

CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019



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**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
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YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Concord Water and Sewer Public Facilities Board
of Crawford County, Arkansas**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas (enterprise funds)** as of and for the year ended **September 30, 2020**, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Member of:

*American Institute of Certified Public Accountants
*Governmental Audit Quality Center

*Arkansas Society of Certified Public Accountants
*Employee Benefit Plan Audit Quality Center

*Oklahoma Society of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities of the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas (enterprise funds)** as of **September 30, 2020**, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The summarized comparative information presented herein as of and for the year ended **September 30, 2019**, derived from those unaudited financial statements, has not been audited, reviewed, or compiled, and, accordingly, we express no opinion on it.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Management has omitted the management's discussion and analysis (MD&A) and budgetary comparison information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this information. 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** basic financial statements. The Summary of Auditor's Results and the Schedule of Findings and Responses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed above in this paragraph are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **April 22, 2021**, on our consideration of **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other 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 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 **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** internal control over financial reporting and compliance.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

April 22, 2021

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019**

	ASSETS	
	2020	2019
CURRENT ASSETS		
Cash	\$ 321,566	\$ 404,673
Restricted cash accounts	946,275	552,542
Accounts receivable, net of allowance for doubtful accounts of \$36,556 & \$29,481, respectively	201,248	181,987
Prepaid insurance	-	2,900
Inventory	33,955	32,783
	<hr/>	<hr/>
Total Current Assets	1,503,044	1,174,885
	<hr/>	<hr/>
CAPITAL ASSETS		
Office building and land	125,524	125,524
Water system	2,926,546	2,926,546
Sewer system	7,345,765	7,337,442
Furniture and equipment	541,121	534,567
	<hr/>	<hr/>
	10,938,956	10,924,079
Less: accumulated depreciation	(2,623,125)	(2,347,790)
	<hr/>	<hr/>
Total Capital Assets	8,315,831	8,576,289
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding debt, net of amortization	361,877	-
	<hr/>	<hr/>
Total Deferred Outflows of Resources	361,877	-
	<hr/>	<hr/>
Total Assets	\$ 10,180,752	\$ 9,751,174
	<hr/> <hr/>	<hr/> <hr/>

See Independent Auditor's Report and Notes to the Financial Statements.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019**

LIABILITIES AND NET POSITION

	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 21,719	\$ 80,211
Accrued interest payable	-	73,062
Accrued payroll	8,865	7,043
Accrued payroll taxes	4,879	5,415
Sales tax payable	6,857	6,525
Customer deposits	48,577	42,974
Current portion of long-term debt	-	255,000
	<u>90,897</u>	<u>470,230</u>
LONG-TERM DEBT		
Bonds payable	6,655,000	5,860,000
	<u>6,655,000</u>	<u>5,860,000</u>
Total Liabilities		
	<u>6,745,897</u>	<u>6,330,230</u>
NET POSITION		
Invested in capital assets, net of related debt	1,660,831	2,461,290
Restricted	946,275	552,542
Unrestricted	827,749	407,112
	<u>3,434,855</u>	<u>3,420,944</u>
Total Liabilities and Net Position		
	<u>\$ 10,180,752</u>	<u>\$ 9,751,174</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
OPERATING REVENUES		
Water sales, net of provision for bad debts	\$ 962,054	\$ 1,017,750
Sewer sales	545,722	525,844
Tap fees	3,000	5,000
Service charges	2,254	1,395
Other income	519	2,815
	<hr/>	<hr/>
Total Operating Revenues	1,513,549	1,552,804
	<hr/>	<hr/>
OPERATING EXPENSES		
Water purchases	291,983	289,107
Sales tax	69,495	87,205
Sewer cost	110,886	164,071
Backhoe	6,409	5,252
Supplies	500	2,663
Wages	257,507	214,749
Auto	8,941	8,638
Fees and dues	7,802	12,384
Licenses & fees	1,360	1,666
Insurance	54,354	43,766
Legal and accounting	16,074	15,418
Contract labor	-	500
Miscellaneous	4,957	5,624
Office	2,036	5,195
Payroll tax	19,699	17,132
Postage	4,922	5,508
System maintenance	62,605	142,918
Repair and maintenance	14,237	21,173
Staff development	25	50
Telephone and utilities	70,961	76,386
Uniforms	7,042	4,074
Depreciation	276,147	273,656
	<hr/>	<hr/>
Total Operating Expenses	1,287,942	1,397,135
	<hr/>	<hr/>
OPERATING INCOME	225,607	155,669
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES)		
Dividend and interest income	3,868	8,554
Interest expense	(214,414)	(246,377)
Paying agent fees	(1,150)	(3,983)
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	(211,696)	(241,806)
	<hr/>	<hr/>
CHANGE IN NET POSITION	13,911	(86,137)
	<hr/>	<hr/>
NET POSITION, BEGINNING OF YEAR	3,420,944	3,507,081
	<hr/>	<hr/>
NET POSITION, END OF YEAR	\$ 3,434,855	\$ 3,420,944
	<hr/>	<hr/>

