

CLARENDON MUNICIPAL WATERWORKS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2020 and 2019

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

City Council
City of Clarendon, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Clarendon Municipal Waterworks as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Waterworks' 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

As described in Note 1, the financial statements present only the financial position of Clarendon Municipal Waterworks and are not intended to present fairly the financial position of the City of Clarendon and the results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Clarendon Municipal Waterworks as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 25 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provided any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clarendon Municipal Waterworks' basic financial statements. The schedule of operating expenses on page 26 and the schedule of additional information on pages 27 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2023, on our consideration of the Clarendon Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clarendon Municipal Waterworks' internal control over financial reporting and compliance.

Cobb and Suskie, Ltd.

Certified Public Accountants
March 3, 2023

CLARENDON MUNICIPAL WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019

This section presents management's analysis of the financial condition and activities of the Clarendon Municipal Waterworks (the Waterworks) for the year ended December 31, 2020.

Financial Highlights

Management believes Clarendon Municipal Waterworks' financial condition is stable. The Waterworks is within its debt covenants and financial policies and guidelines set by the board. The following are key financial highlights.

- Total assets at year-end were \$2,681,847 and exceeded liabilities in the amount of \$1,809,018, a decrease of 7.4% from 2019. Total assets were \$2,832,762 at December 31, 2019 and exceeded liabilities in the amount of \$1,953,272, a decrease of 5.8% from 2018.
- Operating revenue amounted to \$432,071 in 2020, an increase of 12.8% or \$49,032 from 2019. Operating revenue was \$383,039 in 2019, an increase of 7.5% or \$26,633 from 2018.
- Operating expenses before depreciation was \$491,308 for 2020, which was an increase of \$130,994 or 36.4% from 2019. For 2019, operating expenses before depreciation was \$360,314 which was a decrease of \$18,731 or 5% from 2018.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of Clarendon Municipal Waterworks' financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Waterworks' strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements include a statement of net position; a statement of revenue, expense, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Waterworks on an accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of activities presents the results of the business activities over the course of the fiscal year as well as information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises or depreciation of capital assets.

CLARENDON MUNICIPAL WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019

Overview of Annual Financial Report (Continued)

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Waterworks' accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses is also provided.

Summary of Organization and Business

The Waterworks provides retail water and wastewater collection and treatment service to approximately 620 customers within the corporate limits of Clarendon, Arkansas.

The facilities of the Waterworks include water and sewage treatment plants acquired or contracted at a cost of \$4.8 million.

The Waterworks operates under the direction of the City Council of Clarendon, Arkansas.

The operating and capital expenditures are incurred to repair, replace, or extend existing service facilities to meet customer service requirements, as well as to meet EPA requirements. The operation expenses are funded by customer revenue, and the acquisition and construction of capital assets are funded by sewer revenue bonds.

Financial Analysis

The comparative financial statements from pages 9 through 12 and other selected information listed below serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

CLARENDON MUNICIPAL WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019

Other Selected Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020-2019 % Change</u>
Selected Data for Analysis:				
Customers at year end	620	620	628	0.0%
Operating Revenues:				
Utility Revenues	\$ 413,697	\$ 360,225	\$ 339,493	14.8%
Total Operating Revenues	\$ 432,071	\$ 383,039	\$ 356,406	12.8%
Utilities Expenses:				
Expenses excluding Depreciation	\$ 491,308	\$ 360,314	\$ 379,045	36.4%
Total Expenses	\$ 570,258	\$ 476,118	\$ 488,463	19.8%
Ratio of Operating Revenue to:				
Operating Expenses excluding Depreciation	0.88	1.06	0.94	-17.0%
Operating Expenses, Total	0.76	0.80	0.73	-5.0%
Total Assets	0.16	0.14	0.13	14.3%
Net Assets	0.24	0.20	0.17	20.0%
Net Income (Loss)	\$ (144,254)	\$ (120,014)	\$ (129,400)	20.2%
Debt Related Ratios:				
Debt to Net Assets	0.43	0.45	0.29	-4.4%

General Trends and Significant Events

The population of Clarendon, Arkansas remained generally constant in 2020, while the number of customers serviced by the Waterworks remained at 620 customers. The number of customers serviced by the Waterworks decreased by 8 customers during 2019, from 628 in 2018 to 620 customers at the end of 2019.

