

Independent Auditor's Report and Financial Statements

EMERSON WATER AND SEWER SYSTEM

December 31, 2020

EMERSON WATER AND SEWER SYSTEM

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INDEPENDENT AUDITOR'S REPORT

PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER AMERICAN
INSTITUTE OF CPAS

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MEMBER ARKANSAS
SOCIETY OF CPAS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council Members
Emerson Water and Sewer System
Emerson, Arkansas

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Emerson Water and Sewer System (the System), an Enterprise fund of the City of Emerson, Arkansas, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Emerson Water and Sewer System as of December 31, 2020, and the respective changes in the modified cash basis financial position and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

**Emerson Water and Sewer System
Independent Auditor's Report (Continued)**

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Emerson Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Emerson, Arkansas as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 on our consideration of the System'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 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 System's internal control over financial reporting and compliance.

Parks & Company PLC

El Dorado, Arkansas
October 26, 2021

FINANCIAL STATEMENTS

EMERSON WATER AND SEWER SYSTEM
Statement of Net Position – Modified Cash Basis
December 31, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

Cash and cash equivalents	\$ 62,979
Receivables from other governments	1,459
Total Current Assets	<u>64,438</u>

Restricted Assets

Cash and cash equivalents	221,203
Bond funds in escrow	21,681
Total Restricted Assets	<u>242,884</u>

Capital Assets

Non-depreciable	8,000
Depreciable	993,935
Less: Accumulated depreciation	<u>(653,359)</u>
Net Capital Assets	<u>348,576</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 655,898</u></u>
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities

Payroll taxes payable	\$ 2,493
Payables to other governments	1,594
Current portion of long-term debt	43,477
Total Current Liabilities	<u>47,564</u>

Non-Current Liabilities

Long-term debt, net of current portion	410,156
Total Non-Current Liabilities	<u>410,156</u>

Total Liabilities	<u>\$ 457,720</u>
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Net Position

Net investment in capital assets	\$ (105,057)
Restricted, expendable for capital projects	221,203
Unrestricted	<u>82,032</u>

TOTAL NET POSITION	<u>\$ 198,178</u>
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TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 655,898</u></u>
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The accompanying notes are an integral part of these financial statements.

EMERSON WATER AND SEWER SYSTEM
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
For the Year Ended December 31, 2020

Operating Revenues

Water sales	\$ 214,331
Wastewater sales	42,783
Other income	2,320
Total Operating Revenues	<u>259,434</u>

Operating Expenses

Payroll	107,082
Payroll taxes	10,976
Contract labor	13,331
Dues, fees, and subscriptions	7,439
Repairs and maintenance	25,792
Fuel and oil expense	5,559
Supplies	6,351
Insurance	3,999
Legal and accounting fees	15,574
Office expense	6,794
Travel	2,215
Utilities	30,452
Depreciation and amortization	27,058
Total Operating Expenses	<u>262,622</u>

Operating Income (Loss)	<u>(3,188)</u>
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Non-operating Revenues (Expenses)

Gain on sale of equipment	3,800
Interest income	295
Interest expense	(8,499)
Total Non-operating Revenues (Expenses)	<u>(4,404)</u>

Change in Net Position	(7,592)
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Net Position, Beginning of Year	<u>205,770</u>
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Net Position, End of Year	<u><u>\$ 198,178</u></u>
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The accompanying notes are an integral part of these financial statements.