See Independent Auditor's Report and Notes to the Financial Statements.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,494,288	\$ 1,557,169
Cash payments to suppliers for goods and services	(805,654)	(856,114)
Cash payments to employees for services	(255,685)	(224,790)
	<u>432,949</u>	<u>476,265</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,868	8,554
	<u>3,868</u>	<u>8,554</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(6,115,000)	(274,800)
Issuance of long-term debt	6,655,000	-
Deferral of bond issuance costs	(361,876)	-
Purchase of equipment	(15,689)	(136,477)
Paying agent fees	(1,150)	(3,983)
Interest paid on long-term debt	(287,476)	(249,364)
	<u>(126,191)</u>	<u>(664,624)</u>
 CHANGE IN CASH AND EQUIVALENTS	 310,626	 (179,805)
 CASH AND EQUIVALENTS, BEGINNING OF YEAR	 <u>957,215</u>	 <u>1,137,020</u>
 CASH AND EQUIVALENTS, END OF YEAR	 <u><u>\$ 1,267,841</u></u>	 <u><u>\$ 957,215</u></u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FROM OPERATING ACTIVITIES		
Operating income	\$ 225,607	\$ 155,669
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	276,147	273,656
Change in:		
Accounts receivable	(19,261)	1,968
Prepaid insurance	2,900	(227)
Inventory	(1,172)	-
Accounts payable	(58,492)	45,170
Accrued payroll	1,822	(99)
Accrued payroll taxes	(537)	2,463
Sales tax payable	332	(4,794)
Customer deposits	5,603	2,459
	<u>207,342</u>	<u>320,596</u>
Total Adjustments		
	<u>\$ 432,949</u>	<u>\$ 476,265</u>
Net Cash From Operating Activities		
	<u>\$ 432,949</u>	<u>\$ 476,265</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest expense paid during the year	<u>\$ 287,476</u>	<u>\$ 249,364</u>
SUPPLEMENTAL RECONCILIATION OF CASH FLOW INFORMATION		
Cash	\$ 321,566	\$ 404,673
Restricted cash accounts	<u>946,275</u>	<u>552,542</u>
Total	<u>\$ 1,267,841</u>	<u>\$ 957,215</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Note 1: Summary of Significant Accounting Policies

Nature of Business

Concord Waterworks Facilities Board of Crawford County, Arkansas (the Board) was formed June 13, 1995 by the Quorum Court of Crawford County, Arkansas pursuant to the provisions of Arkansas code Annotated Section 14-137-101 et seq. (1987; Supply. 1995) (the Act). The Board was formed for the purpose of owning, acquiring, constructing, extending, equipping, improving, operating, maintaining, selling, and leasing contracts concerning or otherwise dealing in or disposing of waterworks facilities. A five-member board of directors governs the Board. The Board changed its name in December 2007 to Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas.

Financial Reporting

The accounts of the Board are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Board's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Board is determined by its measurement focus. The transactions of the Board are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt, restricted for debt service, and unrestricted components.

