

Financial Statements

Hardin Public Water Authority

For the Year Ended September 30, 2021
(with Independent Auditor's Reports thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hardin Public Water Authority
White Hall, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hardin Public Water Authority as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Hardin Public Water Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hardin Public Water Authority as of September 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hardin Public Water Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Hardin Public Water Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hardin Public Water Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

**Hardin Public Water Authority
Independent Auditor's Report (Continued)**

- Obtain an understanding of internal control relevant to the audit 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 Hardin Public Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hardin Public Water Authority's ability to continue as a going concern for a reasonable period of time.


We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension schedules on pages 3 – 5 and 16 – 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2024 on our consideration of Hardin Public Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Hardin Public Water Authority's internal control over financial reporting and compliance.



Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

March 12, 2024

Hardin Public Water Authority
10919 US 270
White Hall, Arkansas 71602

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of the financial performance of Hardin Public Water Authority (the "Authority") provides an overview of the Authority's financial activities for the year ended September 30, 2021.

Financial Highlights

- Total assets and deferred outflows of resources increased from \$5,319,532 in 2020 to \$6,901,460 in 2021, an increase of \$1,581,928 (29.7%), due primarily to the construction in progress pertaining to the waterline relocation on Highway 270 and increased pension related deferred outflows.
- Capital assets increased \$1,580,500 (42.1%) from \$3,749,725 in 2020 to \$5,330,225 in 2021 due primarily to the ongoing waterline relocation project on Highway 270.
- During 2021, the Authority elected to participate in the Arkansas Public Employee's Retirement Plan (the Plan), a multi-employer, cost sharing, defined benefit plan, qualified under Section 401 (a) of the Internal Revenue Code, with defined contribution options. In 2021, the Authority recorded a net pension liability of \$34,556 and pension related deferred outflows and deferred inflows of \$93,853 and \$63,116, respectively.
- The Authority's non-current liabilities increased \$1,103,220 (46.2%) from \$2,386,330 in 2020 to \$3,489,550 in 2021. This increase is primarily due to additional debt acquired from AR Department of Transportation to finance the waterline relocation project.
- The Authority reported operating income of \$15,016 in 2021 compared to operating income of \$185,943 in 2020, which represents a decrease of \$170,927 in operating income. The decrease in operating income resulted from a \$148,655 (708.0%) increase in professional fees that primarily pertained to the arbitration settlement.
- Change in Net Position decreased from income of \$221,511 in 2020 to a loss of (\$14,784) in 2021, a decrease of \$236,295. The decrease resulted primarily from the professional fees recognized in the current period pertaining to the arbitration settlement.
- The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all Governmental Accounting Standards Authority ("GASB") pronouncements.

Using this Annual Report

The Authority's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, regulators or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any organization's finances is, "Did the organization as a whole end the year better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's net position and changes in them. The Authority's total net position – the difference between assets and liabilities – are one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or declining.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions such as which activity provided cash, which activity used cash and what was the change in cash balances during the reporting period.

**Hardin Public Water Authority
Management's Discussion and Analysis (Continued)**

Financial Analysis

Table 1: Assets, Liabilities and Net Position

	2021	2020
Assets		
Current assets	\$ 1,477,382	\$ 1,569,807
Capital assets, net of depreciation	5,330,225	3,749,725
Total Assets	6,807,607	5,319,532
Deferred Outflows of Resources	93,853	-
Total Assets and Deferred Outflows of Resources	\$ 6,901,460	\$ 5,319,532
Liabilities		
Current liabilities	\$ 605,160	\$ 174,784
Non-current liabilities	3,489,550	2,386,330
Total Liabilities	4,094,710	2,561,114
Deferred Inflows of Resources	63,116	-
Total Liabilities and Deferred Inflows of Resources	\$ 4,157,826	\$ 2,561,114
Net Position		
Net investment in capital assets	2,017,417	1,341,835
Unrestricted	726,217	1,416,583
Total Net Position	2,743,634	2,758,418
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 6,901,460	\$ 5,319,532

The Authority's net position represents the difference between its assets and liabilities reported in the Statement of Net Position. \$2,017,417 of the Authority's net position, (73.5%), signifies the Authority's investment in capital assets (i.e., land, Authority plant, buildings and improvements, machinery and equipment and construction in progress), less any outstanding debt used to acquire those assets. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources since the capital assets themselves cannot be liquidated to satisfy outstanding debt obligations.