Financial Condition

The Waterworks' financial condition remained stable. The decrease in assets in 2020 amounted to \$150,915. Restricted assets increased from \$ 173,811 to \$190,162. The increase in assets in 2019 amounted to \$167,773. Restricted assets increased from \$160,151 to \$173,811 in 2019.

Operating revenues were \$432,071 in 2020, while accounts receivable at year-end was 25.8% less than year-end 2019. Operating revenues were \$383,039 in 2019, while accounts receivable at December 31, 2019 was 78.7% less than year-end 2018.

CLARENDON MUNICIPAL WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019

Results of Operations

Net Operating Income:

Due to the \$94,410 increase in operating expenses and the net operating losses were \$144,254 in 2020. In 2019, due to the \$12,345 decrease in operating expenses and the \$5,113 transfer from the city, the net operating losses were \$120,014 in 2019.

Expenses:

The Waterworks' operating expense increased from \$476,118 to \$570,528, which was 132% of operating revenue. In 2019, operating expenses increased from \$488,463 to \$476,118, which was 128% of operating revenue.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Variance %</u>
Salaries, Employee Benefits, and				
Payroll Taxes	\$ 194,598	\$ 152,652	\$ 180,194	27.5%
Operating Supplies and Chemicals	36,666	39,730	37,779	-7.7%
Utilities	42,323	44,504	34,338	-4.9%
Other Operating and Maintenance				
Expenses	167,721	123,428	126,734	35.9%
Depreciation and Amortization	<u>129,220</u>	<u>115,804</u>	<u>109,418</u>	11.6%
Total Operating Expenses	<u>\$ 570,528</u>	<u>\$ 476,118</u>	<u>\$ 488,463</u>	19.8%

Capital Assets and Long-Term Debt

The investment in plant and equipment remained the same in 2020. Total debt to capital assets was 34% at the end of 2020 and 36% at the end of 2019. This reflects the net change in capital assets and decreases in indebtedness for 2020. In 2019, the investment in plant and equipment increased by \$315,333 in capital acquisitions.

Final Comments

The Waterworks has maintained its mission of providing affordable, efficient, and reliable wastewater services.

CLARENDON MUNICIPAL WATERWORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019

Contacting the System's Financial Management

This financial report is designed to provide our citizens, taxpayers, and granting agencies with a general overview of the Waterworks' finances and to demonstrate the Waterworks' accountability for the money it receives. If there are questions about this report or need for additional financial information arises, contact the Clarendon Municipal Waterworks, 270 Madison Street, Clarendon, Arkansas, 72029.

CLARENDON MUNICIPAL WATERWORKS
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 52,686	\$ 70,589
Accounts Receivable, Net of Allowance for Doubtful		
Accounts of \$18,398 in 2020 and \$17,999 in 2019	45,623	61,512
Unbilled Service Revenue	12,147	17,133
Prepaid Expenses	2,406	1,674
Total Current Assets	<u>112,862</u>	<u>150,908</u>
<u>RESTRICTED ASSETS</u>		
Cash	163,162	146,811
Certificates of Deposit	27,000	27,000
Total Restricted Assets	<u>190,162</u>	<u>173,811</u>
<u>CAPITAL ASSETS</u>		
Buildings and Improvements	23,297	23,297
Utility Plant	5,167,955	5,167,955
Equipment	340,682	340,682
Land	8,085	8,085
	<u>5,540,019</u>	<u>5,540,019</u>
Less Accumulated Depreciation	3,235,013	3,105,793
Net Capital Assets	<u>2,305,006</u>	<u>2,434,226</u>
<u>OTHER ASSETS</u>		
Due From City of Clarendon General Fund	73,817	73,817
Total Other Assets	<u>73,817</u>	<u>73,817</u>
 TOTAL ASSETS	 <u>\$ 2,681,847</u>	 <u>\$ 2,832,762</u>

