

Community Water System
Public Water Authority of the State of Arkansas
Independent Auditor's Reports and Financial Statements
December 31, 2020 and 2019

**Community Water System
Public Water Authority of the State of Arkansas
December 31, 2020 and 2019**

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Financial Statements	
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	14
Supplementary and Other Information	
Schedule of Functional Expenses	29
Schedules of Water Sales (Unaudited)	30
Schedules of Insurance Coverage (Unaudited).....	31
Board of Directors (Unaudited).....	32
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report	33

Independent Auditor's Report

Board of Directors
Community Water System
Public Water Authority of the State of Arkansas
Greers Ferry, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Community Water System Public Water Authority of the State of Arkansas (the Authority) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority'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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Water System Public Water Authority of the State of Arkansas as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of functional expenses, schedules of water sales, the schedules of insurance coverage and the list of board of directors as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Board of Directors
Community Water System
Public Water Authority of the State of Arkansas
Page 3

The schedules of water sales, the schedules of insurance coverage and the list of board of directors have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 9, 2021, on our consideration of the Authority'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 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 Authority'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 Authority's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
March 9, 2021

Community Water System
Public Water Authority of the State of Arkansas
Management’s Discussion and Analysis (Unaudited)
Years Ended December 31, 2020 and 2019

Introduction

This management’s discussion and analysis of the financial performance of Community Water System Public Water Authority of the State of Arkansas (the Authority) provides an overview of the Authority’s financial activities for the years ended December 31, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Operating (unrestricted) cash and cash equivalents decreased in 2020 by \$170,153, or 14%, and increased in 2019 by \$80,279, or 7%.
- Net position increased in 2020 by \$288,730, or 2%, and increased in 2019 by \$320,822, or 2%.
- The Authority reported operating income of \$1,194,582 and \$1,452,323 in 2020 and 2019, respectively.

Using This Annual Report

The Authority’s financial statements consist of three statements—the balance sheets, the statements of revenues, expenses and changes in net position and the statements of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors or grantors. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority’s finances is, “Is the Authority, as a whole, better or worse off as a result of the year’s activities?” The balance sheets and the statements of revenues, expenses and changes in net position report information about the Authority’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, any deferred outflows of resources, all liabilities and any deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2020 and 2019

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets plus deferred outflows of resources, if any, and liabilities plus deferred inflows of resources, if any—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's meter base, measures of the quantity and quality of services provided to its customers and local economic factors also should be considered to assess the overall financial health of the Authority.

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities (when applicable). It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

Net position is the difference between assets plus deferred outflows of resources, if any, and liabilities plus deferred inflows of resources, if any, reported in the balance sheets. The Authority's net position, shown in *Table 1*, increased in 2020 and increased in 2019 by \$288,730 and \$320,822, or 2% both years.

Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2020 and 2019

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 1,039,682	\$ 1,209,835	\$ 1,129,556
Restricted cash and cash equivalents – current	1,210,680	1,068,920	1,241,923
Certificates of deposit	602,134	591,118	579,537
Investments	131,913	146,245	117,448
Accounts receivable	881,282	897,427	829,048
Other current assets	578,601	620,221	653,632
Capital assets, net	46,166,497	45,407,887	44,456,760
Other noncurrent assets	2,822,973	4,204,757	4,456,730
Total assets	<u>53,433,762</u>	<u>54,146,410</u>	<u>53,464,634</u>
Deferred Outflows of Resources			
	<u>112,767</u>	<u>119,305</u>	<u>104,139</u>
Total assets and deferred outflows of resources	<u>\$ 53,546,529</u>	<u>\$ 54,265,715</u>	<u>\$ 53,568,773</u>
Liabilities			
Current liabilities	\$ 1,485,128	\$ 1,656,162	\$ 1,562,171
Long-term debt	36,272,839	37,142,344	36,860,550
Other liabilities – noncurrent	156,603	123,980	123,645
Total liabilities	<u>37,914,570</u>	<u>38,922,486</u>	<u>38,546,366</u>
Net Position			
Net invested in capital assets	10,469,219	10,431,597	9,211,421
Restricted	2,260,979	1,864,314	2,675,501
Unrestricted	2,901,761	3,047,318	3,135,485
Total net position	<u>15,631,959</u>	<u>15,343,229</u>	<u>15,022,407</u>
Total liabilities and net position	<u>\$ 53,546,529</u>	<u>\$ 54,265,715</u>	<u>\$ 53,568,773</u>

During 2020, there was an decrease in unrestricted cash and cash equivalents of \$170,153, or 14%, primarily due to the Authority using more cash during the current year to fund operations. Unrestricted cash and cash equivalents increased in 2019 by \$80,279, or 7%, primarily due to the Authority using less cash during the year to fund operations. There was a decrease in restricted assets in 2020 of \$1,240,024, or 24%, and a decrease in 2019 of \$424,976, or 7%, due to expenditures on capital projects.

Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2020 and 2019

Capital assets, net of accumulated depreciation, increased \$758,610 after depreciation expense of \$1,619,142 during 2020. During 2019, capital assets, net of accumulated depreciation, increased \$951,127, including the effect of depreciation expense of \$1,596,200.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net water sales	\$ 7,214,712	\$ 7,090,102	\$ 6,767,311
Other operating revenues	280,557	258,664	243,430
Total operating revenues	<u>7,495,269</u>	<u>7,348,766</u>	<u>7,010,741</u>
Operating Expenses			
Production expense	1,991,606	2,020,019	1,922,597
Transmission and distribution expense	1,954,300	1,588,958	1,598,064
General and administrative expense	908,828	889,262	879,262
Faulkner/Cleburne Counties distribution expense	1,445,953	1,398,204	1,421,820
Total operating expenses	<u>6,300,687</u>	<u>5,896,443</u>	<u>5,821,743</u>
Operating Income	<u>1,194,582</u>	<u>1,452,323</u>	<u>1,188,998</u>
Nonoperating Revenues (Expenses)			
Gain on disposal of capital assets	5,852	4,000	-
Investment income	85,391	141,786	43,396
Other income	154,453	135,790	101,407
Bond issuance costs	-	(98,465)	(97,483)
Interest expense	(1,387,953)	(1,379,874)	(1,284,173)
Net nonoperating expenses	<u>(1,142,257)</u>	<u>(1,196,763)</u>	<u>(1,236,853)</u>
Income (Loss) Before Capital Contributions	52,325	255,560	(47,855)
Capital Contributions	<u>236,405</u>	<u>65,262</u>	<u>-</u>
Change in Net Position	<u>\$ 288,730</u>	<u>\$ 320,822</u>	<u>\$ (47,855)</u>

Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2020 and 2019

Operating Income

In 2020, the Authority's operating income decreased by \$257,741 compared to 2019, as shown in *Table 2*. The decrease was driven primarily by an increase of approximately \$323,000 in repairs and maintenance in 2020 compared to 2019.

In 2019, the Authority's operating income increased by \$263,325 compared to 2018, as shown in *Table 2*. The primary component of the increase in operating income is an increase in net water sales of approximately \$323,000 in 2019 compared to 2018.

Nonoperating Revenues and Expenses

The Authority also has investment income and interest expense, of which investment income decreased by \$56,395 in 2020 compared to 2019 due to a decrease in rates and unrealized losses on investments. Interest expense increased by \$8,079 in 2020 compared to 2019 due to a full year of interest expense on the debt issued in 2019. Capital contributions increased by \$171,143 in 2020 compared to 2019.

Investment income increased by \$98,390 in 2019 compared to 2018 due to increase in rates and unrealized gains on investments. Interest expense increased by \$95,701 in 2019 compared to 2018 due to the issuance of additional debt in 2019. Capital contributions increased by \$65,262 in 2019 compared to 2018.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020 and 2019, the Authority had \$46,166,497 and \$45,407,887, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 3* to the financial statements. In 2020, the Authority added \$2,332,971 in system infrastructure. In 2019, the Authority added \$2,547,327 in new system infrastructure.

Debt

At December 31, 2020, the Authority had \$37,144,020 outstanding in revenue bonds and lease payable, which decreased by 696,126, or 2%. At the end of 2019, the Authority had \$37,840,146 in bonds payable, which increased by \$36,391, or 0.10%. During the 2019, the Authority issued \$5,350,000 of revenue refunding and improvement bonds (Series 2019) to refund the Series 2014 Bonds and to finance the cost of certain capital improvements as detailed in *Note 4*.

Community Water System
Public Water Authority of the State of Arkansas
Management's Discussion and Analysis (Unaudited) (Continued)
Years Ended December 31, 2020 and 2019

Contacting the Authority's Financial Management

This financial report is designed to provide customers, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority by calling 501.825.7294.

