

FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF
THE CITY OF FORDYCE, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2017

FORDYCE WATER AND SEWER FUNDS
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DECEMBER 31, 2017

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Net Position	3-4
Statement of Revenue, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-20
Supplemental Information	21-22
INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND IN COMPLIANCE AND OTHER MATTERS BASED IN AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23-24
Schedule of Findings and Responses	25-30

SEARCY & ASSOCIATES, LLC

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Fordyce Water and Sewer
Fordyce, Arkansas

We have audited the accompanying financial statements of the Fordyce Water and Sewer Funds of the City of Fordyce, State of Arkansas as of and for the year ended December 31, 2017, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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. 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 misstatements 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 the Fordyce Water and Sewer Funds of the City of Fordyce, State of Arkansas as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fordyce Water and Sewer Funds and do not purport to, and do not present fairly the financial position of the City of Fordyce, State of Arkansas, as of December 31, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management Discussion and Analysis
Budget to Actual Comparison

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

The supplemental information presented beginning on page 21 of the financial statements have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we do not express an opinion or provide any assurance on them.

Searcy & Associates, LLC
Monticello, Arkansas
August 4, 2018

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE, ARKANSAS
 STATEMENTS OF NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2017

ASSETS

	<u>SEWER</u>	<u>WATER</u>
<u>Current Assets</u>		
Cash	\$ 994,359	\$ 179,078
Certificates of Deposit	116,845	0
Accounts Receivable	106,625	179,422
Less Allowance for Doubtful Accounts	<u>(58,420)</u>	<u>(94,418)</u>
Net Sewer and Water Fund Receivables	48,205	85,004
Prepaid Expenses	<u>7,358</u>	<u>19,844</u>
Total Current Assets	<u>1,166,767</u>	<u>283,926</u>
<u>Restricted Assets</u>		
Meter Deposit Funds	0	93,437
Debt Reserve Funds	0	143,951
Depreciation Funds	<u>41,717</u>	<u>8,531</u>
Total Restricted Funds	<u>41,717</u>	<u>245,919</u>
<u>Property, Plant and Equipment</u>		
Land	0	22,535
System in Service	5,573,995	3,990,706
Equipment	<u>374,030</u>	<u>247,529</u>
	5,948,025	4,260,770
Less: Accumulated Depreciation	<u>(3,727,190)</u>	<u>(2,932,820)</u>
Net Property, Plant and Equipment	<u>2,220,835</u>	<u>1,327,950</u>
TOTAL ASSETS	<u>\$ 3,429,319</u>	<u>\$1,857,795</u>
<u>Deferred Outflows of Resources</u>		
Deferred Outflows of Resources Related to Pension	<u>\$ 0</u>	<u>\$ 124,231</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,429,319</u>	<u>\$1,982,026</u>

The notes to the financial statements are an integral part of these statements.

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE, ARKANSAS
 STATEMENTS OF NET POSITION (Continued)
 FOR THE YEAR ENDED DECEMBER 31, 2017

LIABILITIES AND NET POSITION

	<u>SEWER</u>	<u>WATER</u>
<u>Current Liabilities</u>		
Current Portion of Long Term Debt	\$ 32,610	\$ 145,914
Accounts Payable	8,481	15,337
Accounts Payable Sewer Department	0	106,546
Accrued Interest	820	13,529
Accrued Paid Time Off	18,218	14,985
Accrued Wages	2,697	7,691
Sales Taxes Payable	0	8,954
Accrued Late Payment Penalties	17,549	55,447
Payroll Taxes Payable	<u>45,696</u>	<u>123,779</u>
Total Current Liabilities	126,071	492,182
<u>Long Term Debt Liabilities</u>		
Long Term Debt (Net of Current Portion)	24,416	994,212
Customer Meter Deposits	<u>0</u>	<u>96,085</u>
Total Long Term Liabilities	<u>24,416</u>	<u>1,090,297</u>
Total Liabilities	<u>150,487</u>	<u>1,582,479</u>
<u>Deferred Inflows of Resources</u>		
Deferred Inflows of Resources Related to Pension	<u>0</u>	<u>9,705</u>
Total Liabilities and Deferred Inflows of Resources	<u>150,487</u>	<u>1,592,184</u>
<u>Net Position</u>		
Invested in Capital Assets	2,163,809	187,824
Restricted For Debt Service	41,717	152,482
Unrestricted	<u>1,073,306</u>	<u>49,536</u>
Total Net Position	<u>3,278,832</u>	<u>389,842</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$3,429,319</u>	<u>\$1,982,026</u>

The notes to the financial statements are an integral part of these statements.

