

Independent Auditor's Report and Financial Statements

WALDO WATER AND SEWER SYSTEM

December 31, 2020

WALDO WATER AND SEWER SYSTEM

Contents

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-13
Supplementary Information	
Combining Schedule of Net Position	14
Combining Schedule of Revenues, Expenses and Changes in Net Position	15
<i>Water Utilities</i>	
Comparative Schedule of Net Position – Water	16
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Water	17
<i>Sewer Utilities</i>	
Comparative Schedule of Net Position – Sewer	18
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Sewer	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Findings and Responses	22

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Waldo Water and Sewer System (the System), an Enterprise fund of the City of Waldo, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material 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 respective financial position of the Waldo Water and Sewer System as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Waldo Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Waldo, AR 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining and individual fund financial schedules on pages 14-19 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and comparative fund financial statements were derived from and relate 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 combining and comparative information fund financial statements are 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 May 4, 2022, 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
May 4, 2022

FINANCIAL STATEMENTS

WALDO WATER AND SEWER SYSTEM
Statement of Net Position
December 31, 2020

ASSETS

Current Assets

Cash	\$ 450,206
Accounts receivable, net	32,459
Time deposits	226,814
Due from General Fund	180,000
Inventory	9,223
Other assets	3,986
Total current assets	902,689

Restricted Assets

Restricted -	
Cash	893
Escrowed bond funds	13,105
Total restricted assets	13,997

Non-Current Assets

Capital assets -	
Non-depreciable	18,822
Depreciable	6,358,132
Less: Accumulated depreciation	(2,576,483)
Total non-current assets	3,800,471

TOTAL ASSETS

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	\$ 14,275
Current portion of long-term debt	54,380
Total current liabilities	68,655

Non-Current Liabilities

Customer meter deposits	893
Bonds payable	1,022,720
Total non-current liabilities	1,023,612

TOTAL LIABILITIES

NET POSITION

Invested in capital assets, net of related debt	\$ 2,723,371
Restricted, expendable for debt service	13,105
Unrestricted	888,414

TOTAL NET POSITION

TOTAL LIABILITIES AND NET POSITION

\$ 4,717,157

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

WALDO WATER AND SEWER SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

Operating Revenues

Usage charges	\$ 365,334
Fees and penalties	<u>7,725</u>
Total operating revenues	<u><u>373,059</u></u>

Operating Expenses

Salaries and wages	64,631
Payroll taxes	5,278
Utilities and telephone	33,491
Maintenance, repair & supply	26,779
Insurance	4,432
Machine, truck, and automotive	2,534
Legal and accounting	17,000
Permits, licenses, and fees	2,260
Water analysis and treatment	6,086
Office supplies and postage	4,312
Travel	82
Dues and subscriptions	2,038
Other administrative	9,430
Depreciation	<u>192,788</u>
Total operating expenses	<u><u>371,141</u></u>

Net operating income (loss)

Non-operating income (expense)

Bond service fees	(11,301)
Interest income	11,030
Interest expense	<u>(16,953)</u>
Total non-operating revenues (expenses), net	<u><u>(17,224)</u></u>

Change in net position

Net Position, beginning of year	3,640,196
Net Position, end of year	<u><u>\$ 3,624,890</u></u>

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

WALDO WATER AND SEWER SYSTEM
Statement of Cash Flows
For the Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Sales - use charges	\$ 364,923
Sales - other fees and penalties	7,725
Salaries and wages	(61,693)
Payroll taxes	(5,278)
Utilities and telephone	(33,491)
Maintenance, repairs and supplies	(22,970)
Insurance	(4,432)
Machine, truck and automotive	(2,534)
Legal and accounting	(17,000)
Permits, license and fees	(2,260)
Water analysis	(6,086)
Office supplies and postage	(4,312)
Travel	(82)
Dues and subscriptions	(2,038)
Other administrative	<u>(9,430)</u>
Net cash provided by (used in) operating activities	<u>201,041</u>

