

CITY OF PORTLAND WATER & SEWER DEPARTMENT
FINANCIAL STATEMENTS
December 31, 2019

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Portland Water & Sewer Department

We have audited the accompanying financial statements of the City of Portland Water and Sewer Department, "the Organization", a component unit of the City of Portland, Arkansas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General to the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Organization'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 Department'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 respective financial position of the Organization as of December 31, 2019, and its changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements present only the Organization and do not purport to, and do not, present fairly the financial position of the City of Portland, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis and Budget to Actual Comparison required by accounting principles generally accepted in the United States of America 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 Governmental Accounting Standards Board, who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Organization's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as presented in the government auditing section, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 supplemental information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2022 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.



Monticello, Arkansas
September 22, 2022

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF NET POSITION
December 31, 2019

	2019
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 254,475
Accounts receivable (net)	16,461
Prepaid expenses	2,373
Total current assets	273,309
<u>Restricted cash and investments</u>	
Meter deposits	8,135
Debt reserve funds	971
Total restricted cash and investments	9,106
Fixed assets, net of accumulated depreciation	1,649,844
Total assets	\$ 1,932,259
<u>Liabilities and Net Position</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 503,220
Accrued taxes payable	890
Solid waste payments due to city	2,682
Mosquito payment due to city	774
Current portion of bonds payable	18,123
Total current liabilities	525,689
<u>Long term liabilities</u>	
Bonds payable, net of current amount	936,974
Customer deposits	8,135
Total long term liabilities	945,109
<u>Net position</u>	
Invested in capital assets, net of related debt	694,747
Restricted	971
Unrestricted	(234,257)
Total net position	461,461
Total liabilities and net position	\$ 1,932,259

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

**WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2019

	<u>2019</u>
<u>Operating revenues</u>	
Water sales	\$ 131,779
Sewer sales	58,472
Late charges	7,153
Other operating revenue	966
Total operating revenue	<u>198,370</u>
<u>Operating expenses</u>	
Plant operations and distribution	111,602
General and administrative	17,014
Depreciation	31,817
Total operating expenses	<u>160,433</u>
Income / (loss) from operations	37,937
<u>Other revenue / (expenses)</u>	
Interest income	<u>227</u>
<u>Excess (deficit) of revenues over expenses</u>	<u>\$ 38,164</u>
<u>Net position, beginning of year</u>	423,297
Change in net invested in capital assets	376,344
Change in restricted assets	971
Change in unrestricted assets	(339,151)
Change in net position	<u>38,164</u>
<u>Net position, end of year</u>	<u>\$ 461,461</u>

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	<u>2019</u>
<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 203,023
Payments for salaries and benefits	(80,070)
Payments for operating and administrative expenses	448,160
Net cash provided by (used for) operating activities	<u>571,113</u>
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	(1,341,025)
Interest income	227
Net cash provided by (used for) investing activities	<u>(1,340,798)</u>
<u>Cash flows from financing activities</u>	
Proceeds from debt issuance	955,097
Change in customer deposits	199
Net cash provided by (used for) financing activities	<u>955,296</u>
<u>Change in cash and cash equivalents</u>	185,611
<u>Cash and cash equivalents, beginning of year</u>	<u>77,970</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 263,581</u>
<u>Cash and cash equivalents</u>	254,475
<u>Restricted cash and cash equivalents</u>	9,106
	<u>\$ 263,581</u>

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended December 31, 2019

	2019
<u>Reconciliation of operating income to</u>	
<u>net cash from operating activities:</u>	
Operating income (loss)	\$ 37,937
Adjustments to reconcile operating income to	
net cash from operating activities:	
Depreciation	31,817
Changes in assets and liabilities:	
Accounts receivable	4,653
Prepaid expenses	(181)
Accounts payable	497,126
Accrued taxes payable	(269)
Solid waste payments due to city	26
Mosquito payment due to city	4
Total adjustments	533,176
Net cash provided by (used for) operating activities	\$ 571,113

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Water and Sewer Department (the “Organization”) is a component unit of the City of Portland, Arkansas. The Organization is governed by the City Council. The Organization provides water and sewer services to the City of Portland and certain surrounding areas. The Council approves the rate changes of the Organization’s services. The debt of the Organization is maintained in the name of the City of Portland.