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE, ARKANSAS
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>SEWER</u>	<u>WATER</u>
<u>Operating Revenue</u>		
Water Revenue	\$ 774,536	\$ 577,285
Rural Water Revenue	0	47,337
Connection Fees/Penalties	0	11,490
Other Income	<u>9,673</u>	<u>60,259</u>
Total Operating Revenue	<u>784,209</u>	<u>696,371</u>
<u>Operating Expense</u>		
Salaries	77,175	206,038
Payroll Taxes	5,802	21,670
Late Payment Penalties & Interest	14,918	23,295
Employee Benefits	29,509	86,639
GASB 68 Adjustment	0	32,245
Depreciation	178,035	78,758
Repairs and Maintenance	56,062	52,761
Utilities	55,772	75,926
Sales Tax	0	49,081
Chemicals	20,381	10,134
Vehicle Expense	7,145	13,341
Bad Debts	5,394	6,630
Small Tools and Supplies	3,901	19,513
Office Expense and Postage	6,466	5,428
Insurance	8,198	19,395
Equipment Rental	43,088	0
Fees and Dues	9,520	11,590
Uniform Allowance	2,350	4,281
Other and Miscellaneous	<u>3,827</u>	<u>9,496</u>
Total Operating Expenses	<u>527,543</u>	<u>726,221</u>
Operating Income	<u>256,666</u>	<u>(29,850)</u>
<u>Other Income/(Expense)</u>		
Interest Income	571	447
Interest Expense	<u>(3,887)</u>	<u>(43,194)</u>
Net Other Income/(Expense)	<u>(3,316)</u>	<u>(42,747)</u>
Increase (Decrease) in Net Position		
Before Transfers In/(Out)	253,350	(72,597)
Transfers In/(Out)	<u>(5,393)</u>	<u>104,553</u>
Increase in Net Position	247,957	31,956
Net Position at Beginning of Year	3,030,875	211,113
GASB 68 Implementation Adjustment	<u>0</u>	<u>146,773</u>
Net Position at End of Year	<u>\$ 3,278,832</u>	<u>\$ 389,842</u>

The notes to the financial statements are an integral part of these statements.

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE, ARKANSAS
 COMPARATIVE STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>SEWER</u>	<u>WATER</u>
<u>Cash Flows from Operating Activities</u>		
Receipts from Customers	\$ 778,105	\$ 704,015
Payments to Suppliers	(192,515)	(305,988)
Payments for the Benefit of Employees	(103,819)	(286,428)
Net Cash Provided by Operating Activities	<u>481,771</u>	<u>111,599</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Purchases of Property, Plant, Equipment	(26,232)	(115,339)
(Increase)/Decrease in Restricted Funds	46,508	26,607
Interest Paid on Bonds	(4,349)	(43,194)
Principle Paid on Loans	(31,225)	(139,941)
Transfer (to)/from Other Funds	(5,393)	104,553
Proceeds from Loans	<u>0</u>	<u>99,597</u>
Net Cash (Used In) Capital and Related Financing Activities	<u>(20,691)</u>	<u>(67,717)</u>
<u>Cash Flows from Investing Activities</u>		
Decrease/(Increase) in Certificates of Deposit	41,352	0
Interest Income	<u>571</u>	<u>447</u>
Net Cash Provided by (Used in) Investing Activities	<u>41,923</u>	<u>447</u>
Net Increase (Decrease) in Cash and Cash Equivalents	503,003	44,329
Cash and Cash Equivalents at Beginning of Year	<u>491,356</u>	<u>134,749</u>
Cash and Cash Equivalents at End of Year	<u>\$ 994,359</u>	<u>\$ 179,078</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>		
Operating Income	\$ 256,666	\$ (29,850)
Adjustments to reconcile operating Income to net cash Provided by operating activities:		
Depreciation	178,035	78,758
(Increase)Decrease in Current Assets:		
Accounts Receivable	11,418	20,638
(Decrease)/Increase in Current Liabilities:		
Accounts Payable	1,679	3,971
Other Accrued Expenses	<u>33,973</u>	<u>38,082</u>
Net Cash Provided by Operating Activities	<u>\$ 481,771</u>	<u>\$ 111,599</u>

The notes to the financial statements are an integral part of these statements.