Community Water System
Public Water Authority of the State of Arkansas
Balance Sheets
December 31, 2020 and 2019

Assets and Deferred Outflows of Resources

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 1,039,682	\$ 1,209,835
Restricted cash and cash equivalents – current	1,210,680	1,068,920
Investments	131,913	146,245
Certificates of deposit	602,134	591,118
Accounts receivable – customers	859,110	869,932
Accounts receivable – other	22,172	27,495
Inventory	475,353	519,561
Prepaid expenses	<u>103,248</u>	<u>100,660</u>
Total current assets	<u>4,444,292</u>	<u>4,533,766</u>
Noncurrent Assets		
Restricted assets		
Cash and cash equivalents	1,849,243	3,125,241
Investments	2,183,350	2,147,376
Accrued interest receivable	<u>1,060</u>	<u>1,060</u>
	4,033,653	5,273,677
Less amount required to meet current obligations	<u>1,210,680</u>	<u>1,068,920</u>
Total restricted assets	<u>2,822,973</u>	<u>4,204,757</u>
Capital assets – nondepreciable	4,827,159	5,399,719
Capital assets – depreciable, net	<u>41,339,338</u>	<u>40,008,168</u>
Total capital assets, net	<u>46,166,497</u>	<u>45,407,887</u>
Total noncurrent assets	<u>48,989,470</u>	<u>49,612,644</u>
Total assets	<u>53,433,762</u>	<u>54,146,410</u>
Deferred Outflows of Resources		
Deferred amount on bond refundings	<u>112,767</u>	<u>119,305</u>
Total assets and deferred outflows of resources	<u>\$ 53,546,529</u>	<u>\$ 54,265,715</u>

Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 841,643	\$ 697,802
Accounts payable – trade	239,659	338,293
Accrued expenses	13,540	9,211
Unearned revenue	3,332	239,738
Accrued interest payable	386,954	371,118
	<u>1,485,128</u>	<u>1,656,162</u>
Noncurrent Liabilities		
Bonds payable, net	36,272,839	37,142,344
Lease liability	29,538	-
Customer meter deposits	127,065	123,980
	<u>36,429,442</u>	<u>37,266,324</u>
	<u>37,914,570</u>	<u>38,922,486</u>
Net Position		
Net investment in capital assets	10,469,219	10,431,597
Restricted for debt service	2,260,979	1,864,314
Unrestricted	2,901,761	3,047,318
	<u>15,631,959</u>	<u>15,343,229</u>
	<u>\$ 53,546,529</u>	<u>\$ 54,265,715</u>

Community Water System
Public Water Authority of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water sales		
Retail	\$ 2,986,560	\$ 2,891,403
Wholesale	4,228,152	4,198,699
	<u>7,214,712</u>	<u>7,090,102</u>
Service fees	17,300	11,560
Miscellaneous operating revenues	263,257	247,104
	<u>7,495,269</u>	<u>7,348,766</u>
Operating Expenses		
Production expense	1,991,606	2,020,019
Transmission and distribution expense	1,954,300	1,588,958
General and administrative expense	908,828	889,262
Faulkner/Cleburne Counties distribution expense	1,445,953	1,398,204
	<u>6,300,687</u>	<u>5,896,443</u>
Operating Income	<u>1,194,582</u>	<u>1,452,323</u>
Nonoperating Revenues (Expenses)		
Gain on disposal of capital assets	5,852	4,000
Investment income	85,391	141,786
Other income	154,453	135,790
Bond issuance costs	-	(98,465)
Interest expense	(1,387,953)	(1,379,874)
	<u>(1,142,257)</u>	<u>(1,196,763)</u>
Income Before Capital Contributions	52,325	255,560
Capital Contributions	<u>236,405</u>	<u>65,262</u>
Increase in Net Position	288,730	320,822
Net Position, Beginning of Year	<u>15,343,229</u>	<u>15,022,407</u>
Net Position, End of Year	<u>\$ 15,631,959</u>	<u>\$ 15,343,229</u>