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

System and equipment purchases	(4,175)
Bond service fees	(11,301)
Release of escrowed funds	494
Transfers to general fund	(180,000)
Bond principal paid	(53,046)
Bond interest paid	<u>(16,953)</u>
Net cash used provided by (used in) capital and related financing activities	<u>(264,981)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on business checking accounts	<u>6,150</u>
Net cash provided by (used in) investing activities	<u>6,150</u>
Decrease in cash and cash equivalents	(57,789)
Cash and cash equivalents, beginning of year	<u>508,888</u>
Cash and cash equivalents, end of year	<u>\$ 451,099</u>

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

WALDO WATER AND SEWER SYSTEM
Statement of Cash Flows
For the Year Ended December 31, 2020

**Cash and cash equivalents presented in the
Statement of Net Position as follows:**

Current assets	
Cash - unrestricted	\$ 450,206
Restricted assets	
Cash - restricted	893
Total	<u><u>\$ 451,099</u></u>

**Reconciliation of net operating income to
net cash provided by operating activities:**

Net operating income (loss)	<u><u>\$ 1,918</u></u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	192,788
Decrease (increase) in accounts receivable	(335)
Decrease (increase) in other assets	(78)
Increase (decrease) in meter deposits	(0)
Increase (decrease) in payables	<u>6,749</u>
Total adjustments	<u>199,123</u>
Net cash provided by operating activities	<u><u>\$ 201,041</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Waldo Water and Sewer System (the "System") is an enterprise fund of the City of Waldo, Arkansas governed by a six-member council. The System provides water and sewer services to customers in the City of Waldo.

Basis of Accounting and Presentation

The Utility is accounted for as an enterprise fund and uses the accrual basis of accounting. The Utility's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Enterprise funds are used to account for (a) operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered 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. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the Utility are charges to customers for water sales and wastewater services. Operating expenses for the Utility include the cost of pumping, treating, and delivering water and the treatment of wastewater for discharge, administrative services and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, the Utility'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. Actual results could differ from those estimates.

Cash and Cash Equivalents

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The System uses the allowance methodology for estimating possible uncollectible customer accounts. The allowance amount as of December 31, 2020, approximates the balance of accounts delinquent more than 60 days.

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

Net Position

Net Position of the System is classified in three components. *Net Position invested in capital assets, net of related debt*, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings, if any, used to finance the purchase or construction of those assets. *Restricted Net Position* represents assets which are restricted either for debt service, customer deposits, or capital projects. Net Position restricted for debt service is related to assets which are restricted for use pursuant to borrowing agreements. *Unrestricted Net Position* consists of all other position not included in the above categories.

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.

Interfund Transfers

The City Council of Waldo, Arkansas periodically authorizes transfers between the various funds included within the government-wide entity. In most cases, these transfers are made so that an individual fund can satisfy a significant one-time expense or an ongoing financial obligation, such as repayment of bonds. During 2020, the System used resources generated through water billings during the period to transfer \$180,000 to the General Fund. The net effects of these transfers are included in the Water and Sewer Comparative Statement of Revenues, Expenses, and Changes in Net Position, which is included in the Supplementary Information section of this report.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

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

Subsequent Events

Management has evaluated subsequent events through May 4, 2022, 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) accounts and certificates of deposit at a local financial institution. The carrying amount of the System's cash and time deposits as of December 31, 2020, was \$629,837. The corresponding aggregated bank balance for these accounts was \$678,900.

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, \$13,105 of escrowed bond funds held by Arkansas Natural Resources Commission on behalf of the System were not insured under FDIC insurance or collateralized by pledged securities.

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 Waldo 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.

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

NOTE 2: CASH AND TIME DEPOSITS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not purchase foreign investments.

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:

Issuer	Investment Type	Fair Value	% of Total Deposits
Peoples Bank	Cash and time deposits	\$ 677,913	100.00%

Fair Value Measurements

U.S. GAAP requires the System to disclose fair value measurements at the Statement of Net Position date. The FASB has established a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements).

As of December 31, 2020, the System's time deposits are valued at cost, which approximates fair value. There were no changes in the methodology used during the year ended December 31, 2020.

Interest Income

Interest income for 2020 was \$11,030 earned on various certificates of deposit and checking accounts.