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

LIABILITIES AND NET POSITION

	<u>2020</u>	<u>2019</u>
<u>CURRENT LIABILITIES</u> (Payable from Current Assets)		
Accounts Payable and Accrued Liabilities	\$ 37,803	\$ 22,402
Sales Tax Payable	3,354	3,057
Total Current Liabilities	<u>41,157</u>	<u>25,459</u>
<u>CURRENT LIABILITIES</u> (Payable from Restricted Assets)		
Current Maturities of Long-Term Debt	23,875	22,929
Accrued Interest Payable	1,336	1,336
Customer Meter Deposits	46,566	45,996
Total Current Liabilities	<u>71,777</u>	<u>70,261</u>
<u>LONG-TERM LIABILITIES</u> , Less Current Maturities	<u>759,895</u>	<u>783,770</u>
Total Liabilities	<u>872,829</u>	<u>879,490</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Liabilities	1,519,900	1,626,191
Restricted for Debt Service	142,260	127,815
Unrestricted	146,858	199,266
Total Net Position	<u>1,809,018</u>	<u>1,953,272</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ 2,681,847	 \$ 2,832,762

CLARENDON MUNICIPAL WATERWORKS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Water and Sewer Sales	\$ 413,697	\$ 360,225
Other Operating Revenue	<u>18,374</u>	<u>22,814</u>
 TOTAL OPERATING REVENUES	 <u>432,071</u>	 <u>383,039</u>
 <u>OPERATING EXPENSES</u>		
Personnel Services	194,598	152,652
Operation and Maintenance	246,710	207,662
Depreciation and Amortization	<u>129,220</u>	<u>115,804</u>
 TOTAL OPERATING EXPENSES	 <u>570,528</u>	 <u>476,118</u>
 NET OPERATING INCOME (LOSS)	 <u>(138,457)</u>	 <u>(93,079)</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Income	897	860
Interest Expense	(23,665)	(22,684)
Transfer (to) from General Fund	<u>16,971</u>	<u>(5,111)</u>
 TOTAL OTHER REVENUES (EXPENSES)	 <u>(5,797)</u>	 <u>(26,935)</u>
 NET INCOME (LOSS)	 (144,254)	 (120,014)
 NET POSITION - BEGINNING OF YEAR	 <u>1,953,272</u>	 <u>2,073,286</u>
 NET POSITION - END OF YEAR	 <u>\$ 1,809,018</u>	 <u>\$ 1,953,272</u>

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

CLARENDON MUNICIPAL WATERWORKS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 452,547	\$ 351,620
Cash Payments to Suppliers for Goods and Services	(231,345)	(207,999)
Cash Payments to Employees for Services	(194,598)	(152,652)
Net Cash Provided - Operating Activities	<u>26,604</u>	<u>(9,031)</u>
<u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Note Proceeds	-	318,398
Bond Principal Paid	(22,929)	(33,973)
Bond Interest Paid	(23,665)	(22,721)
Net Cash Provided - Capital and Related Financing	<u>(46,594)</u>	<u>261,704</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Interest Received	897	860
Equipment at Net	-	(315,333)
Net Cash Provided - Investing Activities	<u>897</u>	<u>(314,473)</u>
<u>CASH FLOWS - OTHER ACTIVITIES</u>		
Meter Deposits - Net	570	4,130
Due From City	16,971	(5,111)
Net Cash Provided - Other Activities	<u>17,541</u>	<u>(981)</u>
Net Increase (Decrease) in Cash	(1,552)	(62,781)
Cash, Beginning of Year	<u>244,400</u>	<u>307,181</u>
Cash, End of Year	<u>\$ 242,848</u>	<u>\$ 244,400</u>

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

CLARENDON MUNICIPAL WATERWORKS
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM
OPERATING ACTIVITIES

	<u>2020</u>	<u>2019</u>
Operating Income (Loss) Before Depreciation Adjustments	\$ (138,457)	\$ (93,079)
Depreciation and Amortization	129,220	115,804
Accounts Receivable (Increase) Decrease	15,889	(27,097)
Unbilled Service Revenue (Increase) Decrease	4,986	(4,322)
Prepaid Expenses (Increase) Decrease	(732)	394
Accounts Payable Liabilities Increase (Decrease)	15,401	(1,677)
Sales Tax Payable Increase (Decrease)	<u>297</u>	<u>946</u>
Net Cash Provided From Operating Activities	<u>\$ 26,604</u>	<u>\$ (9,031)</u>

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

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) General Information

The Clarendon Municipal Waterworks (the Waterworks) is a proprietary component unit of the City of Clarendon, Arkansas (the City). The Waterworks provides water and/or sewer services to the residential and commercial operations in the City of Clarendon. These financial statements are prepared from the books and records of the Clarendon Municipal Waterworks. These financial statements are not intended to present fairly the financial position of the City of Clarendon, Arkansas, and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles. Transactions with the City of Clarendon are more fully described in Note 7.