Community Water System
Public Water Authority of the State of Arkansas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Customer receipts	\$ 7,230,857	\$ 7,021,723
Service fee receipts	17,300	11,560
Other receipts	417,710	382,894
Payments to suppliers and contractors	(2,493,520)	(2,053,707)
Payments to employees	(972,633)	(944,676)
Other payments	<u>(1,264,992)</u>	<u>(1,232,238)</u>
Net cash provided by operating activities	<u>2,934,722</u>	<u>3,185,556</u>
Capital and Related Financing Activities		
Acquisition of capital assets	(2,330,298)	(2,404,821)
Proceeds from sale of capital assets	5,852	4,000
Capital contributions	-	305,000
Bond issuance costs	-	(98,465)
Principal paid on long-term debt	(697,801)	(5,268,206)
Proceeds from issuance of debt	-	5,350,000
Interest paid on long-term debt	<u>(1,411,359)</u>	<u>(1,519,169)</u>
Net cash used in capital and related financing activities	<u>(4,433,606)</u>	<u>(3,631,661)</u>
Investing Activities		
Sale of investments	-	253,202
Sale of certificates of deposit	602,134	1,390,000
Purchase of certificates of deposit	(602,134)	-
Investment income	<u>52,733</u>	<u>101,408</u>
Net cash provided by investing activities	<u>52,733</u>	<u>1,744,610</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,446,151)	1,298,505
Cash and Cash Equivalents, Beginning of Year	<u>4,335,076</u>	<u>3,036,571</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,888,925</u>	<u>\$ 4,335,076</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,039,682	\$ 1,209,835
Restricted cash and cash equivalents	<u>1,849,243</u>	<u>3,125,241</u>
Total cash and cash equivalents	<u>\$ 2,888,925</u>	<u>\$ 4,335,076</u>

Community Water System
Public Water Authority of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 1,194,582	\$ 1,452,323
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	1,619,142	1,596,200
Other income	154,453	135,790
Change in operating assets and liabilities		
Accounts receivables	16,145	(68,379)
Prepaid expenses	(2,588)	(5,945)
Inventory	44,208	39,356
Accounts payable	(98,634)	39,790
Accrued expenses and other liabilities	7,414	(3,579)
Net cash provided by operating activities	\$ 2,934,722	\$ 3,185,556
 Noncash Investing, Capital and Financing Activities		
Lease obligation incurred for lease asset	\$ 47,455	\$ -
Capital asset acquisition included in accounts payable	\$ -	\$ 142,506

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Community Water System Public Water Authority of the State of Arkansas (the Authority) is a Public Water Authority authorized and formed under Arkansas Code Ann. 4-35-201 to 217. The purpose of the Authority is to associate its users together for their mutual benefit for the purpose of constructing, maintaining and operating a water system. The system is supported primarily through service revenue and other user fees.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, investment income and interest on capital assets – related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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, liabilities and deferred outflows of resources 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 Equivalents

The Authority considers all liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Accounts Receivable

Accounts receivable consist of amounts due from customers for water sales and are stated at the amount billed to customers plus any accrued and unpaid late fees. Accounts receivable are ordinarily due on the 15th of the month following the month billed. Accounts that are unpaid after the due date are charged a late fee. Accounts more than 30 days past due are considered delinquent and service is disconnected. Accounts are written off as bad debts based on individual credit evaluation and specific circumstances of the account. No allowance for uncollectible accounts has been recorded as of December 31, 2020 and 2019, because management believes any potential uncollectible accounts are immaterial to the financial statements.

Inventories

Inventories consist of materials and supplies used in operations and are stated at the lower of cost or market. Cost is determined using the weighted-average cost.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in money market mutual funds are carried at amortized cost.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value. Investment income is included as nonoperating revenue in the statements of revenues, expenses and changes in net position.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The following estimated useful lives are being used by the Authority:

Supply, treatment and distribution facilities	10–50 years
Equipment	3–10 years
Water storage space	40 years

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Property acquired with grant funds is considered to be owned by the Authority while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased, as well as any proceeds therefrom, is subject to federal regulation.

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Deferred Outflows of Resources

The Authority reports the consumption of net position applicable to future periods as deferred outflows of resources in a separate section of its balance sheets.

Unearned Revenue

Unearned revenue represents an advance on a grant award for which the Authority has not met all of the applicable eligibility requirements.

Risk Management

The Authority 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, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Net Position

Net position of the Authority is classified into three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors or others external to the Authority, including amounts deposited with trustees as required by bond indentures.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria.

Operating revenues include activities that have the characteristics of exchange transactions, such as assessments levied, industrial surcharges, connection fee and other water fees and are reported as operating revenues. Transactions which are capital, financing or investing related are reported as nonoperating revenues.