NOTE 3: CAPITAL ASSETS

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

	Beginning Balance			Ending Balance
	Additions	Retirements		
Capital assets, not being depreciated				
Land	\$ 18,822	-	-	18,822
Capital assets, being depreciated				
Buildings	12,425	-	-	12,425
Computer and office equipment	16,022	-	-	16,022
Water system	4,443,683	4,175	-	4,447,858
Equipment	281,519	-	-	281,519
Sewer plant	1,600,309	-	-	1,600,309
Total capital assets, being depreciated	6,353,958	4,175	-	6,358,133
Less accumulated depreciation:	2,383,696	192,788	-	2,576,484
Capital assets, net	\$ 3,989,084			\$ 3,800,471

Depreciation expense for the year ended December 31, 2020, was \$192,788.

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

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2020, consisted of the following:

Water	\$ 43,767
Sewer	21,720
Surcharges	<u>2,072</u>
Total	67,559
Less: Allowance for doubtful accounts	<u>(35,100)</u>
Accounts receivable, net	<u><u>\$ 32,459</u></u>

NOTE 5: METER DEPOSITS

The System eliminated the policy of customers paying a deposit to secure water services. During 2018 and 2019, the System refunded all customer deposits that could be identified. As of December 31, 2020, the remaining unclaimed account balance was \$893.

NOTE 6: BONDS PAYABLE

The System's Water Department had a bond payable as of December 31, 2020, in the amount of \$527,860 to the Arkansas Natural Resources Commission (ANRC)/Arkansas Development Finance Authority (ADFA). The note is payable in semiannual installments of \$19,153 at a fixed interest rate of 1.50% with a 1.00% service fee. Interest and bond service fees paid on the loan in 2020 were \$8,288 and \$5,525, respectively. Principal, interest, and service fee payments until maturity are as follows:

Water Bond - WRD-003-880

Year ending December 31,	Principal	Interest	Service Fee
2021	\$ 25,266	7,824	5,216
2022	25,902	7,442	4,962
2023	26,554	7,051	4,701
2024	27,222	6,651	4,434
2025	27,906	6,240	4,160
2026 - 2030	150,422	24,665	16,443
2031 - 2035	170,319	12,727	8,484
2036 - 2038	<u>74,269</u>	<u>1,401</u>	<u>934</u>
	<u><u>\$ 527,860</u></u>	<u><u>\$ 74,001</u></u>	<u><u>\$ 49,334</u></u>

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

NOTE 6: BONDS PAYABLE (Continued)

The System's Sewer Department had a bond payable as of December 31, 2020, in the amount of \$549,239 to the Arkansas Natural Resources Commission (ANRC)/Arkansas Development Finance Authority (ADFA). The note is payable in semiannual installments of \$21,332 at a fixed interest rate of 1.50% with a 1.00% service fee. Interest and bond service fees paid on the loan in 2020 were \$8,665 and \$5,776, respectively. Principal, interest, and service fee payments until maturity are as follows:

Sewer Bond - WRD-004-005

Year ending December 31,	Principal	Interest	Service Fee
2021	\$ 29,114	8,130	5,420
2022	29,846	7,691	5,127
2023	30,597	7,240	4,827
2024	31,367	6,778	4,519
2025	32,156	6,305	4,203
2025 - 2029	173,329	23,995	15,997
2030 - 2034	196,255	10,239	6,826
2035 - 2037	26,575	241	161
	<u>\$ 549,239</u>	<u>\$ 70,619</u>	<u>\$ 47,080</u>

NOTE 7: WATER AND SEWER RATES

The water rate during 2020 was \$22.00 for the first 2,000 gallons, or portion thereof, of water consumption per month. For any use over 2,000 gallons the rate was \$2.25 per 1,000 gallons. The sewer rate was \$15.00 for the first 2,000 gallons per month, or portion thereof, and \$2.50 per each additional 1,000 gallons thereafter.

The System collects a \$3.00 per meter surcharge that is transferred to and used for the general operating expenses of the City's Fire Department and, when necessary and approved by the City Council, the purchase of equipment.

NOTE 8: INSURANCE

The City of Waldo 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.