FORDYCE WATER & SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity.

The Fordyce Water & Sewer Funds (the Funds) are a component unit of the City of Fordyce, Arkansas. The funds are governed by and operate under the authority of the Fordyce City Council. The Utility provides water and sewer service to approximately 2,266 customers of the City of Fordyce and adjacent areas.

Basis of Accounting and Presentation

The funds are accounted for as enterprise funds and employ the accrual basis of accounting. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental enterprise funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial Statements are prepared on the basis of GASB Statement Number 34, "Basic Financial Statements, Management Discussion and Analysis for State and Local Governments" and related standards. In accordance with the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," and GASB No. 63 Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Utility applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, that do not conflict or contradict GASB pronouncements.

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

When both restricted and unrestricted resources are available, the Utility's policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

FORDYCE WATER & SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the presentation of the statement of cash flows, cash and cash equivalents include all unrestricted cash in demand deposits and exclude certificates of deposit.

Deposits and Investments

Cash includes amounts in demand deposits. The Utility classifies all certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC) and Certificates of Deposit in excess of FDIC insurance and secured by pledged securities as Certificates of Deposit on its statement of net position. These Certificates are reported at cost, which approximates fair value.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow or resources until then.

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 amounts reported in the financial statements and accompanying notes. Actual results could and probably will differ from those estimates.

Compensated Absences

The Utility's policies permit full-time employees to accumulate vacation benefits and sick benefits which are recognized and expensed when incurred. Accumulated amounts are shown as current liabilities on the Statement of Position.

Capital Assets

It is generally the Utility's policy that assets to be used in operations with an initial value or cost greater than \$1,000 and the estimated useful life of greater than one year are reported as capital assets. Capital assets are recorded at historical costs, including all direct salaries, material and supplies related to construction and improvements completed by Utility personnel. Interest costs related to acquiring or construction capital assets are also capitalized as a part of the related asset. Contributed assets are recorded at the estimated fair market on the date of contribution.

Costs related to major additions and betterments of capital assets are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related assets are expensed as incurred.

FORDYCE WATER & SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Depreciation is provided using the straight-line method over the following estimated useful lives:

Equipment	5-10 years
Water System	5-30 years

Management evaluates events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Such events or changes may include physical damage, obsolescence, changes in or new laws or regulations, construction stoppage or environment factors. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There were no impairment losses recorded in the year ended December 31, 2017.

Long-Term Obligations

Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

Income Taxes

As a municipal owned utility, the Utility is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of State law.

Net Position

Net Position of the Utility is classified into three components. Invested in capital assets, consisting 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 for Debt Service are funds set aside as required by Bond covenants that must be used for a particular purpose as specified by creditors' or others external to the Utility. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted-expendable.

Receivables and Allowance for Doubtful Accounts

Accounts Receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 2: DEPOSITS, INVESTMENTS AND INVESTMENT INCOME

The Utility had demand deposits and certificates of deposit at the end of 2017 that were insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized as follows:

Demand deposits and Certificates of deposit at December 31, 2017:

<u>Sewer Fund</u>	Beginning Fair Value	Investment Maturities (in Years)		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
Unrestricted				
Demand Deposits	\$ 994,359	\$ 994,359	\$ 0	\$ 0
Certificates of Deposit	<u>116,845</u>	<u>116,845</u>	<u>0</u>	<u>0</u>
	<u>\$1,111,204</u>	<u>\$1,111,204</u>	<u>\$ 0</u>	<u>\$ 0</u>
Restricted				
Certificates of Deposit	\$ 41,717	\$ 41,717	\$ 0	\$ 0
	<u>\$ 41,717</u>	<u>\$ 41,717</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Deposits	<u>\$1,152,921</u>	<u>\$1,152,921</u>	<u>\$ 0</u>	<u>\$ 0</u>
Secured by FDIC	\$ 500,000	\$ 500,000		
Unsecured	<u>652,921</u>	<u>652,921</u>		
	<u>\$1,152,921</u>	<u>\$1,152,921</u>		