Basis of Accounting

The Board's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred. Operating revenues in the enterprise fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Fair Value of Financial Instruments

The Board's financial instruments include cash, certificates of deposit, accounts receivable, and accounts payable. The Board's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

Accounts Receivable

The Board uses the valuation method as required by GAAP to value accounts receivable. The allowance for doubtful accounts represents management's estimate of uncollectible accounts receivable.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Board. Operating revenues consist primarily of water sales and fees for related services. Non-operating revenue and expenses consist of those revenues and expenses that are related to financing and investing type activities.

Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Inventory consists of normal recurring items which amounted to \$33,955 and \$32,783 for the years ending September 30, 2020, and 2019, respectively.

Advertising

The Board charges advertising costs to operations as incurred. The Board incurred no advertising costs for the years ended September 30, 2020 and 2019.

Income Taxes

The Board is a not-for-profit organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. As a result, no provision for current or deferred income tax liability is recognized in the Board's books and records. The Authority evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Authority (FASB) Accounting Standards Codification (ASC) 740, Income Taxes (formerly FASB Interpretation 48 (FIN 48) Accounting for Uncertainty in Income Taxes. This standard requires certain disclosures about uncertain tax positions. When tax returns are filed, it is probable that most tax positions would be sustained upon examination by taxing authorities. However, it is also possible that some positions use the provisions of ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the Board would be presented in other expenses in the statement of revenues, expenses and changes in net position. Management does not believe that is has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. The Authority has filed all applicable tax returns. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Authority has no open examinations with either the Internal Revenue Service or state taxing authorities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Capital Assets and Depreciation

Capital assets of the Board are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Water system	50
Office building	40
Furniture and equipment	5-7

It is the Board's policy to capitalize all asset purchases greater than or equal to \$1,000. Expenditures of less than \$1,000 are expensed at the time of purchase. Depreciation for the years ending September 30, 2020 and 2019 was \$276,147 and \$273,656, respectively.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

When an expense is incurred for the purposes for which both restricted and unrestricted net position is available, the Board's policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Board has one item that qualifies for reporting in this category: bond refunding costs. A deferred outflow on bond refunding costs results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement Number 87 (GASB 87), Leases – effective for periods beginning after December 15, 2019. GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases for governments.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

In June 2018, the GASB issued Statement Number 89 (GASB 89), Accounting for Interest Cost Incurred before the End of a Construction Period – effective for fiscal years beginning after December 15, 2019. GASB 89 will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period.

Management has evaluated the impact of implementation of these statements to the financial statements of the Board and has concluded that the implementation of these statements does not significantly impact the financial statements of the Board.

Cash Equivalents

For the purposes of the statement of cash flows, the Board considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Reclassification

Certain accounts in the prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current period financial statements.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditor’s Report.

Note 2: Deposits and Restricted Cash

All deposits are separately displayed on the balance sheet as “Cash” and “Restricted Cash.” Petty cash for the years ended September 30, 2020 and 2019, amounted to \$200, respectively, and is included in “Cash” on the balance sheet. All deposits are in two financial institutions and are carried at cost. The cash balances are insured and collateralized and consist of the following:

	2020		2019	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Citizens Bank & Trust	\$ 321,366	\$ 39,393	\$ 404,473	\$ 34,885
Bank of the Ozarks	-	87,015	-	86,880
Bank of the Ozarks - Trust Services	-	819,867	-	430,777
Total Cash on Deposit	321,366	946,275	404,473	552,542
Insured by the FDIC	(250,000)	(126,408)	(250,000)	(121,765)
Insured by Indenture Trustee/collateralized	(71,366)	(819,867)	(154,473)	(430,777)
Cash Uninsured/Uncollateralized	\$ -	\$ -	\$ -	\$ -

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Note 3: Accounts Receivable

The Board has established a provision for estimated losses on accounts receivable based on prior bad debt experience and a review of existing accounts receivable. Based on these factors, there is a provision of doubtful accounts of \$36,556 and \$29,481 for the years ended September 30, 2020 and 2019, respectively.