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

NOTE 9: COMMITMENTS AND CONTINGENCIES

Sewer Discharge Permit

The Arkansas Department of Environmental Quality requires that the Sewer Department's discharge plant meet certain requirements in order for the System to maintain its sewer discharge permit. As of December 31, 2020, the System believes it has complied with all of these requirements. This permit must be renewed annually.

NOTE 10: 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 11: SUBSEQUENT EVENTS

The System's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) and its variants, 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.

SUPPLEMENTARY INFORMATION

WALDO WATER AND SEWER SYSTEM
Combining Schedule of Net Position
December 31, 2020

ASSETS	Water	Sewer	Total
Current Assets			
Unrestricted -			
Cash	\$ 405,560	44,646	450,206
Accounts receivable, net	21,639	10,820	32,459
Time deposits	173,762	53,052	226,814
Due from General Fund	180,000		180,000
Inventory	9,142	81	9,223
Other assets	1,826	2,160	3,986
Restricted -			
Cash	893	-	893
Escrowed bond funds	6,202	6,902	13,105
Total current assets	<u>799,025</u>	<u>117,661</u>	<u>916,686</u>
Non-Current Assets			
Capital assets -			
Non-depreciable	2,450	16,372	18,822
Depreciable	4,742,510	1,615,622	6,358,132
Less: Accumulated depreciation	<u>(1,832,601)</u>	<u>(743,882)</u>	<u>(2,576,483)</u>
Total non-current assets	<u>2,912,359</u>	<u>888,112</u>	<u>3,800,471</u>
TOTAL ASSETS	\$ 3,711,384	1,005,773	4,717,157
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 8,058	6,217	14,275
Current portion of long-term debt	<u>25,266</u>	<u>29,114</u>	<u>54,380</u>
Total current liabilities	<u>33,324</u>	<u>35,331</u>	<u>68,655</u>
Non-Current Liabilities			
Customer meter deposits	893	-	893
Bonds payable	<u>502,594</u>	<u>520,125</u>	<u>1,022,720</u>
Total non-current liabilities	<u>503,487</u>	<u>520,125</u>	<u>1,023,612</u>
TOTAL LIABILITIES	\$ 536,811	555,456	1,092,267
NET POSITION			
Invested in capital assets, net of related debt	\$ 2,384,499	\$ 338,873	2,723,371
Restricted, expendable for debt service	6,202	6,902	13,105
Unrestricted	<u>783,873</u>	<u>104,542</u>	<u>888,414</u>
TOTAL NET POSITION	\$ 3,174,574	450,317	3,624,890

WALDO WATER AND SEWER SYSTEM
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

	Water	Sewer	Total
Operating Revenues			
Usage charges	\$ 236,992	128,343	365,334
Fees and penalties	6,263	1,462	7,725
Total operating revenues	<u>243,255</u>	<u>129,804</u>	<u>373,059</u>
Operating Expenses			
Salaries and wages	31,064	33,567	64,631
Payroll taxes	2,537	2,741	5,278
Utilities and telephone	13,935	19,556	33,491
Maintenance, repair & supply	15,627	11,152	26,779
Insurance	2,996	1,437	4,432
Machines, truck & automotive fuel	2,413	121	2,534
Legal and accounting	8,500	8,500	17,000
Permits, license, fees	100	2,160	2,260
Water analysis and treatment	962	5,125	6,086
Office supplies and postage	3,765	547	4,312
Travel	82	-	82
Dues and subscriptions	1,361	677	2,038
Other administrative	7,812	1,618	9,430
Depreciation	126,346	66,441	192,788
Total operating expenses	<u>217,499</u>	<u>153,642</u>	<u>371,141</u>
Net operating income (loss)	<u>25,756</u>	<u>(23,838)</u>	<u>1,918</u>
Non-operating income (expense)			
Bond service fees	(5,525)	(5,776)	(11,301)
Interest income	9,948	1,082	11,030
Interest expense	(8,288)	(8,665)	(16,953)
Total non-operating revenues (expenses)	<u>(3,864)</u>	<u>(13,359)</u>	<u>(17,224)</u>
Net income (loss)	<u>21,891</u>	<u>(37,197)</u>	<u>(15,306)</u>
Other financing sources:			
Transfers from (to) other funds, net	7,694	(7,694)	-
Total other financing sources	<u>7,694</u>	<u>(7,694)</u>	<u>-</u>
Change in net position	<u>29,585</u>	<u>(44,890)</u>	<u>(15,306)</u>
Net Position, beginning of year	<u>3,144,989</u>	<u>495,207</u>	<u>3,640,196</u>
Net Position, end of year	<u>\$ 3,174,574</u>	<u>450,317</u>	<u>3,624,890</u>