EMERSON WATER AND SEWER SYSTEM
Statement of Cash Flows – Modified Cash Basis
For the Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	257,114
Other receipts	2,320
Cash paid for supplies and operating costs	(117,506)
Cash paid for employees and related costs	(116,421)
Net Cash Provided by (Used in) Operating Activities	<u>25,507</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Purchases of property, plant, and equipment	(31,880)
Proceeds from sale of property, plant, and equipment	3,800
Principal payments on long-term debt	(10,075)
Interest payments on long-term debt	(8,499)
Payments received on loans to other governments	13,805
Payments made on loans from other governments	(5,655)
Proceeds from issuance of long-term debt	257,336
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>218,832</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	295
Net Cash Provided by (Used in) Investing Activities	<u>295</u>

Net Increase in Cash and Cash Equivalents 244,634

Cash and Cash Equivalents, Beginning of Year 39,548

Cash and Cash Equivalents, End of Year \$ 284,182

Presented on Statement of Net Position as follows:

Current assets - Cash and cash equivalents	62,979
Restricted assets - Cash and cash equivalents	221,203
	<u><u>\$ 284,182</u></u>

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

EMERSON WATER AND SEWER SYSTEM
Statement of Cash Flows – Modified Cash Basis
For the Year Ended December 31, 2020

**Reconciliation of Operating Income (Loss) to Net Cash Provided by
Operating Activities**

Operating Income (Loss)	<u>\$ (3,188)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	27,058
Increase (decrease) in current liabilities:	
Increase (decrease) in payroll taxes payable	<u>1,637</u>
Total adjustments	<u>28,695</u>
Net cash provided by (used in) operating activities	<u><u>\$ 25,507</u></u>

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

NOTES TO FINANCIAL STATEMENTS

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Emerson Water and Sewer System (the "System") is an enterprise fund of the City of Emerson, Arkansas that operates under the Mayor-Council form of government. The System provides water and sewer services to customers in the City of Emerson.

The System does not have oversight responsibility for any other government unit and no other government entities are considered to be controlled by or dependent upon the System.

Measurement Focus and Basis of Accounting

The System operates as an Enterprise Fund of the city of Emerson, Arkansas. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the System.

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

Basis of Presentation

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

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

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available, the System's policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and time deposits with maturities of 3 months or less. For purposes of the presentation of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand.

Restricted Assets

The System has restricted assets for cost of replacements made necessary by depreciation and capital improvement projects. Restricted assets totaled \$221,203 as of December 31, 2020.

Inventories

Inventories are valued at cost, which approximates market value.

Capital Assets

Capital assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years are recorded at stated cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The System uses the following estimated useful lives:

Land improvements	10 – 40 years
Buildings	10 – 40 years
Equipment	5 – 40 years

Deferred Outflows / Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods. The recognition of the outflow or inflow of resources will occur in a future period.

Compensated Absences

System policies permit full-time employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense is recognized as vacation benefits are used. Vacation benefits are lost if not used by the end of the year. Sick leave benefits are recognized only when the time off occurs.

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

Long-term obligations are reported net of any applicable premiums, discounts, or origination fees. Premiums, discounts, and origination fees are deferred and amortized over the life of the bonds using the straight-line method. Debt issuance costs are reported as period costs when incurred.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenditures and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for debt service; restricted for capital activity; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, and improvement of those assets. Restricted for debt service and capital activity consist of assets for which constraints are placed thereon by the bond agreements. Unrestricted consists of all other net assets not included in the above categories.

Revenue Recognition

Revenues for water supply, treatment and distribution services are recognized in the period during which cash for services provided is received.

Income Taxes

The System as a whole is exempt from federal and state income taxes.

Subsequent Events

Management has evaluated subsequent events through October 26, 2021, which is the date the financial statements were available to be issued.

NOTE 2: CASH AND TIME DEPOSITS

The System's cash and time deposits consisted of demand deposit (checking) and savings accounts at a local financial institution. The carrying amount of the System's cash and time deposits as of December 31, 2020 was \$284,182. The corresponding aggregated bank balance for these accounts was \$286,548.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2020, the System held no debt securities.

Custodial Risk

Custodial risk is the risk that, in the event of failure of a depository institution, the System will not be able to recover deposits or collateral securities that are in the possession of an outside party. The standard FDIC insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2020, all system cash and time deposit accounts were insured by FDIC insurance or collateralized by bonds pledged by the custodial financial institution. As of December 31, 2020, \$34,359 was not insured under FDIC insurance or collateralized by pledged securities.