<u>Water Fund</u>	Beginning Fair Value	Investment Maturities (in Years)		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
Unrestricted				
Demand Deposits	\$179,078	\$179,078	\$ 0	\$ 0
	<u>\$179,078</u>	<u>\$179,078</u>	<u>\$ 0</u>	<u>\$ 0</u>
Restricted				
Demand Deposits	\$ 94,639	\$ 94,639	\$ 0	\$ 0
Certificates of Deposit	151,280	151,280	0	0
	<u>\$245,919</u>	<u>\$245,919</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Deposits	<u>\$424,997</u>	<u>\$424,997</u>	<u>\$ 0</u>	<u>\$ 0</u>
Secured by FDIC	\$401,100	\$401,100		
Unsecured	<u>23,897</u>	<u>23,897</u>		
	<u>\$424,997</u>	<u>\$424,997</u>		

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 2: DEPOSITS, INVESTMENTS AND INVESTMENT INCOME (Continued)

The Water and Sewer Funds' deposits were in a local bank and secured as follows:

Sewer Fund	
Total Deposits	\$1,180,522
Secured by FDIC Insurance	<u>500,000</u>
Unsecured Deposits	<u>\$ 680,522</u>
Water Fund	
Total Deposits	\$ 552,385
Secured by FDIC Insurance	<u>500,000</u>
Unsecured Deposits	<u>\$ 52,385</u>

The balances shown in this schedule represent bank ledger balances and will not equal the cash balances shown on the financial statements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2017, the sewer fund had \$1,152,921 and the Water fund had \$424,997 subject to interest rate risk. The weighted average maturity of these investments was less than one year which minimizes any interest rate risk on these securities.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, were as follows:

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Sewer System in Service	\$ 5,583,872	\$ 0	\$ (9,877)	\$ 0	\$ 5,573,995
Equipment	<u>402,666</u>	<u>26,232</u>	<u>(54,868)</u>	<u>0</u>	<u>374,030</u>
	5,986,538	26,232	(64,745)	0	5,948,025
Accumulated Depreciation	<u>(3,613,898)</u>	<u>(178,037)</u>	<u>64,745</u>	<u>0</u>	<u>(3,727,190)</u>
Net Capital Assets	<u>\$ 2,372,640</u>	<u>\$(151,805)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,220,835</u>
<u>Water Fund</u>					
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 22,535	\$ 0	\$ 0	\$ 0	\$ 22,535
Water System in Service	3,889,659	101,046	0	0	3,990,705
Equipment	<u>275,606</u>	<u>14,293</u>	<u>(42,370)</u>	<u>0</u>	<u>247,529</u>
	4,187,800	115,339	(42,370)	0	4,260,769
Accumulated Depreciation	<u>(2,896,433)</u>	<u>(78,756)</u>	<u>42,370</u>	<u>0</u>	<u>(2,932,819)</u>
Net Capital Assets	<u>\$ 1,291,367</u>	<u>\$ 36,583</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,327,950</u>

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS

The following is a summary of long-term debt obligation transactions for the Utility for the year ended December 31, 2017.

Activity of the year ended December 31, 2017:

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Revenue Bonds Series 1980	\$ 456,084	\$ 0	\$(114,230)	\$ 0	\$ 341,854
Revenue Bonds Series 1993	428,320	0	(17,675)	0	410,645
Revenue Bonds Series 2016	<u>296,066</u>	<u>99,597</u>	<u>(8,036)</u>	<u>0</u>	<u>387,627</u>
	<u>\$1,180,470</u>	<u>\$ 99,597</u>	<u>\$(139,941)</u>	<u>\$ 0</u>	<u>\$1,140,126</u>

Description	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Balance</u>
Revenue Bonds Series 1980	5%	Unknown	\$ 341,854
Revenue Bonds Series 1993	5%	\$661,800	410,645
Revenue Bonds Series 2016	2.50%	395,663	<u>387,627</u>
			<u>\$1,140,126</u>

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Revenue Bonds Series 1979	<u>\$88,251</u>	<u>\$ 0</u>	<u>\$(31,225)</u>	<u>\$ 0</u>	<u>\$57,026</u>

Description	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Balance</u>
Revenue Bonds Series 1979	5.00%	Unknown	<u>\$ 57,026</u>

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS (Continued)

Water Fund

Water Revenue Bonds Series 1980 secured by a pledge of the Utilities' revenue, payable at \$137,055 annually with interest at 5% through June 30, 2020.	\$ 341,854
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Water and Sewer Revenue Bond Series 1993 payable to the USDA installments of \$3,224 monthly secured by a pledge of the Utility's revenue with an interest rate of 5% through October 2034.	410,645
--	---------