The remaining \$726,217 (26.5%) of the Authority's net position was unrestricted and may be used to meet ongoing obligations to customers and creditors.

Table 2:

Changes In Net Position	2021	2020
Operating revenues	\$ 985,343	\$ 938,154
Operating expenses	970,327	752,211
Operating income (loss)	15,016	185,943
Non-operating revenues (expenses)	(29,800)	35,568
Change in net position	(14,784)	221,511
Net position, beginning of year	2,758,418	2,536,907
Net position, end of year	\$ 2,743,634	\$ 2,758,418

Operating Results and Changes in Net Position

The Authority's change in net position was (\$14,784) in 2021 compared to \$221,511 in 2020, a decrease of \$236,295 as shown in Table 2. The decrease was primarily due to an increase in operating expense of \$218,116 as a result of professional fees pertaining to the arbitration settlement and increased retirement costs associated with participating in Arkansas Public Employees Retirement System.

Operating Income (Loss)

The first component of the overall change in net position is the Authority's operating income – generally, the difference between customer charges and other operating revenues and the expenses incurred to provide those services. Operating revenues increased \$47,189 (5.0%). The increase in operating revenue was offset by a \$218,116 increase in operating expenses.

Non-operating Revenues and Expenses

Non-operating revenues (expenses) of (\$29,800) consisted of interest income of \$2,709 offset by interest expense of \$32,509.

Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2021, the Authority had \$5,330,225 invested in capital assets, net of accumulated depreciation. In 2021, the Authority recorded total capital additions of \$1,614,346 related to the waterline relocation project and \$118,059 for new equipment and building improvements. These purchases are part of the Authority's long-term plan to maintain and improve its plant and equipment. Depreciation expense totaled \$151,905 in 2021. At September 30, 2021, the Authority had a construction contract commitment in place on the waterline relocation project for \$3,041,775. Payments have been made to the contractor totaling \$2,606,687 leaving a remaining commitment of \$435,088.

Long-term Debt

At September 30, 2021, the Authority had long-term debt of \$3,290,314 which consisted of two note payables of \$728,533 and \$2,561,781. The Authority retired \$22,544 of long-term debt during the year.

Subsequent Events

Subsequent to September 30, 2021, a construction company initiated an arbitration proceeding with the Authority to bring claims against the Authority for breach of contract and quantum meruit claims and the Authority countered. On December 14, 2023, the arbitration was settled with the contractor as the prevailing party. As a result, the Authority is liable for a total of \$164,680 pertaining to construction costs as well as arbitration and other legal fees. Accordingly, the Authority has recognized a non-current payable for this amount.

Requests for Information

The financial report is designed to provide a general review of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to Manager, Hardin Public Water Authority, 10919 Highway 270, White Hall, Arkansas 71602 or call 870-247-9639.

Hardin Public Water Authority
Statement of Net Position
September 30, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash - operations	\$ 936,451
Cash - certificates of deposit	314,989
Accounts receivable, net	171,948
Inventory	49,197
Prepaid expenses	<u>4,797</u>
Total Current Assets	<u>1,477,382</u>
Non-current Assets	
Capital assets, not being depreciated	3,542,312
Capital assets, being depreciated, net	<u>1,787,913</u>
Total Non-current Assets	<u>5,330,225</u>
Total Assets	<u>6,807,607</u>
Deferred Outflows of Resources	
Pension related deferred outflows	<u>93,853</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 6,901,460</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Accounts payable	\$ 465,080
Accrued liabilities	28,979
Accrued payroll liabilities	9,194
Refundable meter deposits	79,413
Current portion of notes payable	<u>22,494</u>
Total Current Liabilities	<u>605,160</u>
Non-current Liabilities	
Long-term debt	3,290,314
Non-current payable	164,680
Net pension liability	<u>34,556</u>
Total Non-current Liabilities	<u>3,489,550</u>
Total Liabilities	<u>4,094,710</u>
Deferred Inflows of Resources	
Pension related deferred inflows	<u>63,116</u>
Net Position	
Net investment in capital assets	2,017,417
Unrestricted	<u>726,217</u>
Total Net Position	<u>2,743,634</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 6,901,460</u></u>