Income Taxes

As an essential government function of the State of Arkansas, the Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Government Grants

Support funded by grants is recognized as the Authority performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019**

Note 2: Deposits, Investments and Investment Income

Deposits

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 Authority’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special road district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2020 and 2019, respectively, \$1,626,656 and \$1,492,595 of the Authority’s bank balances of \$1,876,656 and \$1,742,595 were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and collateral held by pledging financial institution in other than the Authority’s name	\$ 1,626,656	\$ 1,492,595

Investments

Arkansas statutes authorize the Authority to invest in direct obligations of the U.S. government; obligations on which the principal and interest are fully guaranteed or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. government; obligations of agencies and instrumentalities created by an act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the *Investment Company Act of 1940* and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

At December 31, 2020 and 2019, the Authority had the following investments and maturities:

Type	December 31, 2020				
	Fair Value	Less than 1	Maturities in Years		
			1-5	6-10	More than 10
U.S. treasury notes	\$ 2,113,005	\$ 1,498,160	\$ 614,845	\$ -	\$ -
Fixed income	70,345	70,345	-	-	-
		<u>\$ 1,568,505</u>	<u>\$ 614,845</u>	<u>\$ -</u>	<u>\$ -</u>
Equities	<u>131,913</u>				
	<u>\$ 2,315,263</u>				

Type	December 31, 2019				
	Fair Value	Less than 1	Maturities in Years		
			1-5	6-10	More than 10
U.S. treasury notes	\$ 2,004,318	\$ 470,684	\$ 1,533,634	\$ -	\$ -
Fixed income	143,058	-	143,058	-	-
		<u>\$ 470,684</u>	<u>\$ 1,676,692</u>	<u>\$ -</u>	<u>\$ -</u>
Equities	<u>146,245</u>				
	<u>\$ 2,293,621</u>				

Certain immaterial revisions have been made to the above disclosure to include the maturities of investments at December 31, 2019. This revision did not have an impact on the financial statements.

Interest Rate Risk – The Authority’s policy does not limit the maturity of a single investment. The average-weighted maturities of the underlying investments in the Authority’s money market mutual funds are less than one year.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2020 and 2019, the Authority’s investment in money market mutual funds were rated AAAM and Aaa-mf by Standard & Poor’s and Moody’s, respectively.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The Authority’s investment policy does not specifically address credit risk, concentration of credit risk or custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown are included in the balance sheets as follows:

	2020	2019
Carrying value		
Deposits	\$ 2,543,089	\$ 2,422,907
Investments	3,263,233	4,796,908
	\$ 5,806,322	\$ 7,219,815
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	\$ 1,039,682	\$ 1,209,835
Certificates of deposit	602,134	591,118
Investments	131,913	146,245
Restricted assets		
Cash and cash equivalents	1,849,243	3,125,241
Investments	2,183,350	2,147,376
	\$ 5,806,322	\$ 7,219,815

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost.

The Authority’s recurring fair value measurements as of December 31, 2020, consist of U.S. treasury notes, fixed income and common stock securities, which are valued using quoted market prices (Level 1 inputs). The Authority’s recurring fair value measurements as of

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

December 31, 2019, consist of U.S. treasury notes and common stock securities, which are valued using quoted market prices (Level 1 inputs).

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2020				
Investments by fair value level				
Equities	\$ 131,913	\$ 131,913	\$ -	\$ -
U.S. treasury notes	2,113,005	2,113,005	-	-
Fixed income	70,345	70,345	-	-
	<u>70,345</u>	<u>70,345</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 2,315,263</u>	<u>\$ 2,315,263</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2019				
Investments by fair value level				
Equities	\$ 146,245	\$ 146,245	\$ -	\$ -
U.S. treasury notes	2,004,318	2,004,318	-	-
Fixed income	143,058	143,058	-	-
	<u>143,058</u>	<u>143,058</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 2,293,621</u>	<u>\$ 2,293,621</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Income

Total investment return is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 99,723	\$ 112,989
Net realized and unrealized gains (losses) on investments	<u>(14,332)</u>	<u>28,797</u>
	<u>\$ 85,391</u>	<u>\$ 141,786</u>

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 3: Capital and Lease Assets

Capital and lease assets activity for the years ended December 31, 2020 and 2019, was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Net Transfers	
Capital Assets, Nondepreciable					
Land and land rights	\$ 464,663	\$ -	\$ -	\$ -	\$ 464,663
Construction in progress	4,935,056	2,332,971	-	(2,905,531)	4,362,496
Total capital assets, nondepreciable	<u>5,399,719</u>	<u>2,332,971</u>	<u>-</u>	<u>(2,905,531)</u>	<u>4,827,159</u>
Capital Assets, Depreciable					
Supply, treatment and distribution facilities	71,294,295	47,455	86,200	2,905,531	74,161,081
Water storage space	1,000,478	-	-	-	1,000,478
Total capital assets, depreciable	<u>72,294,773</u>	<u>47,455</u>	<u>86,200</u>	<u>2,905,531</u>	<u>75,161,559</u>
Total capital assets	<u>77,694,492</u>	<u>2,380,426</u>	<u>86,200</u>	<u>-</u>	<u>79,988,718</u>
Less accumulated depreciation					
Supply, treatment and distribution facilities	31,856,104	1,593,903	83,526	-	33,366,481
Water storage space	430,501	25,239	-	-	455,740
	<u>32,286,605</u>	<u>1,619,142</u>	<u>83,526</u>	<u>-</u>	<u>33,822,221</u>
Total capital assets, net	<u>\$45,407,887</u>	<u>\$ 761,284</u>	<u>\$ 2,674</u>	<u>\$ -</u>	<u>\$46,166,497</u>