Water Revenue Bond Series 2016 secured by a pledge of the Utilities' revenue, payable in monthly installments of \$1,335 with an interest rate of 2.25% through 2056.	<u>387,627</u>
Total	1,140,126
Less Current Portion	<u>(145,914)</u>
Total Long Term Debt Water Fund	<u><u>\$ 994,212</u></u>

Sewer Fund

Revenue Bond Series 1979 to be paid in annual installments of \$35,574 with an interest rate of 5% through 2019.	<u>\$ 57,026</u>
Total	57,026
Less Current Portion	<u>(32,610)</u>
Total Long Term Debt Sewer Fund	<u><u>\$ 24,416</u></u>

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS (Continued)

Maturities of Long-Term Obligations at December 31, 2017.

Water Fund

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 145,914	\$ 45,849	\$ 191,763
2019	153,030	38,733	191,763
2020	124,171	31,277	155,448
2021	29,466	25,242	54,708
2022	30,749	23,959	54,708
2023-2027	175,222	98,318	273,540
2028-2032	217,774	55,766	273,540
2033-2037	60,303	26,081	86,384
2038-2042	60,489	19,611	80,100
2043-2047	67,684	12,416	80,100
2048-2052	<u>75,324</u>	<u>4,364</u>	<u>79,688</u>
Totals	<u>\$1,140,126</u>	<u>\$381,616</u>	<u>\$1,521,742</u>

Sewer Fund

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 32,610	\$ 2,964	\$ 35,574
2019	<u>24,416</u>	<u>1,221</u>	<u>25,637</u>
Totals	<u>\$ 57,026</u>	<u>\$ 4,185</u>	<u>\$ 61,211</u>

In compliance with the revenue bond covenants the Funds have established the following restricted reserve accounts.

Water Fund

Water and Sewer Revenue Bond Fund

Monthly payments are to be deposited into the Bond Fund until a debt service reserve of \$137,000 is accumulated. Monthly payments are then reduced to one-twelfth of the annual payments on the bond. Any surplus in the fund, after making required principal and interest payments may be used to:

1. Redeem Outstanding Bonds
2. Pay for construction of extensions, betterments and improvements to the system (including payment on any debt incurred for such expenditures.)
3. For any lawful municipal purpose.

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS (Continued)

Water and Sewer Depreciation Fund

Monthly payments were required to be made to the Depreciation Fund until a balance of \$10,000 was accumulated. Funds are restricted for the payments for replacements or extensions to the distribution system.

Water Tank Rehab Loan Series 2016

The City is required to establish a Debt Service Reserve Fund equal to at least one annual loan installment that accumulates at the rate of \$134 per month until \$16,080 is accumulated beginning June 25, 2016.

A short lived asset replacement reserve account is also required to be established and \$2,431 a month deposited in the account. The reserve is to be used to replace short lived assets. The annual reserve account is to be allocated as follows:

	Short Lived Asset Reserve	
	Current Required Balance	Debt Service Reserve
Required Balance Beginning of Year	\$16,763	\$ 938
Required 2017 Contributions	29,165	1,208
	45,928	2,146
Less Qualified Expenditures	0	0
Current Required Reserve Balance	\$45,928	\$2,146

	Prior Year	2017 Additions	2017 Used	Required Balance
<u>Required Allocation Short Lived Asset Reserve</u>				
Repainted Tanks	\$13,167	\$23,000	\$0	\$36,167
Replace Well Pumps	2,625	4,500	0	7,125
Replace Motors	971	1,665	0	2,636
Totals	\$16,763	\$29,165	\$0	\$45,928

Sewer Fund

1979 Sewer Revenue Bond

Monthly payments have been made to the Bond fund for a depreciation reserve until a debt service reserve is fully funded at \$7,500.

Debt service reserves for the Sewer exceed the amount of debt outstanding.