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

Hardin Public Water Authority
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended September 30, 2021

Operating Revenues

Water sales	\$ 927,748
Billing and collection fees	15,120
Connection fees	10,433
Late charges	26,014
Other income	6,028

Total Operating Revenues	985,343
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Operating Expenses

Auto expenses	8,981
Bad debt expense	55
Continuing education and conferences	325
Depreciation	151,905
Dues and subscriptions	6,898
Insurance	72,022
Miscellaneous expense	4,840
Office expense	8,604
Postage	7,007
Professional fees	169,650
Repairs and maintenance	7,006
Retirement expense	30,280
Salaries and wages	187,574
System locates	1,548
Supplies	24,825
Taxes and licenses	14,649
Telephone	5,924
Uniform expense	1,703
Utilities	12,939
Water purchases	253,592

Total Operating Expenses	970,327
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Operating Income (Loss)	15,016
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Nonoperating Revenues (Expenses)

Interest income	2,709
Interest expense	(32,509)

Total Nonoperating Revenues (Expenses)	(29,800)
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Change in Net Position	(14,784)
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Net Position, Beginning	2,758,418
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Net Position, Ending	\$ 2,743,634
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The accompanying notes are an integral part of these financial statements.

Hardin Public Water Authority
Statement of Cash Flows
For the Year Ended September 30, 2021

Cash Flows from Operating Activities

Cash collected from customers	\$ 964,649
Other cash receipts	6,028
Cash payments to employees and related costs	(270,807)
Cash payments to suppliers for goods and services	(414,373)

Net cash provided by operating activities	285,497
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Cash Flows from Capital and Related Financing Activities

Principal payments on debt	(22,544)
Cash proceeds from issuance of debt	866,429
Cash payments for interest	(32,507)
Purchases of capital assets	(1,234,005)

Net cash (used in) capital and related financing activities	(422,627)
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Cash Flows from Investing Activities

Interest income	2,709
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Net cash provided by investing activities	2,709
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Net Decrease in Cash and Cash Equivalents	(134,421)
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Cash and Cash Equivalents at Beginning of Year	1,385,861
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Cash and Cash Equivalents at End of Year	\$ 1,251,440
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Cash and cash equivalents are presented in the statement of net position as follows:

Cash - operations	936,451
Cash - certificates of deposit	314,989
	\$ 1,251,440

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

Hardin Public Water Authority
Statement of Cash Flows (Continued)
For the Year Ended September 30, 2021

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used in) Operating Activities:

Operating income (loss)	\$ 15,016
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	151,905
Change in pension related accounts:	
Net pension liability	34,556
Pension related deferred outflows	(93,853)
Pension related deferred inflows	63,116
(Increase) decrease in current assets:	
Accounts receivable	(26,794)
Inventory	(15,204)
Increase (decrease) in current liabilities:	
Accounts payable	6,471
Accrued liabilities	(25,783)
Accrued payroll liabilities	1,538
Customer deposit liability	12,129
Other liability	162,400
Total adjustments	<u>270,481</u>
Net cash provided by operating activities	<u><u>\$ 285,497</u></u>
Supplemental Disclosure of Non-cash Capital and Related Financing Activities	
Property and equipment additions included in accounts payable and non-current payable	<u><u>\$ 498,401</u></u>

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

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity – Hardin Public Water Authority (the “Authority”) was established in 1965 as a domestic not-for-profit corporation under the laws of the State of Arkansas. In 2019, the Authority converted from a not-for-profit water association to a public water authority pursuant to the provisions of Arkansas Code Annotated Section 4-35-101, the “Water Authority Act.”