The activity above includes an equipment lease valued at \$47,455 with no accumulated depreciation as of December 31, 2020.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

	2019				
	Beginning Balance	Additions	Disposals	Net Transfers	Ending Balance
Capital Assets, Nondepreciable					
Land and land rights	\$ 464,663	\$ -	\$ -	\$ -	\$ 464,663
Construction in progress	2,483,076	2,535,905	-	(83,925)	4,935,056
Total capital assets, nondepreciable	<u>2,947,739</u>	<u>2,535,905</u>	<u>-</u>	<u>(83,925)</u>	<u>5,399,719</u>
Capital Assets, Depreciable					
Supply, treatment and distribution facilities	71,231,752	11,422	32,804	83,925	71,294,295
Water storage space	1,000,478	-	-	-	1,000,478
Total capital assets, depreciable	<u>72,232,230</u>	<u>11,422</u>	<u>32,804</u>	<u>83,925</u>	<u>72,294,773</u>
Total capital assets	<u>75,179,969</u>	<u>2,547,327</u>	<u>32,804</u>	<u>-</u>	<u>77,694,492</u>
Less accumulated depreciation					
Supply, treatment and distribution facilities	30,317,946	1,570,962	32,804	-	31,856,104
Water storage space	405,263	25,238	-	-	430,501
	<u>30,723,209</u>	<u>1,596,200</u>	<u>32,804</u>	<u>-</u>	<u>32,286,605</u>
Total capital assets, net	<u>\$ 44,456,760</u>	<u>\$ 951,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,407,887</u>

**Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019**

Note 4: Long-Term Debt

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2020 and 2019:

Description	2020				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Revenue bonds payable (A)	\$ 3,672,444	\$ -	\$ 167,801	\$ 3,504,643	\$ 173,726
Revenue bonds payable (B)	24,390,000	-	200,000	24,190,000	205,000
Revenue bonds payable (C)	250,000	-	80,000	170,000	85,000
Revenue bonds payable (E)	3,135,000	-	215,000	2,920,000	220,000
Revenue bonds payable (F)	5,350,000	-	35,000	5,315,000	140,000
Lease liability (H)	-	47,455	-	47,455	17,917
	36,797,444	47,455	697,801	36,147,098	841,643
Premium on 2012 bonds	1,058,270	-	46,355	1,011,915	-
Discount on 2019 bonds	(15,568)	-	(575)	(14,993)	-
	1,042,702	-	45,780	996,922	-
	<u>\$ 37,840,146</u>	<u>\$ 47,455</u>	<u>\$ 743,581</u>	<u>\$ 37,144,020</u>	<u>\$ 841,643</u>

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Description	2019				Amount Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Revenue bonds payable (A)	\$ 3,834,524	\$ -	\$ 162,080	\$ 3,672,444	\$ 167,802
Revenue bonds payable (B)	24,590,000	-	200,000	24,390,000	200,000
Revenue bonds payable (C)	325,000	-	75,000	250,000	80,000
Revenue bonds payable (D)	4,475,000	-	4,475,000	-	-
Revenue bonds payable (E)	3,340,000	-	205,000	3,135,000	215,000
Revenue bonds payable (F)	-	5,350,000	-	5,350,000	35,000
Note payable (G)	151,126	-	151,126	-	-
	<u>36,715,650</u>	<u>5,350,000</u>	<u>5,268,206</u>	<u>36,797,444</u>	<u>697,802</u>
Premium on 2012 bonds	1,104,625	-	46,355	1,058,270	-
Discount on 2014 bonds	(16,520)	-	(16,520)	-	-
Discount on 2019 bonds	-	(15,663)	(95)	(15,568)	-
	<u>1,088,105</u>	<u>(15,663)</u>	<u>29,740</u>	<u>1,042,702</u>	<u>-</u>
	<u>\$ 37,803,755</u>	<u>\$ 5,334,337</u>	<u>\$ 5,297,946</u>	<u>\$ 37,840,146</u>	<u>\$ 697,802</u>