Note 4: Debt Service Reserves

The Board is required by the (2020) Bond Indenture to keep money in two escrow fund accounts that will be used to service the bonds. Under the Indenture, a Bond Fund was created which requires the Board to make monthly deposits into the fund which will be used for payment of principal and interest on the bonds. The Indenture also requires the establishment of a Debt Service Reserve Fund which will service the bonds in an event there is no money available in the Bond Fund. The Debt Service Reserve Fund requires a minimum balance of \$439,000. The Bond Fund and the Debt Service Reserve Fund had balances of \$47,468 and \$172,399 as of September 30, 2020 and \$179,227 and \$251,500 as of September 30, 2019. These amounts are included in the "Restricted" cash balance on the financial statements.

Note 5: Long-Term Debt

Long-term debt consists of the following as of September 30, 2020 and 2019:

	2020	2019
Water and Sewer Revenue Construction Bonds, Series 2014, adopted June 30, 2014 in the amount of \$7,090,000, principal and interest is paid in scheduled semi-annual amounts ranging from \$130,564 to \$49,725, interest rates varies from 2.0% to 4.5%. The bonds are scheduled to mature on June 1, 2043. The bonds are secured by revenues and all properties of the Board.	\$ -	\$ 6,115,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2020, adopted September 30, 2020 in the amount of \$6,655,000, principal and interest is paid in scheduled annual amounts ranging from \$341,429 to \$340,719, interest varies from 2.0% to 3.25%. The bonds are scheduled to mature on October 1, 2050. The bonds are secured by revenues and all properties of the Board.	<u>6,655,000</u>	<u>-</u>
	6,655,000	6,115,000
Less: current portion of long-term debt	-	255,000
Long-term debt	<u><u>\$ 6,655,000</u></u>	<u><u>\$ 5,860,000</u></u>

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Debt is scheduled to be repaid as follows:

<u>Year ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	-	-	-
2022	150,000	191,429	341,429
2023	155,000	187,899	342,899
2024	160,000	184,799	344,799
2025	160,000	181,599	341,599
2026-2030	850,000	859,861	1,709,861
2031-2035	950,000	755,190	1,705,190
2036-2040	1,110,000	603,020	1,713,020
2041-2045	1,290,000	419,220	1,709,220
2046-2050	1,500,000	202,775	1,702,775
2051	330,000	10,719	340,719
	<u>\$ 6,655,000</u>	<u>\$ 3,596,511</u>	<u>\$ 10,251,511</u>

Note 6: Concentrations of Risk

Financial instruments that potentially subject the Board to concentration or credit risk consist primarily of cash deposits, unsecured trade receivables and trust indenture rate covenants.

As of September 30, 2020, all unrestricted and temporarily restricted cash was fully insured and collateralized.

The Trust Indenture of the 2020 Series Bonds contains a provision (the Rate Covenant) which requires the Board to maintain their water and sewer rates at an amount sufficient to (1) pay all operation and maintenance expenses, (2) make all required deposits into the Debt Service Reserve Fund, and (3) leave a balance of 115% of the debt service requirements of that fiscal year (4) service all second lien debt.

Note 7: Risks and Uncertainties

The COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the Board's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that the Board's operations will be impacted.

Note 8: Compensated Absences

The Board has approved the carryover of sick leave at a rate of 240 hours or 30 days. The amount after these 240 hours per individual employee is lost. As of September 30, 2020 and 2019, accrued compensated absences amounted to \$2,648 and \$2,648, respectively.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Note 9: Subsequent Events

Management has evaluated subsequent events through April 22, 2021, the date the financial statements were available to be issued, and none were identified requiring recognition or disclosure.

OTHER REQUIRED REPORT

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Certified Public Accountants



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

**To the Board of Directors
Concord Water and Sewer Public Facilities Board
of Crawford County, 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 **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas** (enterprise funds) as of and for the year ended **September 30, 2020**, and the related notes to the financial statements, which collectively comprise **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** basic financial statements, and have issued our report thereon dated **April 22, 2021**.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2020-001).

Member of:

*American Institute of Certified Public Accountants

*Governmental Audit Quality Center

*Arkansas Society of Certified Public Accountants

*Employee Benefit Plan Audit Quality Center

*Oklahoma Society of Certified Public Accountants

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. All significant deficiencies found were disclosed as material weaknesses above.