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS (Continued)

Current balance of the Restricted Bond Funds are as follows:

<u>Water Fund</u>	
Water and Sewer Revenue Bond Fund	\$105,263
Water and Sewer Depreciation Fund	8,281
Total	<u>\$113,544</u>
Reserve Requirements for 1993 USDA Bond Issue	
Debt Service Reserve	<u>\$ 38,688</u>
Total	<u>\$152,232</u>
<u>Sewer Fund</u>	
Debt Service Fund	\$ 34,217
Depreciation Fund	7,500
Total	<u>\$ 41,717</u>

NOTE 5: RESTRICTED ASSETS

Restricted assets consist of Certificates of Deposit and interest-bearing Money Market accounts deposited in a local bank. These deposits are reported at cost which approximates fair value. Restricted assets consist of the following:

	Water Fund	Sewer Fund
Meter Deposit Funds	\$ 93,437	\$ 0
Debt Reserve Funds	143,951	7,500
Depreciation Funds	8,531	34,217
	<u>\$245,919</u>	<u>\$41,717</u>

NOTE 6: PENSION PLAN

Arkansas Public Employees Retirement System (System)

In June 2012 "The Government Accounting Standards Board" (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 257, which became effective for the fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers.

Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a new pension liability, deferred outflows or inflows of recourse related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and actual investment return.

FORDYCE WATER & SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (Continued)

Plan Description

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State, and the director of Finance and Administration.

The State of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The City of Fordyce Water and Sewer Funds, (City) contribute an actuarially determined amount to the plan, which was 14.5% for covered payroll from January 1, 2017, through June 30, 2017, and 14.75% from July 1 through December 31, 2017. Contributions made by the City for the Water and Sewer Fund year ended June 30, 2017, were \$41,447. Contributions for covered employees from the Water and Sewer Fund for the year ended December 31, 2017 were \$41,043.

Benefits Provided

Benefits provisions are set forth in Arkansas Code Annotated, Title 24, Chapter 5 and 6. These provisions can only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 07/01/2005	2.07%
Contributory, on or after 07/01/2005, but prior to 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with five years of service.
- At any age with 28 years of actual service.
- At age 60 with 20 years of actual service if under old contributory plan (prior to July 1, 2005) or:
- At age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 6: PENSION PLAN (Continued)

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for service previously rendered (A.C.A 24-2-701(a). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005, are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A 24-2-701(c)(3)). Employers contributed at the rate stated in the "Plan Description" portion of this note above.

APERS Fiduciary Net Position

Detailed information about APERS' fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources to Pensions

The collective Net Pension Liability of \$2,584,140,480 was measured as of June 30, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's portion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to total contributions of all participating employers.

A single discount rate of 7.15% was used to measure the total pension liability. This rate was based on the expected rate of return on pension plan investments. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability for the City of Fordyce Water and Sewer Funds.

Deferred outflows of resources and deferred inflows of resources related to pensions for the City of Fordyce Water and Sewer Funds are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,154	\$(8,273)
Changes in proportion and differences between employer contributions and proportionate share of contribution	30,772	(1,432)
Changes of assumptions	67,681	0
Net difference between projected and actual earnings on pension plan investments	<u>17,626</u>	<u>0</u>
	<u>\$124,233</u>	<u>\$(9,705)</u>

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 6: PENSION PLAN (Continued)

Amounts reported as deferred outflows or resources and deferred inflows of resources related to pensions will be recognized in the expense account of the City of Fordyce Water and Sewer financial statement as follows:

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>
<u>\$32,245</u>	<u>\$50,451</u>	<u>\$33,453</u>	<u>\$(1,651)</u>	<u>\$0</u>	<u>\$0</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll
Remaining Amort. Period	25 Years
Asset Valuation Method	4-year smooth market: 25% corridor
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.5% price inflation
Salary Increase	3.25% - 9.85% increasing inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Healthy Mortality Table, Projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females.
Average Service Life of All Members	4.3774

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major class included in the System's target asset allocation as of June 30, 2017, are summarized in the following table:

Net Pension Liability Allocation

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	<u>100%</u>	
Total Real Rate of Return	4.82%	
Plus: Price Inflation - Actuary Assumption	<u>2.50%</u>	
Net Expected Return	<u>7.32%</u>	

FORDYCE WATER & SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 6: PENSION PLAN (Continued)

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods projected benefit payments to determine total pension liability.

Sensitivity to the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the proportionate share of the Net Pension Liability using the discount rate of 7.15% as well as what the Net Pension Liability of the City of Fordyce Water and Sewer Funds would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate.

Sensitivity of Discount Rate		
1%	Discount	1%
Lower	Rate	Higher
6.15%	7.15%	8.15%
<u>\$640,583</u>	<u>\$420,642</u>	<u>\$238,014</u>

The Pension deferred outflows and inflows of resources and pensions costs are reported in the water fund financials. These accounts relate to both water and sewer funds pension costs and liabilities. They are presented in the water and sewer fund because the actuary does not allocate the costs and the water fund's payroll is much larger than the sewer fund.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 4, 2018, the date the financial statements became available to be issued.

