

**CITY OF MOUNT IDA WATER & SEWER DEPARTMENT**  
**FINANCIAL STATEMENTS**  
December 31, 2019

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Council Members of the  
City of Mount Ida, Arkansas

We have audited the accompanying financial statements of the Water and Sewer Department, "the Department", a component unit of the City of Mount Ida, Arkansas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Department'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 to the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of December 31, 2019, and its changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Mount Ida, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis and Budget to Actual Comparison 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Searcy & Associates, LLC  
Monticello, Arkansas  
October 20, 2020

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**STATEMENT OF NET POSITION**

December 31, 2019

	2019
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 511,202
Accounts receivable (net)	47,028
Total current assets	558,230
 <u>Restricted cash and investments</u>	
Meter deposits	81,216
Debt reserve funds	346,267
Total restricted cash and investments	427,483
Fixed assets, net of accumulated depreciation	3,904,964
Deferred outflow of resources related to pension	20,307
Total assets	\$ 4,910,984
 <u>Liabilities and Net Position</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 69,798
Accrued interest	13,723
Accrued payroll	8,912
Other accrued expenses	29,229
Current portion of bonds payable	19,329
Total current liabilities	140,991
 <u>Long term liabilities</u>	
Bonds payable, net of current amount	877,307
Pension liability	139,506
Customer deposits	78,560
Total long term liabilities	1,095,373
Deferred inflow of resources related to pension	9,096
 <u>Net position</u>	
Invested in capital assets, net of related debt	3,008,328
Restricted	346,267
Unrestricted	310,929
Total net position	3,665,524
Total liabilities and net position	\$ 4,910,984

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

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2019

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	<u>2019</u>
<u>Operating revenues</u>	
Water and waste water services	\$ 777,509
Other operating revenue	17,174
Total operating revenue	<u>794,683</u>
 <u>Operating expenses</u>	
Plant operations and distribution	741,699
General and administrative	136,797
Depreciation	145,191
Total operating expenses	<u>1,023,687</u>
 Income / (loss) from operations	 (229,004)
 <u>Other revenue / (expenses)</u>	
Interest income	7,659
Grant revenue	17,343
Pension expense	(81,691)
Interest expense	(22,943)
Total other revenue / (expenses)	<u>(79,632)</u>
 <u>Excess (deficit) of revenues over expenses</u>	 (308,636)
 <u>Other financing sources (uses)</u>	
Transfers in / (out)	180,000
 <u>Change in net position</u>	 <u>(128,636)</u>
 <u>Net position, beginning of year</u>	 <u>3,794,160</u>
 Change in net invested in capital assets	88,895
Change in restricted assets	-
Change in unrestricted assets	(217,531)
Change in net position	<u>(128,636)</u>
 <u>Net position, end of year</u>	 <u>\$ 3,665,524</u>

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

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2019

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	<u>2019</u>
<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 793,313
Payments for salaries and benefits	(290,463)
Payments for operating and administrative expenses	(605,990)
Net cash provided by (used for) operating activities	<u>(103,140)</u>
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	(70,308)
Transfers in (out)	180,000
Interest income	7,659
Net cash provided by (used for) investing activities	<u>117,351</u>
<u>Cash flows from financing activities</u>	
Proceeds from grant revenue	17,343
Principal payments on debt	(163,778)
Interest payments	(22,943)
Change in pension liability	55,262
Pension expense	(81,691)
Change in deferred outflows / inflows	(8,929)
Change in customer deposits	1,161
Net cash provided by (used for) financing activities	<u>(203,575)</u>
<u>Change in cash and cash equivalents</u>	(189,364)
<u>Cash and cash equivalents, beginning of year</u>	<u>1,128,049</u>
<u>Cash and cash equivalents, end of year</u>	<u>938,685</u>
<u>Cash and cash equivalents</u>	511,202
<u>Restricted cash and cash equivalents</u>	427,483
	<u>\$ 938,685</u>

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

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**STATEMENT OF CASH FLOWS (Continued)**  
For the Year Ended December 31, 2019

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	2019
<u>Reconciliation of operating income to net cash from operating activities:</u>	
Operating income (loss)	\$ (229,004)
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	145,191
Changes in assets and liabilities:	
Accounts receivable	(1,370)
Accounts payable	(29,793)
Accrued interest	5,276
Accrued payroll	(1,236)
Other accrued expenses	7,796
Total adjustments	125,864
Net cash provided by (used for) operating activities	\$ (103,140)

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

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2019

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Water and Sewer Department (the “Department”) is a component unit of the City of Mount Ida, Arkansas. The Department is governed by a commission, which is appointed by the City Council. The Water Department provides water services to the City of Mount Ida and certain surrounding areas. The City Council approves the rate changes of the Department’s services. The debt of the Department is maintained in the name of the City of Mount Ida.