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 2: CASH AND TIME DEPOSITS (CONTINUED)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the System's investing activities are managed under the stewardship of the Emerson City Council. Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of the United States government (for which the full faith and credit of the United States government are pledged), (2) certificates of deposit at savings and loan associations or federally-insured banks when secured by acceptable collateral, (3) savings accounts at savings and loan associations and banks, to the extent fully insured, and (4) any bond, note or other indebtedness insured by the United States government or those agencies insured and guaranteed by the federal government.

The System can legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System had concentrations of credit risk of over 5% by issuer that are required to be disclosed as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total Deposits</u>
Peoples Bank	Cash and time deposits	\$ 286,548	100.00%

Interest Income

Interest income for 2020 was \$295 earned on various checking and savings accounts.

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 8,000	-	-	8,000
<i>Capital assets, being depreciated</i>				
Construction in progress	-	31,880	-	31,880
Equipment	816,095	-	-	816,095
Water system	23,564	-	-	23,564
Tanks and wells	143,896	-	(21,500)	122,396
<i>Total capital assets, being depreciated</i>	983,555	31,880	(21,500)	993,935
Less accumulated depreciation:	648,120	26,739	(21,500)	653,359
Capital assets, net	<u>\$ 343,435</u>			<u>\$ 348,576</u>

Depreciation expense for the year ended December 31, 2020, was \$26,739.

NOTE 4: LONG-TERM LIABILITIES

The System's long-term debt and notes payable includes the following:

2002I Series Bonds

The \$304,123 2002I Series Bonds are obligations of the System, payable from revenues of the water and wastewater System. The annual interest rate is 4.50%. Principal and interest payments are due annually on June 1 and December 1 with the final payment scheduled in 2033.

2020 Series Bonds

The 2020 Series Bonds are obligations of the System, payable from revenues of the water and wastewater System. The annual interest rate is 0%. Principal payments are due annually on April 15 and October 15 with the final payment scheduled in 2029. The sinking fund requirements shown below reflect the requirements once the full proceeds of the bonds are received. The original amount of the bond principal was \$344,700. Subsequent to the bond agreement, the System defunded \$65,683 which resulted in total funding of \$279,017. At December 31, 2020, the System had received \$257,336 from the bond proceeds. The System received the remaining \$21,681 in funding on June 1, 2021.

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 4: LONG-TERM LIABILITIES

Changes in long-term debt and notes payable for the year ended December 31, 2020 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
1997B Series Bonds / 2002I Series Bonds	\$ 191,354	\$ -	\$ (10,075)	\$ 181,279	\$ 10,534
2020 Series Bonds	-	279,017	-	279,017	32,943
Total Long-Term Debt	<u>191,354</u>	<u>279,017</u>	<u>(10,075)</u>	<u>460,296</u>	<u>43,477</u>
				Unamortized Origination Fee	(6,663)
				<u>\$ 453,633</u>	

Presented on the statement of net position under the following captions:

Current portion of long-term debt	\$ 43,477
Long-term debt, net of current portion	<u>410,156</u>
	<u>\$ 453,633</u>

The sinking fund requirements as of December 31, 2020 were as follows

2002I Series Bonds				2020 Series Bonds			
Year ending December 31,	Principal	Interest	Total	Year ending December 31,	Principal	Interest	Total
2021	\$ 10,534	8,040	18,574	2021	\$ 32,943	-	32,943
2022	11,013	7,561	18,574	2022	33,273	-	33,273
2023	11,514	7,060	18,574	2023	33,607	-	33,607
2024	12,038	6,536	18,574	2024	33,944	-	33,944
2025	12,586	5,988	18,574	2025	34,284	-	34,284
2026-2030	72,060	20,810	92,870	2026-2029	110,966	-	110,966
2031-2033	51,534	4,130	55,664		<u>\$ 279,017</u>	<u>\$ -</u>	<u>\$ 279,017</u>
	<u>\$ 181,279</u>	<u>\$ 60,125</u>	<u>\$ 241,404</u>				