Compliance and Other Matters

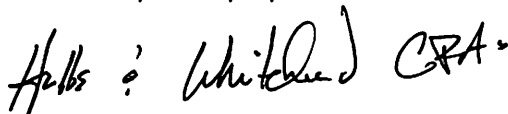
As part of obtaining reasonable assurance about whether **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas

Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas'** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

April 22, 2021

SUPPLEMENTAL INFORMATION

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SUMMARY OF AUDITOR'S RESULTS
YEAR ENDED SEPTEMBER 30, 2020**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas**.
2. Our audit was conducted 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
3. One deficiency in internal control disclosed during the audit of the financial statements is reported in Section I of the schedule of findings and responses, finding 2020-001. These conditions are reported as material weaknesses.
4. No instance of noncompliance material to the financial statements of **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas** was required to be reported in accordance with *Government Auditing Standards*.
5. The Organization received no Federal Awards.
6. All funds deposited are in institutions insured by the Federal Government or collateralized by securities.
7. The Facilities Board is a nonprofit organization and is exempt from income taxes under Section 501 (c) (12) of the Internal Revenue Code and a similar section of state income tax law.
8. Additional information necessary for full disclosure is included in the audit report dated **April 22, 2021**, and the audited financial statements of the **Concord Water and Sewer Public Facilities Board of Crawford County, Arkansas** for the year ended **September 30, 2020**.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

SECTION I – CURRENT YEAR

2020-001 Internal Control - Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Board’s assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives cash related to utility services is also responsible for service billing and adjustments. This individual also balances the daily cash drawer, posts payments to accounts receivable ledgers and reconciles the monthly bank statements.

Cause: The Board’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the Board should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official’s Response: The Board concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Board plans to make certain changes in procedures that will improve the overall lack of segregation of duties.

SECTION II – CURRENT YEAR

Status of prior year findings:

2019-002 - Board Override of Controls - Reasons for Certain Procurement Selection Decisions Were Not Adequately Documented – this finding has been addressed and corrected by the Board by the implementation of a procurement policy that follows applicable state and Federal procurement code.

2019-003 Internal Control - Governance policies for the Board did not address several critical responsibilities necessary for proper and effective oversight and not sufficient to address conflicts of interest – this finding has been addressed and corrected by the Board by the Board by the implementation of board and whistleblower policies as well as training and orientation for newly elected board members.

2019-004-Noncompliance with Debt Covenants – the board is now in compliance with all applicable bond covenants.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

SECTION I – PRIOR YEAR

2019-001 Internal Control - Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Board’s assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives cash related to utility services is also responsible for service billing and adjustments. This individual also balances the daily cash drawer, posts payments to accounts receivable ledgers and reconciles the monthly bank statements.

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Recommendation: We recommend that management and the Board should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official’s Response: The Board concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Board plans to make certain changes in procedures that will improve the overall lack of segregation of duties.

2019-002 - Board Override of Controls - Reasons for Certain Procurement Selection Decisions Were Not Adequately Documented

Criteria: - In order to ensure appropriate stewardship over the Board resources, a determination needs be made to show that a proposed price for a good, service or contract is fair and reasonable. Considering quality, delivery, and other factors, competitive bidding is the formal process that allows a requestor and/or purchasing servicer to properly survey the marketplace. It is important that the Board provide fair and equal opportunity to all bidders and offers. It is equally important to design a competitive process, which does not make the Board unattractive to competing firms. When requesting formal quotes from potential suppliers, the requestor should ask for terms and conditions that are favorable to the Board rather than accept what is in the best interest of the supplier/servicer. Whenever possible, the request for quotes should be submitted in writing to potential supplier/servicers. Supplier/servicers responses should also be submitted in writing or electronically. When submitting the bidding with quoted prices, the terms and conditions should be clearly documented in the response. All formal quotes should detail the requirements both parties, Board and supplier/servicer, have agreed upon.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

Condition: The Board does not have a formalized procurement policy for goods and services. During the audit, it was noted that one specific vendor had not been subjected to any bidding or procurement process, no W-9 was filled by the vendor to the Board and subsequently no 1099 has ever been issued to this vendor. Upon further research and inquiry, it was discovered that the vendor is of relation to a board member who is a substantial user of the Water District. This vendor has been paid \$357,308 since October 29, 2015 from Concord bank accounts for equipment leasing. Inspection of the closed invoices provided as substantiation for the expenditures indicated no specific brand name, model or serial number or any specific identification to ascertain physical existence of the equipment. The lack of documentation with this vendor directly led to a disclaimer of opinion.