On January 17, 2018, the City Council approved a bid for the "Willow Street Project" in the amount of \$74,929.

NOTE 8: DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Management has elected to omit the discussion and analysis of the financial performance of Fordyce Water Department and the Budget to Actual comparison which are required under generally accepted accounting principles.

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 SUPPLEMENTAL INFORMATION
 DECEMBER 31, 2017

Schedule of Insurance

<u>Name of Carrier</u>	<u>Type</u>	<u>Amount</u>	<u>Expires</u>
US Bank	Property \$5,000 Deductible	\$5,586,400	1/1/2017
US Bank	Auto Liability Comprehensive Collision	15,000/25,000 50,000 \$500 Deductible	1/1/2017
Arkansas First Insurance	Fidelity Bond	\$750,000	1/1/2017

Names, Position, and terms of office of elected officials.

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
John MacNichols	Mayor	12/31/2018
Shirley Richart	Clerk/Treasurer	12/31/2018
Melvin Collins	Council Member	12/31/2018
John Daniel	Council Member	12/31/2018
Don Parrson	Council Member	12/31/2018
Barbara Spears	Council Member	12/31/2018
Robert Williams	Council Member	12/31/2018
Larry Stacy	Council Member	12/31/2018

FORDYCE WATER AND SEWER FUNDS
 COMPONENT UNITS OF THE CITY OF FORDYCE
 SUPPLEMENTAL INFORMATION
 DECEMBER 31, 2017

Water and Sewer Rates

Water

Monthly Minimum Charges	<u>In City</u>	<u>Outside City Limits</u>
5/8 inch meter	\$ 7.00	10.50
3/4 inch meter	10.35	15.52
1 inch meter	18.95	28.45
1 ½ inch meter	28.91	43.36
2 inch meter	58.13	87.19
3 inch meter	87.99	131.98
4 inch meter	129.81	194.71
6 inch meter	195.98	193.97

Additional Consumption Charge

Meters 1 inch and smaller are billed \$3 per 1,000 gallons for in City usage for the first 150,000 gallons of usage in a month. Out-of-City users rates are \$4.50 per gallon for the first 150,000 gallons.

Usage over 150,000 gallons per month are billed \$2.50 per gallon for the additional amounts.

Sewer

	<u>In City</u>	<u>Outside City Limits</u>
Residential (Based on Water Usage)		
First 1,000 Gallons	16.60	18.16
All over 1,000 per thousand	6.37	8.49
Commercial		
First 1,000 Gallons	32.75	44.03
All over 1,000 per thousand	4.78	6.10
Residential Flat Rate	39.01	53.31
Commercial Flat Rate	40.58	61.26

SEARCY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Mayor and Council
City of Fordyce
Fordyce, 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 City of Fordyce's Water and Sewer Proprietary Funds (the "Funds"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated August 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement if the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-1, 2017-2, 2017-3, 2017-4, 2017-5, and 2017-6 to be material weaknesses.

Compliance and Other Matters

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

City of Fordyce Water and Sewer Fund's Response to Findings

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's 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 result of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Searcy & Associates, LLC
Monticello, Arkansas

August 4, 2018

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

Material Findings:

2017-1 Segregation of Duties

Condition: The City of Fordyce Water and Sewer Funds (the Funds) did not segregate financial accounting duties relating to the initiating, receipting, disbursing, and recording cash transactions sufficiently to reduce the risk of fraud or error.

Criteria: Proper segregation of duties should be in place as a control to provide reasonable assurance that fraud or error does not occur or to detect any material fraud or error if it does occur.

Cause: The Funds have limited financial resources which prevent it from fully segregating financial duties. However, the staff available is not fully utilized to segregate duties to the extent possible.

Effect: Failure to segregate the duties to the extent possible has resulted in penalties and interest resulting from late payment of payroll and sales taxes.

Recommendation: The City should evaluate its internal controls and segregate financial duties to the extent possible with current staffing levels. Existing employees should be cross-trained to perform duties of absent personnel. A second employee should be designated to review the timely filing of payroll reports, timely remittance of payroll taxes and other payments, and to review the reconciliation of bank statements. The City should consider additional oversight where segregation is not possible.