WALDO WATER AND SEWER SYSTEM
Comparative Schedule of Net Position – Water
December 31, 2020 and 2019

ASSETS	2020	2019
Current Assets		
Unrestricted -		
Cash	\$ 405,560	459,005
Accounts receivable, net	21,639	21,867
Time deposits	173,762	169,856
Due from General Fund	180,000	-
Inventory	9,142	9,142
Other assets	1,826	1,748
Restricted -		
Cash	893	893
Escrowed bond funds	6,202	6,467
Total current assets	<u>799,025</u>	<u>668,978</u>
Non-Current Assets		
Capital assets -		
Non-depreciable	2,450	2,450
Depreciable	4,742,510	4,738,336
Less: Accumulated depreciation	<u>(1,832,601)</u>	<u>(1,706,255)</u>
Total non-current assets	<u>2,912,359</u>	<u>3,034,531</u>
TOTAL ASSETS	<u>\$ 3,711,384</u>	<u>3,703,509</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 8,058	5,120
Current portion of long-term debt	<u>25,266</u>	<u>24,646</u>
Total current liabilities	<u>33,324</u>	<u>29,766</u>
Non-Current Liabilities		
Customer meter deposits	893	893
Bonds payable	<u>502,594</u>	<u>527,861</u>
Total non-current liabilities	<u>503,487</u>	<u>528,754</u>
TOTAL LIABILITIES	<u>\$ 536,811</u>	<u>558,520</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 2,384,499	2,482,024
Restricted, expendable for debt service	6,202	6,467
Unrestricted	<u>783,873</u>	<u>656,498</u>
TOTAL NET POSITION	<u>\$ 3,174,574</u>	<u>3,144,989</u>

WALDO WATER AND SEWER SYSTEM
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Water
For the Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Usage charges	\$ 236,992	245,656
Fees and penalties	6,263	20,520
Other income	-	-
 Total operating revenues	 243,255	 266,176
Operating Expenses		
Salaries and wages	31,064	59,087
Payroll taxes	2,537	4,066
Utilities and telephone	13,935	16,948
Maintenance, repair & supply	15,627	17,439
Insurance	2,996	2,973
Machine, truck & automotive	2,413	1,952
Legal and accounting	8,500	230
Permits, license, fees	100	325
Water analysis and treatment	962	1,757
Office supplies and postage	3,765	4,110
Travel	82	5,074
Dues and subscriptions	1,361	1,317
Other administrative	7,812	3,820
Depreciation	126,346	125,914
Bad debt	-	4,200
 Total operating expenses	 217,499	 249,212
Net operating income (loss)	25,756	16,964
Non-operating income (expense)		
Grant Revenue	-	-
Bond service fees	(5,525)	(5,706)
Interest income	9,948	5,034
Interest expense	(8,288)	(13,783)
 Total non-operating revenues (expenses)	 (3,864)	 (14,455)
Net income (loss)	21,891	2,509
Other financing sources:		
Transfers from (to) other funds, net	7,694	7,599
Total other financing sources	7,694	7,599
Change in net position	29,585	10,108
Net Position, beginning of year	3,144,989	3,134,881
Net Position, end of year	\$ 3,174,574	3,144,989

WALDO WATER AND SEWER SYSTEM
Comparative Schedule of Net Position – Sewer
December 31, 2020 and 2019

