ (314,324)
Sewage Fees	69,538	-	69,538
Penalty charges and other income	35,808	10,150	25,658
Total Operating Revenue	<u>445,522</u>	<u>664,650</u>	<u>(219,128)</u>
OPERATING EXPENSES			
Commissioners Salaries	3,900	3,900	-
Contract Labor	300	875	(575)
Depreciation	122,363		122,363
Dues and Subscriptions	-	900	(900)
Insurance	30,688	36,325	(5,637)
Garbage and Mosquito fees		204,395	(204,395)
Legal and Professional	4,000		4,000
Management and general	4,431	11,425	(6,994)
Maintenance and operating supplies	27,215	36,250	(9,035)
Note Payments	-	136,500	(136,500)
Office expense	7,512	5,050	2,462
Payroll tax	7,676	10,485	(2,809)
Permits and fees	3,504	3,250	254
Postage	3,098	3,075	23
Repairs	14,438	-	14,438
Salaries	105,987	133,390	(27,403)
Street Repairs	-	35,825	(35,825)
Telephone	3,854	5,760	(1,906)
Truck Fuel	-	4,200	(4,200)
Uniform	750	2,425	(1,675)
Utilities	35,499	27,175	8,324
Total Operating Expenses	<u>375,215</u>	<u>661,205</u>	<u>(285,990)</u>
Income from Operations	<u>70,307</u>	<u>3,445</u>	<u>66,862</u>
OTHER INCOME AND (EXPENSES)			
Interest Expense	(40,357)		(40,357)
Interest income	1,366	120	1,246
Net Other Income and (Expenses)	<u>(38,991)</u>	<u>120</u>	<u>(39,111)</u>
CHANGE IN NET POSITION	<u>\$ 31,316</u>	<u>\$ 3,565</u>	<u>\$ 27,751</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Members of the Board of Commissioners
Earle Water and Sewer Works
Earle, Arkansas 72331

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Earle Water and Sewer Works as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements and have issued our report thereon dated June 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Earle Water and Sewer works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Earle Water and Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Works' 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 Water and Sewer Works' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies (#19-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Earle Water and Sewer Works' financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

Earle Water and Sewer Works' Response to Findings

Earle Water and Sewer Works' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Earle Water and Sewer Works' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Water and Sewer Works' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Sewer Works' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

June 1, 2020

EARLE WATER AND SEWER WORKS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019

Schedule of findings

19-01 Segregation of Duties

CONDITION: The Earle Water and Sewer Works' does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces Earle Water and Sewer Works internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Earle Water and Sewer Works management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

RESPONSE: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly by the Commissioners.