Views of Responsible Officials: The findings relate to periods prior to December 31, 2017. Since that period the City has made arrangements to replace the personnel responsible for record keeping and filing payroll reports as well as other time sensitive documents.

Arrangements have been made to increase over-site of the accounting function of the water and sewer funds. Duties have been segregated to the extent possible given the resources available.

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

- 2017-2 **Condition:** Remittances of payroll deposits for federal payroll taxes are routinely deposited late. No payroll tax deposits were remitted for employees beginning the last two quarters of 2015 through December 2017. Sales tax reports were usually filed late. State income tax withholdings, unemployment taxes and retirement remittances to APERS are also routinely filed and paid late.
- Criteria:** All payments referred to in the Condition paragraph above are required by law to be made within a certain time period.
- Effect:** Late payments result in the loss of a two-percent discount for timely filing of sales tax reports. All late payments result in penalties assessed to the City.
- Recommendation:** The City should assign a reliable person for the responsibility of remitting these important reports and payments timely. One or two employees should be trained to perform the duties in the absence of the responsible person.
- Views of Responsible Officials:** The City has employed an experienced individual to ensure timely filing of reports. Past due reports have been filed and all payments of sales and payroll taxes are current.

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

2017-3 **Condition:** The Water and Sewer Funds' general ledger is not posted timely and the bank accounts are not reconciled timely. Bank accounts are also not reconciled to general ledger accounts.

Criteria: Arkansas Code Annotated 14-59-108 requires that "all municipalities receiving state aid shall reconcile their cash receipts and disbursements journals to the amount on deposit in bank" on a monthly basis.

Effect: Failure to reconcile accounts on a timely basis results in an increased risk of fraud and/or error to occur and to not be found in a timely manner.

Recommendation: The City should provide over site to ensure that the Water and Sewer Funds activity is posted to the general ledger and reconciled in a timely manner. The bank accounts should be reconciled to general ledger balances. Reconciliations should be reviewed by a separate person.

Views of Responsible Officials: The City has employed an experienced individual to ensure timely posting of the general ledger and bank reconciliations.

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

2017-4 **Condition:** The Water and Sewer Funds' bank reconciliations and financial statements are never reviewed and approved by the governing body.

Criteria: Arkansas Code Annotated 14-59-115 requires that any "municipal treasurer of this state or the designate representative that has been approved by the governing body shall submit monthly a copy of the bank reconciliations to the city council."

Effect: The lack of over site has created a condition resulting in a situation allowing the conditions described in findings 2017-2 and 2017-3.

Recommendation: The Water and Sewer financial statements, along with a copy of bank reconciliations should be reviewed and approved monthly by the City Council. This over site would eliminate the existence of the findings in 2017-2 and 2017-3.

Views of Responsible Officials: The City has employed an experienced individual to ensure proper reporting to the governing body.

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

2017-5 **Condition:** Audit adjustments have not been entered into the Water and Sewer Funds general ledger for what appears to be several years.

Criteria: In order for the financial statements to properly reflect the financial condition of the Water and Sewer Funds, material adjustments should be entered as soon as practical after completion of the annual audit.

Effect: Third party users and the governing body are unable to discern the correct financial condition of the Funds by review of the City's financial statements.

Recommendation: Audit adjusting entries should be made as soon as possible after completion of the annual audit.

Views of Responsible Officials: Audit adjustments will be made upon presentation and approval.

CITY OF FORDYCE WATER AND SEWER FUNDS
COMPONENT UNITS OF THE CITY OF FORDYCE
SCHEDULE OF FINDINGS AND RESPONSES

- 2017-6 **Condition:** The Water and Sewer Funds had deposits in Banks in excess of the amount of FDIC insurance and value of qualifying securities pledged as collateral.
- Criteria:** Arkansas Code Annotated 23-47-203 (c)(d)2 requires that “the aggregate market value of assets pledged must be equal to or exceed the amount of the deposit to be secured.”
- Effect:** The unsecured deposits are subject to loss in the event of failure of the depository bank.
- Recommendation:** We recommend the City monitor its deposits closer and secure collateral on all uninsured deposits.
- Views of Responsible Officials:** The City has taken steps to ensure compliance with deposit requirements by employing a responsible person to oversee Water and Sewer Fund operations. The condition described above was prior to December 31, 2017, and all City deposits are now secured by FDIC insurance or pledges of qualified securities.