Cause: The Board's lack of a General Manager from October 23, 2015 to January 2019 may have impaired the Board's ability to adequately supervise and evaluate the adequacy of vendor selection and the leasing of equipment from said vendor. The findings associated with this vendor have uncovered other revelations and irregularities which indicate other deficiencies in design and implementation of internal controls. We believe these conflicts of interest have more likely than not resulted in impairments to the Concord sewer system, caused the Board to be out of compliance with bond debt covenants and the Arkansas Department of Environmental Quality (ADEQ) and, in the long-term, will likely be a leading factor in the increase of water prices by the Board, creating more expensive water and sewer bills for users.

Effect or Potential Effect: Absence of a formalized procurement process could lead to several risks including, but not limited to; 1. If a supplier/servicer breaches its obligation, the Board would have no legal recourse, 2. Political embarrassment or damage to Board image and reputation, 3. The Board is vulnerable to internal and external fraud, 4. The board could be penalized for non-compliance with regulatory requirements and 5. The board activities could be subject of public scrutiny and investigation and could lead to loss of government or non-profit status.

Recommendation: To provide for greater transparency, accountability, and fiscal discipline, it is necessary that the Board establishes a formal and professional procurement process, which will save time and money and reduce risks mentioned above. No goods or services should be ordered or delivered until the contract is signed. The procurement function plays an important role in achieving and ensuring good governance. It is an integral component of the Board capacity to provide the required services. A well-functioning procurement system ensures better value for the money, increased efficiency and effectiveness of delivery, reduces the potential for corruption, a positive impact on the Board's investment climate, non-discriminatory practices, transparency, and accountability. Good governance encompasses a functioning regulatory system, as well as institutional setup, well designed processes, and proven capacity. Strategic approaches to procurement, as well as the knowledge transfer of good procurement practice and capacity building within procurement functions toward the Board's procurement assist in development of good governance practices. Due to the substance of the findings and circumstances, we have no choice but to recommend that the Board document a specific "Conflicts of Interest" policy applicable to just board members that is more comprehensive than state law due to the harm that has already been caused by this situation. The lack of functioning internal audit practices and circumvention of existing internal controls has made conflicts of interest a substantially increased risk to the Water Department.

Responsible Official's Response: The Board concurs with the recommendation.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

2019-003 Internal Control - Governance policies for the Board did not address several critical responsibilities necessary for proper and effective oversight and not sufficient to address conflicts of interest

Criteria: The documentation of good governance policies is critical to having Board members with the appropriate knowledge, expertise and skills to make critical decisions and policy for the Board. Certain policies were documented but not sufficient enough to ensure accountability. Good board governance policies should identify conflicts of interest among the Board and should require disclosure of such conflicts of interest.

Condition: Policies applicable to the Board governance did not exist for several critical areas of responsibility necessary for proper and effective oversight of the Board. Auditors found no evidence of annual or new Board member orientation regarding fiduciary responsibilities as board members; documentation of Board review of budget to actual expenditures in the meeting minutes, an independent procedure for reporting complaints and whistleblower policy. The Board also lacked policies detailing investigations of unethical activity or criteria to impose sanctions or disciplinary procedures for violations of Board members.

Cause: The current makeup of the Board has not prevented or detected conflicts of interest in a capacity suitable for a Board that provides water and sewer services to the public. One of the Board's largest customers may have excessive influence on the Board and the Water Department's operations as a whole due to a conflict of interest between maintaining Board membership and operating in private industry. For the last 5+ years, the Board has had no true independence in front of state environmental agencies in which there would be a definite differentiation between the Board and the private industry.