- (A) The revenue bonds payable consist of Water Refunding and Improvement Revenue Bonds Series 2005 in the original amount of \$5,450,000 dated October 1, 2005, which bear interest at 2.50% and an additional service fee of 1.00%. The bonds are payable in semi-annual installments through April 15, 2036. The Authority is required to make monthly deposits to the debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (B) The revenue bonds payable consist of Water Revenue Refunding Bonds Series 2012A in the original amount of \$25,700,000 dated November 1, 2012, which bear interest at 1.00% to 4.00%. The bonds are payable in semi-annual installments through October 2042. The Authority is required to make monthly deposits to the debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

- (C) The revenue bonds payable consist of Water Revenue Refunding Bonds Series 2012B in the original amount of \$745,000 dated November 1, 2012, which bear interest at 3.213%. The bonds are payable in semi-annual installments through October 2022. The Authority is required to make monthly deposits to the debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (D) The revenue bonds payable consist of Water Revenue Refunding Bonds Series 2014 in the original amount of \$5,015,000 dated March 1, 2014, which bear interest at 1.00% to 4.25%. The bonds were payable in semi-annual installments through February 2039. The bonds were refunded during 2019 by the Series 2019 Bonds.
- (E) The revenue bonds payable consist of Construction Refunding Bonds Series 2018 in the original amount of \$3,340,000, dated July 31, 2018, which bear interest at 3.00% to 3.950%. The bonds are payable at annual installments through February 2048. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (F) On October 17, 2019, the Authority issued \$5,350,000 of revenue refunding and improvement bonds (Series 2019) to refund the Series 2014 Bonds and to finance the cost of certain capital improvements. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$120,047 is reported as a deferred outflow of resources in the balance sheets and is being amortized through the year 2039 using the straight-line method. The bonds bear interest at 2.125% to 3.125% and are payable in semi-annual installments through February 2046. The Authority is required to make monthly deposits to the bond fund and debt service fund in varying amounts to meet principal and interest requirements. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$220,000. The current refunding decreased total debt service payments over the next 20 years by approximately \$375,000. The bonds are secured by the net revenues and accounts receivable of the Authority and the assets restricted under the bond indenture agreement.
- (G) Payable \$5,550 per month with remaining balance paid on November 15, 2019, including interest at 3.15%, secured by certificates of deposit.
- (H) The Authority leases equipment for \$1,595 per month, including interest at 3.125%, with a final payment due July 2023. The lease has an end of lease purchase option of \$1.

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as restricted assets in the balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 110% and restrictions on incurrence of additional debt. If the Authority fails to comply with its covenant in any fiscal year, it will undertake a study of the rate revisions necessary to again be in compliance with the covenant.

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds and lease payable outstanding at December 31, 2020:

	<u>Principal</u>	<u>Interest</u>
2021	\$ 841,643	\$ 1,386,392
2022	868,345	1,362,254
2023	1,102,264	1,340,462
2024	1,142,785	1,297,273
2025	1,184,591	1,252,193
2026–2030	6,758,768	5,465,329
2031–2035	8,363,820	3,917,274
2036–2040	8,964,881	2,347,077
2041–2045	5,820,000	645,300
2046–2050	1,100,001	56,919
	<u>\$ 36,147,098</u>	<u>\$ 19,070,473</u>

Note 5: Construction Commitments

At December 31, 2020, the Authority had the following commitments:

	<u>Project</u>	<u>Expended</u>	<u>Remaining</u>
	<u>Authorization</u>	<u>Through</u>	<u>Commitment</u>
		<u>December 31,</u>	
		<u>2020</u>	
Plant Improvements	\$ 216,000	\$ 180,750	\$ 35,250
Edgemont Station	48,000	38,500	9,500
Total	<u>\$ 264,000</u>	<u>\$ 219,250</u>	<u>\$ 44,750</u>

Community Water System
Public Water Authority of the State of Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 6: Pension Plan

The Authority contributes to a non-trusted defined contribution SEP-IRA pension plan (the Plan) covering substantially all employees who have been employed at least two years and who have attained the age of 21. The Plan was established to provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and may be amended by the board of directors of the Authority. At December 31, 2020 and 2019, there were approximately 25 and 30 plan members, respectively. The Authority contributes 10% of employees' eligible compensation to the Plan. Contributions made by the Authority totaled \$121,807 and \$116,921 during 2020 and 2019, respectively. Employees are fully vested in all contributions to the Plan.