ASSETS	2020	2019
Current Assets		
Unrestricted -		
Cash	\$ 44,646	48,990
Accounts receivable, net	10,820	10,257
Time deposits	53,052	52,078
Inventory	81	81
Other assets	2,160	2,160
Restricted -		
Escrowed bond funds	<u>6,902</u>	<u>7,134</u>
Total current assets	<u>117,661</u>	<u>120,700</u>
Non-Current Assets		
Capital assets -		
Non-depreciable	16,372	16,372
Depreciable	1,615,622	1,615,622
Less: Accumulated depreciation	<u>(743,882)</u>	<u>(677,441)</u>
Total non-current assets	<u>888,112</u>	<u>954,553</u>
TOTAL ASSETS	<u>\$ 1,005,773</u>	<u>1,075,253</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,217	2,408
Current portion of long-term debt	<u>29,114</u>	<u>28,399</u>
Total current liabilities	<u>35,331</u>	<u>30,807</u>
Non-Current Liabilities		
Bonds payable	<u>520,125</u>	<u>549,239</u>
Total non-current liabilities	<u>520,125</u>	<u>549,239</u>
TOTAL LIABILITIES	<u>\$ 555,456</u>	<u>580,046</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 338,873	376,915
Restricted, expendable for debt service	6,902	7,134
Unrestricted	<u>104,542</u>	<u>111,158</u>
TOTAL NET POSITION	<u>\$ 450,317</u>	<u>495,207</u>

WALDO WATER AND SEWER SYSTEM
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Sewer
For the Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Usage charges	128,343	123,796
Fees and penalties	1,462	1,175
Other income	-	-
Total operating revenues	<u>129,804</u>	<u>124,971</u>
Operating Expenses		
Salaries and wages	33,567	30,350
Payroll taxes	2,741	2,688
Utilities and telephone	19,556	20,034
Maintenance, repair & supply	11,152	25,763
Insurance	1,437	1,910
Machine, truck & automotive	121	93
Legal and accounting	8,500	-
Permits, license, fees	2,160	2,200
Water analysis and treatment	5,125	4,965
Office supplies and postage	547	780
Travel	-	1,299
Dues and subscriptions	677	680
Other administrative	1,618	450
Depreciation	66,441	65,342
Bad debt	-	1,400
Total operating expenses	<u>153,642</u>	<u>157,954</u>
Net operating income (loss)		
	<u>(23,838)</u>	<u>(32,983)</u>
Non-operating income (expense)		
Bond service fees	(5,776)	(5,113)
Interest income	1,082	1,298
Interest expense	(8,665)	(8,730)
Total non-operating revenues (expenses)	<u>(13,359)</u>	<u>(12,545)</u>
Net income (loss)		
	<u>(37,197)</u>	<u>(45,528)</u>
Other financing sources:		
Transfers from (to) other funds, net	(7,694)	(7,599)
Total other financing sources	<u>(7,694)</u>	<u>(7,599)</u>
Change in net position		
	<u>(44,890)</u>	<u>(53,127)</u>
Net Position, beginning of year	<u>495,207</u>	<u>548,334</u>
Net Position, end of year	<u>\$ 450,317</u>	<u>495,207</u>

GOVERNMENT AUDITING STANDARDS REPORT

PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER AMERICAN
INSTITUTE OF CPAS

441 N. WASHINGTON AVE.
EL DORADO, ARKANSAS 71730
(870) 862-3401

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 Waldo, 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 Waldo 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 May 4, 2022.

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

May 4, 2022

Waldo 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: The System has one person who receives customer payments, prepares the deposits and posts the transactions to the customer's accounts.

Criteria: Internal controls should be in place to provide adequate segregation of duties with regard to cash receipts and disbursements. When proper segregation of duties is not possible due to staff size limitations, the City Council or other city employees should act as a mitigating control.

Cause: The System has only one person in the office handling accounting activities and one person in the office handling billing activities.

Effect: Due to lack of 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: Procedures should be implemented whereby:

- 1) A person other than the water/sewer clerk receives all payments (mail or in person); makes a log of payments received, provides the log to a different person (not the water/sewer clerk) who should then prepare and make the bank deposit. The log and deposit slips should be given to the water/sewer clerk for entry into the water/sewer accounting system
- 2) All customer account adjustments should be reviewed by an adequate level of management.
- 3) All credits and adjustments to customer accounts should be reviewed and approved by the City Council when adequate segregation of duties at the staff level is not possible.

Response: 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.