All bonds are collateralized by a pledge of the System's revenues, the funds created under the indenture, and all monies and investments held therein. The bonds require annual sinking fund payments sufficient to redeem principal plus interest. The terms of the bond agreements impose certain restrictive covenants on the System. Generally, the System is required to establish and maintain rates to provide net revenues equal to the annual debt service requirements. Additionally, the System is required to maintain a revenue fund consisting of a revenue bond fund, operation and maintenance fund, and depreciation fund for each bond.

EMERSON WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 5: RESTRICTED NET POSITION

At December 31, 2020, the System held cash from proceeds of 2020 Series Bonds and in depreciation reserve funds, totaling \$221,203, which is included in restricted net assets for capital projects.

NOTE 6: INSURANCE

The City of Emerson utilizes the State of Arkansas Workers' Compensation Plan. This coverage is extended to employees of the System. Under this plan, the City is billed by the state for the City's claims, including any claims related to System employees.

Employees are covered under the state blanket bond coverage through Arkansas Fidelity Bond Trust. The bond provides \$250,000 Employee Bond Coverage with a \$1,000 deductible. This bond covers all City employees in cash handling positions including those at the System.

NOTE 7: RISK MANAGEMENT

The System is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption.

NOTE 8: RELATED PARTY TRANSACTIONS

The System has various receivables and payables to other governments consisting of the street department and general fund of Emerson, Arkansas. As of December 31, 2020, the System had \$1,459 receivable from the street fund and \$1,594 due to the general fund.

NOTE 9: UNCERTAINTIES AND CONTINGENCIES

The System's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the System's financial position, operations and cash flows. Possible effects may include, but are not limited to, disruption to the System's operations and revenue, absenteeism in the System's labor workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by the System.

Management of the System is carefully monitoring the situation and evaluating their options on an ongoing basis. No adjustments have been made to these financials statements as a result of this uncertainty.

NOTE 10: SUBSEQUENT EVENTS

The System received \$215,456 in proceeds from the 2020 Series Bonds in December 2020. The 2020 Series Bonds proceeds were included in restricted cash and restricted net position, expendable for capital projects as of December 31, 2020. The funds were disbursed in January 2021 for a water meter project. Costs for the water meter project were capitalized when funds were disbursed in 2021.

GOVERNMENT AUDITING STANDARDS REPORT

PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY
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MEMBER ARKANSAS
SOCIETY OF CPAS

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

The Honorable Mayor and City Council Members
City of Emerson, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Emerson Water and Sewer System (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 October 26, 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 opinions 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.

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. We identified deficiency 2020-001 in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness.

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.

Parks & Company PLC

October 26, 2021

**Emerson Water and Sewer System
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

Findings – Financial Statement Audits

2020-001 Segregation of duties

Condition: Emerson Water and Sewer System did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

Criteria: Internal controls should be in place to provide adequate segregation of duties with regard to financial accounting duties.

Cause: The System has limited financial resources which prevent it from fully segregating financial accounting duties

Effect: Without proper segregation of duties there is the potential for material misstatement of the financial statements or material misappropriation of assets due to error or fraud occurring and not being prevented or detected in a timely manner.

Recommendation: The System should evaluate its internal controls and segregate financial duties to the extent possible with current staffing levels and consider additional oversight where segregation of duties is not possible. The City Council or a designated committee should review the adjustments posted each month to customer accounts and document their review.

Views of Responsible Officials: The City Council acknowledges the lack of segregation of duties in the water and sewer department. It is the goal of the Council to implement the recommendations to the best of their ability and to serve as a mitigating control due to the small staff size.