(b) Basis of Accounting

These financial statements are prepared utilizing the accrual basis of accounting. The accrual basis of accounting recognizes revenue when realized and expenses when occurred, without regard to the time of receipt or payment. The focus of accrual accounting is on the realization of revenue, of costs incurred, and the matching of revenue and costs.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Waterworks considers all highly liquid investments, with a maturity of three months or less, when purchased to be cash equivalents.

(d) Investments

Investments are stated at fair value.

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Accounts Receivable

Accounts receivable, which consist of water and related services billed to customers of the Waterworks, are stated at the amount management expects to collect from outstanding balances. The Waterworks requires all customers to pay a deposit for services. In the normal course of business, the Waterworks grants unsecured trade credit to its customers in excess of their deposit. Customer deposits are applied and/or refunded against a customer's final bill upon discontinuance of service. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Details of accounts receivable and related write-offs for the years ended December 31, 2020 and 2019 are more fully explained in Note 3.

(f) Inventory

Inventory is calculated at cost, utilizing the cost of the last item purchased for that group as unit cost.

(g) Restricted Assets

Restricted assets consist of checking accounts, certificates of deposit, and accounts receivable restricted to use as indicated by their fund titles. The Waterworks has established and maintained these funds to account for and hold debt service reserves and customer deposits. Restricted assets are more fully described in Note 4.

(h) Capital Assets

Purchased capital assets are stated at cost. Contributed assets are recorded at estimated fair value at the time of receipt. Depreciation is computed by the straight-line method over the following estimated useful lives:

Waterworks and Sewer Plant	10-40 1/3 years
Operating Equipment	3-10 years
Office Building	20 years
Office Equipment	5-10 years
Furniture and Fixtures	5-10 years

Details of changes in the accounts for the years ended December 31, 2020 and 2019, respectively, are more fully summarized in Note 5.

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (i) Unamortized Bond Issuance Costs
Costs associated with the issuance of bonds are reported as current period expenses.
- (j) Capitalization of Interest
Interest has been capitalized on major construction projects based on the applicable rate of borrowed funds for that project. If funds were required in excess of specifically borrowed funds, an average rate for all borrowed funds was used to capitalize interest.
- (k) Revenue Recognition
The accounts receivable and revenue recognized are based on meter readings by Waterworks personnel. The meter readings are made at various times of the month, and approximately thirteen days of water consumption during any month remain unbilled at the end of the month.
- (l) Basis for Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

A reconciliation of cash per the statements of cash flows to the statements of net assets as of December 31, 2020 and 2019, respectively, follows:

	<u>2020</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 70,589	\$ 173,811	\$ 244,400
Net Increase (Decrease)	(17,903)	16,351	(1,552)
Cash at End of Year	<u>\$ 52,686</u>	<u>\$ 190,162</u>	<u>\$ 242,848</u>

	<u>2019</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash at Beginning of Year	\$ 147,030	\$ 160,151	\$ 307,181
Net Increase (Decrease)	(76,441)	13,660	(62,781)
Cash at End of Year	<u>\$ 70,589</u>	<u>\$ 173,811</u>	<u>\$ 244,400</u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

The Waterworks' funds are combined with the departmental bank accounts of the City of Clarendon in determining the appropriateness of collateralization from financial institutions.

The Waterworks' deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of obligations of the U.S. Treasury and U.S. agencies.

Included in the Waterworks' total cash balances of \$242,848 and \$249,686 at December 31, 2020 and 2019, respectively, are deposits with financial institutions which are categorized as credit risk as follows:

	<u>2020</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 242,848	\$ 262,094
Uninsured and Uncollateralized	-	-
Total	<u>\$ 242,848</u>	<u>\$ 262,094</u>
	<u>2019</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 244,400	\$ 249,686
Uninsured and Uncollateralized	-	-
Total	<u>\$ 244,400</u>	<u>\$ 249,686</u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Trade Receivables, Current	\$ 48,129	\$ 63,685
Trade Receivables, Past Due	<u>15,892</u>	<u>15,826</u>
Total	64,021	79,511
Less Allowance for Doubtful Accounts	<u>18,398</u>	<u>17,999</u>
Net of Allowance for Doubtful Accounts	<u><u>45,623</u></u>	<u><u>61,512</u></u>
Bad Debt Allowance, Beginning of Year	\$ 17,999	\$ 14,688
Write-offs of Bad Debt	(4,176)	-
Current Year Provision	<u>4,575</u>	<u>3,311</u>
Bad Debt Allowance, End of Year	<u><u>\$ 18,398</u></u>	<u><u>\$ 17,999</u></u>