B. Fund Type

The Organization is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Organization. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Organization.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Organization applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

D. Use of Estimate

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2019

NOTE 1 (continued)

Accounts Receivable

Accounts receivable relate to water and sewer service billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of the past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Wells & Water Tanks	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$1,000. The cost basis of fully depreciated property and equipment still in use by the Organization at December 31, 2019 amounted to \$343,831.

Net Position Classifications

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.
- Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

F. Date of Management's Review

The Organization evaluated its December 31, 2019 financial statements for subsequent events through September 22, 2022, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2019

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it.

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2019.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust Organization in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust Organization or agent in the Organization's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 245,125	\$ 245,125	\$ -	\$ -
Bank B	20,610	20,610	-	-
Total	<u>\$ 265,735</u>	<u>\$ 265,735</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts shown are bank ledger balances of the referenced bank's deposits and may differ from the Organization's general ledger balances.

The Organization has certain amounts of its cash accounts restricted at December 31, 2019 as follows:

	2019
Meter deposits	\$ 8,135
Debt reserve requirements	971
Total restricted cash	<u>\$ 9,106</u>

The debt reserve cash requirements are restricted for use of replacement of certain equipment securing the bonded indebtedness or for their repairs during the term of the debt and for the use of annual debt service payments for the Organization's indebtedness.

Customers' meter deposits are restricted for the use of refunding a departing customers' refund upon leaving the Organization or for off-setting any amounts owed by the customer upon departure.

It is the Organization's policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2019

NOTE 3 – CHANGES IN FIXED ASSETS

	Balance December 31, 2018	Transfers	Additions	Disposals	Balance December 31, 2019
Water system	\$ 893,203	\$ -	\$ 43,840	\$ -	\$ 937,043
Sewer system	380,968	-	-	-	380,968
Machinery and equipment	234,415	-	-	-	234,415
Furniture and fixtures	1,999	-	-	-	1,999
Building and improvements	9,434	-	-	-	9,434
Construction in progress	22,233	-	1,297,185	-	1,319,418
	<u>1,542,252</u>	-	<u>1,341,025</u>	-	<u>2,883,277</u>
Accumulated depreciation	<u>(1,201,616)</u>	-	<u>(31,817)</u>	-	<u>(1,233,433)</u>
	<u>\$ 340,636</u>	<u>\$ -</u>	<u>\$ 1,309,208</u>	<u>\$ -</u>	<u>\$ 1,649,844</u>

NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2019:

	<u>2019</u>
Note payable to the United States Department of Agriculture for the construction of water system improvements, payable in monthly installments of \$3,505, including principal and interest through December 2059; interest at 2.375%, secured by the water system.	\$ 955,097

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 18,123	\$ 27,442
2021	16,905	25,155
2022	17,311	24,749
2023	17,726	24,334
2024	18,152	23,908
2025-2029	97,511	112,789
2030-2034	109,793	100,507
2035-2039	123,622	86,678
2040-2044	139,193	71,107
2045-2049	156,725	53,575
Therafter	240,036	45,444
	<u>\$ 955,097</u>	<u>\$ 595,688</u>

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2019

NOTE 5 – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 6 – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PROCEDURES

Management has elected to omit the Budget to Actual Comparison and the Management Discussion and Analysis of the Organization from the financial statements which are required by GAAP.

SUPPLEMENTARY INFORMATION

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2019

	<u>2019</u>
<u>Plant operations and distributions</u>	
Salaries, wages, and benefits	\$ 59,852
Payroll taxes	4,204
Repairs and maintenance	8,448
Utilities	12,640
Insurance	4,805
Travel and fuel expenses	2,316
License, permits, fees	7,648
Operating supplies	11,689
Total plant operations and distributions	<u>111,602</u>
<u>General and administrative</u>	
Salaries, wages, and benefits	14,963
Payroll taxes	1,051
Bad debt	1,000
Total general and administrative	<u>17,014</u>
<u>Depreciation</u>	<u>31,817</u>
Total operating expenses	<u><u>\$ 160,433</u></u>

See Independent Auditor's Report.