Effect or Potential Effect: To remain independent in their own decision-making regarding entities doing business with the Board, or seeking to do business with the Board, Board members, managers and other employees should avoid any situation that are conflicts of interest between their private interests and their duties on behalf of the Board, or that have the potential to present conflicts. Neither should they accept gifts and gratuities that compromise the impartiality of their decision making on behalf of the Board or that give appearance that the Board actions are based on personal benefit, favors, or relationships, rather than objective decision-making. Actual conflicts of interest and even the appearances of a conflict of interest cause distrust among water and sewer users, management, employees and contractors of the Board. Several instances of specific conflicts of interest were identified that may have contributed to unfair business practices. It is impossible to determine if the vendors/contractors used provided the best services at the best cost when relationships allowed the potential for favoritism and undue influence of independent decision-making.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

Recommendation: We recommend the Board have an annual orientation training for new and returning Board members so there is a clear understanding of the Board's organizational structure and operations, their responsibilities as Board Members, as well as their legal and fiduciary roles, and the purpose of the Board in which they serve. In addition, the orientation should address ethical requirements of Board members and staff any significant policy changes adopted by the Board during the previous year. We also recommend that the orientation be facilitated by a knowledgeable independent party, who can participate in and oversee the orientation training. We recommend that the Board perform a regular review of budget to actual expenditures to monitor costs in each account. The name and number of budget categories should provide transparency and sufficient detail to allow Board members to accurately identify the types of expenses attributed to each account. This review should be documented in the minutes. We recommend the Board develop a whistleblower reporting policy by creating and documenting an independent process whereby employees or water and sewer users have the option to directly make the Board aware of concerns involving matters that specifically need Board oversight. We recommend the Board establish methods that allow for concerns, and any complaints against Board members to be reported.

Responsible Official's Response: The Board concurs with the recommendation.

SECTION II - DEBT COVENANT COMPLIANCE – PRIOR YEAR

2019-004-Noncompliance with Debt Covenants

Criteria: The Board was not in compliance with the Series 2014 Water and Sewer Revenue Refunding Bonds "rate covenant."

Condition: Section 401(a) and (b) of the Series 2014 Water and Sewer Revenue Refunding Bonds requires the Board to "fix, charge and collect rates, fees and charges for water and sewer services furnished by the Board which shall produce total revenues in each fiscal year sufficient to (1) pay the Board's operations, repair and maintenance expenses, (2) make all required deposits to the Debt Service Reserve Fund, (4) leave a balance equal to 115% of the debt service requirements for that fiscal year of all outstanding Bonds and Parity Obligations, and (5) service all second lien debt. If the debt service coverage is below 115%, the Board will make immediate steps to implement a rate increase within 60 days, after the implementation period of rate increases enacted in conjunction with the issuance of the 2014 Bonds (set forth in paragraph (b) herein), that will increase the Board's debt service coverage to a projected 115% for the next fiscal year.

Cause: The debt coverage required under the debt covenant is 115% and the Board currently sits at 89%. A wet year in 2019 contributed to a decrease in water revenues for water and sewer Boards around the region. However, the Board did not experience any corresponding decreases in water and sewer expenditures during 2019 when compared to 2018. "Water purchases "increased by \$12,281, "Sewer cost" increased by \$125,449, "Wages increased by \$63,485, "System maintenance increased by \$76,804, "Repair and maintenance" increased by \$17,715 and "Telephone and utilities" increased by \$11,993. Wages were expected to increase in 2019 due to the hire of a General Manager. The \$307,727 increase in operating expenditures above with a decrease in operating revenues of \$69,543 were the result of the 2019 net loss.

Effect or Potential Effect: Non-compliance with the terms of the Series 2014 Bond covenants may make the Board ineligible for further :financial assistance, force bond trustees to call the bonds or other issues outside the scope of this audit.

**CONCORD WATER AND SEWER PUBLIC FACILITIES
BOARD OF CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

Recommendation: We recommend that the Board make the required rate change as established in the Series 2014 Bonds.

Responsible Official's Response: The Board concurs with the recommendation.