NOTE 4: RESTRICTED ASSETS

An analysis of restricted assets is as follows:

Certificates of Deposit	<u>27,000</u>	<u>27,000</u>
Total Meter Deposit	58,293	53,788
Other	1,525	1,525
Revenue Bond Accounts	<u>130,344</u>	<u>118,498</u>
TOTAL RESTRICTED ASSETS	<u><u>\$ 190,162</u></u>	<u><u>\$ 173,811</u></u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2020 and 2019 is as follows:

	Balance 12/31/2019	<u>2020</u>	Additions	Deletions	Balance 12/31/2020
Capital Assets Not Being Depreciated:					
Land	\$ 8,085	\$ -	\$ -	\$ -	\$ 8,085
Construction in Progress	-	-	-	-	-
Total Capital Assets Not Being Depreciated:	<u>8,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,085</u>
Capital Assets Being Depreciated:					
Building and Improvements	23,297	-	-	-	23,297
Utility Plant	5,167,955	-	-	-	5,167,955
Equipment	340,682	-	-	-	340,682
Total Capital Assets Being Depreciated	<u>5,531,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,531,934</u>
Total Capital Assets	<u>5,540,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,540,019</u>
Less Accumulated Depreciation for:					
Building and Improvements	23,142	-	-	-	23,142
Utility Plant	2,757,171	120,500	-	-	2,877,671
Buildings	325,480	8,720	-	-	334,200
Total Accumulated Depreciation	<u>3,105,793</u>	<u>129,220</u>	<u>-</u>	<u>-</u>	<u>3,235,013</u>
Capital Assets, Net	<u>\$ 2,434,226</u>	<u>\$ (129,220)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,305,006</u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 5: CAPITAL ASSETS (CONTINUED)

	Balance	<u>2019</u>		Balance
	<u>12/31/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2019</u>
Capital Assets Not Being Depreciated:				
Land	\$ 8,085	\$ -	\$ -	\$ 8,085
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated:	<u>8,085</u>	<u>-</u>	<u>-</u>	<u>8,085</u>
Capital Assets Being Depreciated:				
Building and Improvements	23,297	-	-	23,297
Utility Plant	4,852,622	315,333	-	5,167,955
Equipment	<u>340,682</u>	<u>-</u>	<u>-</u>	<u>340,682</u>
Total Capital Assets Being Depreciated	<u>5,216,601</u>	<u>315,333</u>	<u>-</u>	<u>5,531,934</u>
Total Capital Assets	<u>5,224,686</u>	<u>315,333</u>	<u>-</u>	<u>5,540,019</u>
Less Accumulated Depreciation for:				
Building and Improvements	23,093	49	-	23,142
Utility Plant	2,657,491	99,680	-	2,757,171
Buildings	<u>309,405</u>	<u>16,075</u>	<u>-</u>	<u>325,480</u>
Total Accumulated Depreciation	<u>2,989,989</u>	<u>115,804</u>	<u>-</u>	<u>3,105,793</u>
Capital Assets, Net	<u>\$ 2,234,697</u>	<u>\$ 199,529</u>	<u>\$ -</u>	<u>\$ 2,434,226</u>

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$129,220 and \$115,804 respectively.

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6: LONG-TERM DEBT

Long-term debt at December 31, 2020 and 2019 consisted of lease purchase agreements and bonds and notes issued by the Waterworks. Changes for the years then ended are as follows:

	<u>2020</u>			Amount Due	
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Within</u> <u>One Year</u>
United States Department of Agriculture Rural Development: Payments commencing upon completion of repair of sewer system at an interest rate of 3.25%	\$ 408,957	\$ -	\$ 7,557	\$ 401,400	\$ 7,806
United States Department of Agriculture Rural Development: Water and Sewer Revenue Bonds at an interest rate of 2.25%	338,496	-	5,927	332,569	6,073
Note Payable Communities Unlimited	-	-	-	-	-
Lease Purchase Agreement	<u>59,246</u>	<u>-</u>	<u>9,445</u>	<u>49,801</u>	<u>9,996</u>
Total Debt	<u>\$ 806,699</u>	<u>\$ -</u>	<u>\$ 22,929</u>	<u>\$ 783,770</u>	<u>\$ 23,875</u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6: LONG-TERM DEBT (CONTINUED)