GOVERNMENTAL AUDITING SECTION

SEARCY & ASSOCIATES, LLC
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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**

To the City Council of the
City of Portland Water & Sewer Department

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 accompanying financial statements of the City of Portland Water and Sewer Department ("the Organization"), a component unit of the City of Portland, Arkansas, which comprise the statement of net position as of December 31, 2019 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated September 22, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Seavoy & Associates LLC". The signature is written in a cursive, flowing style.

Monticello, Arkansas
September 22, 2022

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council of the
City of Portland Water & Sewer Department

Report on Compliance for Each Major Federal Program

We have audited the City of Portland Water and Sewer Department ("the Organization"), a component unit of the City of Portland, Arkansas, compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-002 that we consider to be significant deficiencies.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Monticello, Arkansas
September 22, 2022

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF EXPENITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
<u>Direct Award</u>		
Water and Waste Disposal Systems for Rural Communities - Direct Loan	10.760	\$ 955,097

See independent auditor's report and accompanying notes to the schedule.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE SCHEDULE OF EXPENITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization, under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available and applicable.
- 3) There were no federal awards passed through to subrecipients.
- 4) The Organization has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.
- 5) Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C – WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – DIRECT LOAN

The Organization has a direct loan for the purpose of constructing water systems for the rural community that is funded by the U.S. Department of Agriculture. Balances and transactions relating to this program are included in the Organization’s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedule. The balance of the loans outstanding at December 31, 2019 consists of:

CFDA Number	Program Name	Outstanding Balance at 12/31/2018	New Loans	Outstanding Balance at 12/31/2019	Administrative Cost Allowances	Interest Subsidies
10.760	Water and Waste Disposal Systems for Rural Communities - Direct Loan	\$ -	\$ 955,097	\$ 955,097	\$ -	\$ -

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether financial statements audited were prepared in accordance with accounting principles generally accepted in the United State of America Unmodified

Internal control over financial reporting:
Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? X Yes ___ None Reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? X Yes ___ None Reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ___ Yes X No

Identification of major programs:

CFDA Number: 10.760 – Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Did auditee qualify as a low-risk auditee? ___ Yes X No

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the Year Ended December 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001 Segregation of Duties

Condition: The Organization 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: Proper segregation of controls should be in place to provide reasonable assurance that fraud or error does not occur.

Cause: The Organization has limited financial resources which prevent it from fully segregated financial accounting duties.

Effect: Without proper segregation of duties, opportunity for fraud or error exists.

Recommendation: The Organization should evaluate its internal controls and segregate financial duties to the extent possible with the current staffing levels. The Organization should consider additional oversight where segregation is not possible.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-002 Monitoring and Review

Condition: The Organization did not have adequate entity wide level controls in place to ensure constant monitoring over the compliance of federal and state grants. As a result, certain compliance requirements were not met. The Organization did not meet the requirement to have an audit completed timely.

Criteria: State regulations require an audit be completed and submitted to the state if federal expenditures are over \$750,000 during the fiscal year. Federal regulations require a single audit be performed for expenditures over \$750,000 during the fiscal year.

Cause: The Organization did not designate an individual to oversee the compliance with state and federal regulations.

Effect: The Organization is out of compliance and could result in repayment of grants received.

Recommendation: The Organization should designate an individual to ensure that all state and federal regulations are being monitored and reviewed on an ongoing and timely basis.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
MANAGEMENT'S CORRECTIVE ACTION PLAN**

For the Year Ended December 31, 2019

The City of Portland Water & Sewer Department respectfully submits the following corrective action plan for the year ended December 31, 2019. The findings from the December 31, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2019-001: Segregation of Duties

Planned Corrective Action: We have had personnel changes in management that should bring an increased level of scrutiny over the processes in place. We also plan on ensuring the City Council is involved in daily processes and reviews that will create an extra level of review to detect errors timely.

2019-002: Monitoring and Review

Planned Corrective Action: We have personnel changes in management that should bring an increased level of scrutiny over the processes in place. We will analyze all grants and contracts in detail in order to ensure compliance with state and federal guidelines.