**B. Fund Type**

The Department is an enterprise fund, 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 the costs (expenses, including depreciation) of providing goods or 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.

**C. Basis of Accounting**

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Department. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Department.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Department applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

**D. Use of Estimate**

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**E. Assets, Liabilities, and Net Position**

Cash and Cash Equivalents

The Department considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand

accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

### Accounts Receivable

Accounts receivable relate to water and sewer service billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of the past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

### Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Wells & Water Tanks	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Department's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$1,000. The cost basis of fully depreciated property and equipment still in use by the Department at December 31, 2019 amounted to \$343,831.

### Deferred Outflow / Inflow of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Department has qualifying items for reporting in this category. Deferred outflows of resources include those related to pension changes for the Department.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an increase to net position that applies to a future period and is recognized as an inflow of resources (revenue) until that time. The Department has qualifying items for reporting in this category. Deferred inflows of resources include those related to pension changes for the Department.

### Pension

The Department maintains one cost-sharing, multiple employer, defined benefit retirement plan. The plan is sponsored by the Arkansas Public Employee Retirement System.

For purposes of measuring the net pension asset or liability, deferred outflow of resources and deferred inflow of resources related to pension, and pension expense have been determined on the same basis as they are reported by the actuary. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plan. However, certain administrative functions are performed by employees of the Department and are not reimbursed by the plan.

## Net Position Classifications

- 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.”

## **F. Date of Management’s Review**

The Department evaluated its December 31, 2019 financial statements for subsequent events through October 20, 2020, the date the financial statements were available to be issued. The Department is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

## **NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS**

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it.

The schedule below is designed to disclose the level of custodial credit risk assumed by the Department based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2019.

Category 1 – Insured FDIC or secured with securities held by the Department (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions’ trust department in the Department’s name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust department or agent in the Department’s name, or collateralized with no written or approved collateralized agreement.

The level of security for the Department's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 21,537	\$ 21,537	\$ -	\$ -
Bank B	\$ 321,906	250,000	\$ 71,906	-
Bank C	602,093	250,000	352,093	-
Total	<u>\$ 945,536</u>	<u>\$ 521,537</u>	<u>\$ 423,999</u>	<u>\$ -</u>

The amounts shown are bank ledger balances of the referenced bank's deposits and may differ from the Department's general ledger balances.

The Department has certain amounts of its cash accounts restricted at December 31, 2019 as follows:

Meter deposits	\$ 81,216
Debt reserve requirements	<u>346,267</u>
Total restricted cash	<u>\$ 427,483</u>

The debt reserve cash requirements are restricted for use of replacement of certain equipment securing the bonded indebtedness or for their repairs during the term of the debt and for the use of annual debt service payments for the Department's indebtedness.

Customers' meter deposits are restricted for the use of refunding a departing customers' refund upon leaving the Department or for off-setting any amounts owed by the customer upon departure.

It is the Department's policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

### NOTE 3 – CHANGES IN FIXED ASSETS

	Balance December 31, 2018	Transfers	Additions	Disposals	Balance December 31, 2019
Water and sewer plants & lines	5,640,578	-	4,200	-	5,644,778
Furniture and fixtures	311,096	-	45,562	-	356,658
Vehicles	325,547	-	-	-	325,547
Construction in progress	-	-	20,546	-	20,546
	<u>6,277,221</u>	<u>-</u>	<u>70,308</u>	<u>-</u>	<u>6,347,529</u>
Accumulated depreciation	<u>(2,297,374)</u>	<u>-</u>	<u>(145,191)</u>	<u>-</u>	<u>(2,442,565)</u>
	<u>\$ 3,979,847</u>	<u>\$ -</u>	<u>\$ (74,883)</u>	<u>\$ -</u>	<u>\$ 3,904,964</u>

**NOTE 4 – LONG-TERM DEBT**

Long-term debt consisted of the following at December 31, 2019:

Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$2,547, including principal and interest through August 2058; interest at 2.25%, secured by property and equipment	\$ 787,151
Note payable to the Arkansas Natural Resource Commission for the purchase of property and equipment, payable in annual installments of \$9,693, including principal and interest through June 2033; interest at 3.0%, secured by property and equipment	\$ 109,485

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31, 2019:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 19,329	\$ 20,863
2021	19,815	20,377
2022	20,313	19,878
2023	20,824	19,367
2024	21,348	18,843
2025-2029	115,089	85,867
2030-2034	120,677	70,587
2035-2039	94,719	57,775
2040-2044	105,986	46,508
2045-2049	118,593	33,901
Thereafter	239,943	24,379
	<u>\$ 896,636</u>	<u>\$ 418,345</u>

**NOTE 5 – PENSION**

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

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 the Department of Finance and Administration.

## Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may 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 7/1/2005	2.07%
Contributory, on or after 7/1/2005, 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 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the 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 at age 55 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.

## 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 services 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 15.32% of compensation for the fiscal year ended June 30, 2019. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

The Department pays for their portion of the pension plan to the City of Mount Ida based on the covered payroll percentage for the Department as compared to the City of Mount Ida. For the plan year, the allocation percentage for the Department is 33.036% of the covered payroll for the City of Mount Ida. Amounts below are allocated to the Department based on the allocation percentage.

## APERS Fiduciary Net Position

Detailed information about APERS's 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 of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability of \$2,412,528,796 was measured as of June 30, 2019, 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 proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Deferred outflows of resources and deferred inflows of resources related to pensions for your employer are as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 11,493	\$ (627)
Changes in proportion and differences between employer contributions and proportionate share of contribution	27,056	(7,468)
Changes of assumptions	22,921	(16,233)
Net difference between projected and actual earnings on pension plan investments	-	(3,207)
Total for City	55,067	(45,503)
Department pro-rata allocation	33.036%	33.036%
Total for Department	<u>\$ 18,192</u>	<u>\$ (15,032)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

	2020	2021	2022	2023	2024	Thereafter
Total for City	\$ 26,967	\$ (6,789)	\$ 6,796	\$ 6,961	\$ -	\$ -
Department pro-rata allocation	33.036%	33.036%	33.036%	33.036%	33.036%	33.036%
Total for Department	<u>\$ 8,909</u>	<u>\$ (2,243)</u>	<u>\$ 2,245</u>	<u>\$ 2,300</u>	<u>\$ -</u>	<u>\$ -</u>

Actuarial Assumptions

The total pension liability in the June 30, 2019 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, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	30 years (8.6 years for District Judges New Plan/Paid Off Old Plan and 17 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still

Investment Rate of Return	Paying Old Plan) 7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
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	4.1431

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 asset class included in the System’s target asset allocation as of June 30, 2019 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.20%
International Equity	24%	6.33%
Real Assets	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
Total	100%	
Total Real Rate of Return		4.80%
Plus: Price Inflation- Actuary Assumption		2.50%
Net Expected Return		7.21%

#### 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 of projected benefit payments to determine the total pension liability.

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

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

	<u>Sensitivity of Discount Rate</u>		
	<u>1% Lower</u>	<u>Discount Rate</u>	<u>1% Higher</u>
	<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
Total for City	\$ 676,824	\$ 422,289	\$ 212,286
Department pro-rata allocation	33.036%	33.036%	33.036%
Total for Department	<u>\$ 223,596</u>	<u>\$ 139,507</u>	<u>\$ 70,131</u>

**NOTE 6 – RISK MANAGEMENT**

The Department is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 7 – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PROCEDURES**

Management has elected to omit the Budget to Actual Comparison and the Management Discussion and Analysis of the Department from the financial statements which are required by GAAP.

**SUPPLEMENTARY INFORMATION**

**WATER & SEWER DEPARTMENT OF THE CITY OF MOUNT IDA, ARKANSAS**  
**SCHEDULE OF OPERATING EXPENSES**  
For the Year Ended December 31, 2019

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	<u>2019</u>
<u>Plant operations and distributions</u>	
Water purchases	\$ 427,684
Salaries, wages, and benefits	172,188
Repairs and maintenance	20,535
Utilities	46,632
Payroll taxes	59,194
Operating supplies and other	15,466
Total plant operations and distributions	<u>741,699</u>
<u>General and administrative</u>	
Salaries, wages, and benefits	43,047
Office supplies	48,246
Insurance	10,600
Professional fees	6,322
Payroll taxes	14,798
Other expenses	13,784
Total general and administrative	<u>136,797</u>
<u>Depreciation</u>	<u>145,191</u>
Total operating expenses	<u>\$ 1,023,687</u>

See independent auditor's report.

**SEARCY & ASSOCIATES, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.  
CHARLES SEARCY, C.P.A.  
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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 Members of the  
City of Mount Ida, Arkansas

We have audited, 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, the accompanying financial statements of the Water and Sewer Department ("the Department"), a component unit of the City of Mount Ida, Arkansas, which comprise the statement of net position as of December 31, 2019 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 20, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Searcy & Associates LLC". The signature is written in a cursive, flowing style.

Searcy & Associates, LLC  
Monticello, Arkansas  
October 20, 2020