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
United States Department of Agriculture Rural Development: Payments commencing upon completion of repair of sewer system at an interest rate of 3.25%	\$ 416,274	\$ -	\$ 7,317	\$ 408,957	\$ 7,557
United States Department of Agriculture Rural Development: Water and Sewer Revenue Bonds at an interest rate of 2.25%	31,495	318,398	11,397	338,496	5,927
Note Payable Communities Unlimited	6,335	-	6,335	-	-
Lease Purchase Agreement	<u>68,170</u>	<u>-</u>	<u>8,924</u>	<u>59,246</u>	<u>9,445</u>
Total Debt	<u>\$ 522,274</u>	<u>\$ 318,398</u>	<u>\$ 33,973</u>	<u>\$ 806,699</u>	<u>\$ 22,929</u>

On January 10, 2011, Ordinance No. 491 was passed authorizing the construction of extensions, betterments, and improvements to the existing water and sewer system of Clarendon Municipal Waterworks, and the issuance and sale of water and sewer revenue bonds for the purpose of financing the cost of these improvements. The bond is secured by a pledge of water and wastewater revenues and a statutory mortgage lien upon the utility plant system. Proceeds from the bond were disbursed and recorded by the Waterworks on a draw basis as costs are incurred during the construction period of the project. The principal amount of the Water Revenue Bonds Series 2012 is \$449,494. The bonds were purchased by the United States Department of Agriculture (USDA) with an interest rate of 3.25% on September 21, 2012. A monthly payment of \$1,728 commenced on October 21, 2012, and will continue for 39 years with any remaining balance being paid in full in year 40, or 2051.

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6: LONG-TERM DEBT (CONTINUED)

On July 18, 2018, Ordinance No. 519 was passed authorizing the construction of extensions, betterments, and improvements to the water system of Clarendon Municipal Waterworks, including particularly, without limitation, elevated water storage tank rehabilitation improvements and the issuance and sale of water and sewer revenue bonds for the purpose of financing the cost of these improvements. The bond is secured by a pledge of water and wastewater revenues and a statutory mortgage lien upon the utility plant system. Proceeds from the bond are disbursed and recorded by the Waterworks on a draw basis as costs are incurred during the construction period of the project. The principal amount of the Water Revenue Bonds Series 2018 is \$353,000. The bonds were purchased by the United States Department of Agriculture (USDA) with an interest rate of 2.125% on September 27, 2018. As of December 31, 2018, the Waterworks had borrowed \$34,603 from United States Department of Agriculture. The loan is payable in monthly installments of \$1,095 at an interest rate of 2.25% for forty years.

Total debt service payments on all indebtedness subsequent to December 31, 2020, are scheduled as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 23,875	\$ 22,719	\$ 46,594
2022	24,844	21,749	46,593
2023	25,859	20,735	46,594
2024	26,903	19,690	46,593
2025	21,675	18,560	40,235
2026-2030	84,213	85,167	169,380
2031-2035	96,754	72,626	169,380
2036-2040	111,239	58,141	169,380
2041-2045	128,019	41,361	169,380
2046-2050	147,426	21,954	169,380
2051-2055	71,031	6,305	77,336
2056-2057	21,932	546	22,478
	<u>\$ 783,770</u>	<u>\$ 389,553</u>	<u>\$ 1,173,323</u>

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 7: RELATED PARTY TRANSACTIONS

As mentioned in Note 1, the Waterworks is a component unit of the City of Clarendon. During the years ended December 31, 2020 and 2019, the Waterworks was involved with the City of Clarendon and its related entities in the following matters:

- (a) The Waterworks rents space from the City of Clarendon for \$300 per month and reimbursed the City General Fund \$3,600 for the year ended December 31, 2020, and \$3,600 for the year ended December 31, 2019.
- (b) At December 31, 2020 and 2019, the amounts due to the Waterworks from the City of Clarendon General Fund were \$73,817 and \$73,817, respectively. This balance arose from transfers made by the Waterworks to the City of Clarendon General Fund.
- (c) On a monthly basis the Waterworks bills and collects, on behalf of the City of Clarendon, for sanitation and landfill, ambulance service, and mosquito control and remits to the City on a monthly basis. The amount of these collections due to the City of Clarendon was \$14,390 at December 31, 2020, and \$14,104 at December 31, 2019.