Supplementary Information

Community Water System
Public Water Authority of the State of Arkansas
Schedule of Functional Expenses
Year Ended December 31, 2020

	Production Expense	Transmission and Distribution Expense	General and Administrative Expense
Operating Expenses			
Materials and supplies	\$ 277,647	\$ 7,815	\$ 32,140
Salaries and fringe benefits	105,844	83,453	783,336
Contract billing and remittance	-	-	96,294
Repairs and maintenance	724,542	951,714	55,806
Grounds maintenance	8,414	4,757	11,364
Utilities and telephone	465,492	245,219	19,544
Cleaning and janitorial	761	-	939
Postage	-	-	2,376
Licenses and fees	990	552	-
Insurance	41,329	26,130	14,078
Directors' expense	-	-	15,368
Dues	-	-	6,287
Travel expense	-	-	2,096
Consulting fees	4,200	-	10,075
Annual meeting	-	-	10,507
Advertising and promotion	-	-	6,056
Other expense	2,207	4,328	120,238
Depreciation expense	360,180	630,332	16,835
Administrative allocation	-	-	(294,511)
	<u>1,991,606</u>	<u>1,954,300</u>	<u>908,828</u>
Nonoperating Expense			
Interest expense	<u>456,982</u>	<u>400,511</u>	<u>44,156</u>
Total functional expenses	<u>\$ 2,448,588</u>	<u>\$ 2,354,811</u>	<u>\$ 952,984</u>

**Faulkner/
Cleburne Counties
Distribution**

Expense	Total
\$ 2,704	\$ 320,306
-	972,633
-	96,294
260,408	1,992,470
5,489	30,024
252,882	983,137
-	1,700
-	2,376
-	1,542
13,435	94,972
-	15,368
-	6,287
-	2,096
-	14,275
-	10,507
-	6,056
4,729	131,502
611,795	1,619,142
294,511	-
1,445,953	6,300,687
486,304	1,387,953
\$ 1,932,257	\$ 7,688,640

**Community Water System
Public Water Authority of the State of Arkansas
Schedules of Water Sales (Unaudited)
Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Gross water revenue		
Retail	\$ 2,986,560	\$ 2,891,403
Wholesale	<u>4,228,152</u>	<u>4,198,699</u>
Total revenue (water sales)	<u>\$ 7,214,712</u>	<u>\$ 7,090,102</u>
Number of connections (including wholesale connections)	<u>7,022</u>	<u>6,929</u>
Number of gallons sold		
Retail	269,397,600	252,347,100
Retail wholesale	52,680,000	57,711,500
Wholesale	<u>1,295,160,000</u>	<u>1,256,509,000</u>
Total gallons sold	<u>1,617,237,600</u>	<u>1,566,567,600</u>

**Community Water System
Public Water Authority of the State of Arkansas
Schedules of Insurance Coverage (Unaudited)
December 31, 2020 and 2019**

	2020	2019
Real and personal property	\$ 27,000,000	\$ 27,000,000
General liability	2,000,000	2,000,000
Personal injury limit	1,000,000	1,000,000
Products completed	2,000,000	2,000,000
Each occurrence limit	1,000,000	1,000,000
Fire damage limit	300,000	300,000
Medical expense	5,000	5,000
Business auto	1,000,000	1,000,000
Uninsured motorist	1,000,000	1,000,000
Cyber liability	1,000,000	1,000,000
Equipment floater	3,000–213,490	3,000–213,490
Umbrella policy		
Each occurrence	2,000,000	2,000,000
Products completed	2,000,000	2,000,000
Workers' compensation		
Each incident	500,000	500,000
Policy limit	500,000	500,000
Each employee	500,000	500,000
Surety bond	1,000,000	1,000,000
Employer fidelity bond	5,000 deductible	5,000 deductible
Boiler and machinery coverage	18,100,000	18,100,000

**Community Water System
Public Water Authority of the State of Arkansas**

Board of Directors (Unaudited)

December 31, 2020

Name	Title
John Buster	President
Gerald Bates	Vice President
Brenda Smith	Treasurer
Terry Robinson	Board Member
Jackie Melton	Board Member

**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**

Independent Auditor's Report

Board of Directors
Community Water System
Public Water Authority of the State of Arkansas
Greers Ferry, 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 Community Water System Public Water Authority of the State of Arkansas (the Authority), which comprise the balance sheet as of December 31, 2020, 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, and have issued our report thereon dated March 9, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

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

BKD, LLP

Little Rock, Arkansas
March 9, 2021