NOTE 8: RETIREMENT PLAN

The Waterworks contributes to Arkansas Deferred Compensation, a 457 B deferred compensation retirement plan. Benefit terms, including contribution requirements for the Waterworks may be amended by the Clarendon City Council. Employees are immediately vested in their contributions as well as the Waterworks' contributions to the deferred compensation plan.

For each full time employee, the Waterworks is required to contribute 4% of the gross salary. Any end of year incentive bonus, as well as unused accrued vacation that an employee receives is not eligible for employer contributions. The Waterworks has no requirements for amounts contributed by employees. For the year ended December 31, 2020, the Waterworks contributed \$3,869 and recognized a pension expense of \$3,869. The Waterworks made all required contributions required by the plan.

CLARENDON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 9: RISK MANAGEMENT

The Waterworks has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Payments and premiums for these policies are recorded as expenses of the Waterworks. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant changes in coverage compared to the prior year.

NOTE 10: SUBSEQUENT EVENTS

The Clarendon Municipal Waterworks did not have any recognized or nonrecognized subsequent events occur after December 31, 2020, the date of the statement of financial position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through March 3, 2023, the date the financial statements were available to be issued.

CLARENDON MUNICIPAL WATERWORKS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2020

	Actual (Budgetary Basis) (See Note A)	Original and Final Budget	Favorable (Unfavorable) Variance
OPERATING RECEIPTS:			
Water and Sewer Services			
Water Services	\$ 278,396	\$ 227,500	\$ 50,896
Sewer Services	135,301	130,000	5,301
TOTAL WATER & SEWER SERVICES	<u>413,697</u>	<u>357,500</u>	<u>56,197</u>
Other Operating Receipts			
Reconnection & Late Fees	14,860	1,500	13,360
Miscellaneous Revenue	3,514	41,600	(38,086)
TOTAL OTHER OPERATING RECEIPTS	<u>18,374</u>	<u>43,100</u>	<u>(24,726)</u>
TOTAL OPERATING RECEIPTS	<u>432,071</u>	<u>400,600</u>	<u>31,471</u>
OPERATING DISBURSEMENTS:			
Personnel Service Expenses			
Salaries	132,932	109,561	(23,371)
Employee Benefits	29,468	23,620	(5,848)
Payroll Taxes	32,198	19,800	(12,398)
TOTAL PERSONNEL SERVICE	<u>194,598</u>	<u>152,981</u>	<u>(41,617)</u>
Operation and Maintenance Expense:			
Insurance	4,595	5,400	805
Legal and Audit	4,215	5,400	1,185
Meetings and Travel	40	3,500	3,460
Miscellaneous	7,354	-	(7,354)
Office Supplies and Postage	5,782	6,600	818
Operating Supplies and Chemicals	36,666	37,000	334
Permits, Licenses, and Dues	7,530	9,146	1,616
Plant Repair and Maintenance	130,030	60,000	(70,030)
Rent	3,600	3,600	-
Utilities	42,323	40,900	(1,423)
Capital Asset Purchases	-	5,000	5,000
Sales Tax	-	24,000	24,000
TOTAL OPERATION AND MAINTENANCE	<u>242,135</u>	<u>200,546</u>	<u>(41,589)</u>
TOTAL OPERATING EXPENSES	<u>436,733</u>	<u>353,527</u>	<u>(83,206)</u>
Other Income (Expense)			
Interest Income	897	800	97
Debt Service Payments	(46,594)	(48,231)	1,637
Transfers	16,971	-	16,971
TOTAL OTHER INCOME (EXPENSE)	<u>(28,726)</u>	<u>(47,431)</u>	<u>18,705</u>
RECEIPTS IN EXCESS OF DISBURSEMENTS	<u>\$ (33,388)</u>	<u>\$ (358)</u>	<u>\$ (33,030)</u>

See independent auditors' report on required supplementary information.

CLARENDON MUNICIPAL WATERWORKS
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE A - BUDGET-TO-ACTUAL RECONCILIATION

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Uses/outflows of resources:

Actual amounts (budgetary basis) from the Budgetary Comparison Schedule	\$ (33,388)
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Differences - budget to GAAP:

Purchases of Capital Assets	-
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Debt Service Payments included as an outflow of budgetary resources	46,594
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Interest included in Debt Service Payments treated as expense for GAAP purposes	(23,665)
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Bad Debt Expense not treated as an outflow of budgetary resources	(4,575)
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Depreciation of Capital Items for GAAP purposes	<u>(129,220)</u>
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Increase (Decrease) in Net Position	<u>\$ (144,254)</u>
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CLARENDON MUNICIPAL WATERWORKS
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING EXPENSES:		
Personnel Service Expenses		
Salaries	\$ 132,932	\$ 128,792
Employee Benefits	29,468	21,151
Payroll Taxes	<u>32,198</u>	<u>2,709</u>
 TOTAL PERSONNEL SERVICE	 <u>194,598</u>	 <u>152,652</u>
Operation and Maintenance Expense:		
Bad Debts	4,575	6,140
Insurance	4,595	5,578
Legal and Audit	4,215	8,428
Meetings and Travel	40	1,433
Miscellaneous	7,354	11,413
Office Supplies and Postage	5,782	6,676
Operating Supplies and Chemicals	36,666	39,730
Permits, Licenses, and Dues	7,530	7,432
Plant Repair and Maintenance	130,030	72,728
Rent	3,600	3,600
Utilities	<u>42,323</u>	<u>44,504</u>
 TOTAL OPERATION AND MAINTENANCE	 <u>246,710</u>	 <u>207,662</u>
 Depreciation	 <u>129,220</u>	 <u>115,804</u>
 OPERATING EXPENSES	 <u><u>\$ 570,528</u></u>	 <u><u>\$ 476,118</u></u>

See independent auditors' report on supplementary information.

CLARENDON MUNICIPAL WATERWORKS
SCHEDULE OF ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020

CUSTOMERS

The average number of active customers for the year ended December 31, 2020, was .

RESTRICTED ASSETS - CASH

Activity for the year ended December 31, 2020, for cash restricted by bond agreements is as follows:

	<u>Balance</u> <u>12/31/2019</u>	<u>Interest &</u> <u>Additions</u>	<u>Transfers &</u> <u>Withdrawals</u>	<u>Balance</u> <u>12/31/2020</u>
1993 Revenue Bond Fund	\$ 23,933	\$ 72	\$ -	\$ 24,005
1995 Debt Service Fund	5,493	-	-	5,493
1995 Depreciation Reserve	81,871	4,535	-	86,406
2011 Debt Service Fund	591	-	-	591
2018 Revenue Bond Fund	<u>8,135</u>	<u>7,239</u>	<u>-</u>	<u>15,374</u>
	<u>\$ 120,023</u>	<u>\$ 11,846</u>	<u>\$ -</u>	<u>\$ 131,869</u>

BILLING RATES

As of December 31, 2020, residential water and sewer rates (per 1,000 gallons) are as follows:

<u>Gallons Used</u>	<u>All</u> <u>Water</u>	<u>Residential</u> <u>Sewer</u>	<u>Commercial</u> <u>Sewer</u>
First 1,000 (minimum)	\$ 8.00	\$ 42.00	\$ 16.00
Remainder	3.62	1.20	0.60

See independent auditors' report on supplementary information.

CLARENDON MUNICIPAL WATERWORKS
CITY COUNCIL AND MANAGEMENT
DECEMBER 31, 2020

Jim Stinson	Mayor
Diane Cunningham	Alderman
L.E. Cole	Alderman
Mike Rogers	Alderman
David Brown	Alderman
Carlton Self	Alderman
Allen James	Alderman
Deborah Thompson	City Clerk
Steven Parrish	Waterworks Manager
Tonya Malone	Waterworks Clerk

See independent auditors' report on supplementary information.

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

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*

City Council
Clarendon Municipal Waterworks
Clarendon, 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 Clarendon Municipal Waterworks as of and for the year ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Clarendon Municipal Waterworks' basic financial statements, and have issued our report thereon dated March 3, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clarendon Municipal Waterworks' 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 Clarendon Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of Clarendon Municipal Waterworks' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

City Council
Clarendon Municipal Waterworks
Clarendon, Arkansas
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clarendon Municipal Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test 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 intended 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.

Cobb and Suskie, Ltd.

Certified Public Accountants
March 3, 2023