The Authority was formed to provide rural water service to its members in the Hardin community and surrounding areas in Jefferson County, Arkansas and is governed by an elected board of directors. The Authority is an independent entity and conducts its operations in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods and services to its members is recovered through user charges. The principal revenues of the Authority are charges to customers for water sales.

The Authority is considered a primary governmental entity since it satisfies all of the following criteria: (a) no entity appoints a voting majority of its governing body; (b) it is legally separate from other entities; and (c) it is fiscally independent of other state and local governments. The financial statements of the Authority include all operations and activities of the Authority for which it has financial accountability as defined above.

Basis of Accounting and Presentation – The Authority is accounted for as an enterprise fund and uses the accrual basis of accounting. The Authority’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 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. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

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 Authority are charges to customers for water and wastewater sales and services. Operating expenses for the Authority include the cost of pumping, treating and delivering water and wastewater discharge, administrative services, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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 differ from those estimates.

Cash and Cash Equivalents – For purposes of the presentation of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand, demand deposit accounts, money market deposits accounts and certificates of deposit. Cash includes amounts in demand and time deposit accounts.

Receivables – Accounts receivable include balances due from customers for services or water provided and is reported net of an allowance for doubtful accounts in order to represent the Authority’s estimate of the amount that will be ultimately realized in cash. The allowance for doubtful accounts was \$17,607 at September 30, 2021. The adequacy of the allowance for doubtful accounts is reviewed on an ongoing basis, using historic payment trends, write-off experience, as well as a review of specific accounts, and adjustments are made to the allowance as deemed necessary by management.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory – Inventory is stated at the lower of cost or market value using the first-in first-out method.

Capital Assets – It is generally the Authority’s policy that assets to be used in operations with an initial cost greater than or equal to \$1,000 and an estimated useful life of greater than one year are reported as capital assets. Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Authority:

Water plant and distribution	20 - 40 years
Machinery and equipment	5 - 20 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 environmental 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 for the year ended September 30, 2021.

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 of resources until then.

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.

Net Position – The Authority’s net position is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted net position* presents assets which are restricted either for debt service or capital projects, net of related payables. Net position restricted for debt service is related to assets which are restricted for use pursuant to debt agreements. Net position restricted for capital projects is related to debt proceeds, capital contributions, and contributions receivable which are restricted to certain capital projects. *Unrestricted net position* is the remaining assets less the remaining liabilities that do not meet the definition of *net investment in capital assets* or *restricted net position*.

Revenue Recognition – The Authority recognizes revenue as water services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include amounts billed to customers on a cyclical basis as well as an estimate of charges for services provided but unbilled for the period. Unbilled amounts are calculated by deriving estimates based on average daily usage of the billing cycle immediately following the accounting period.

Customer bills are generated on the last working day of each month, and payment is due by the 15th of the following month. Payments are considered delinquent if not received on or before the 15th, and a 10% late charge is assessed. Sales tax and other taxes that are collected on behalf of government authorities, concurrent with revenue-producing activities, are primarily excluded from revenue.

Income Taxes – As a governmental entity, the Authority is exempt from federal and state income taxes.

NOTE 2 – DEPOSITS AND INVESTMENTS

At September 30, 2021, the Authority’s deposits consisted of demand and time deposit accounts. These balances are classified as cash and cash equivalents in the Authority’s Statement of Net Position due to their highly liquid nature.

Custodial Credit Risk – State of Arkansas (the State) statutes require the Authority to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the Authority. To mitigate this risk, it is generally the Authority’s policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Authority’s name by an agent of the Authority. At September 30, 2021, the Authority’s cash balances were fully insured.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, (2) certificates of deposit at financial institutions when secured by acceptable collateral, (3) time deposit accounts at financial institutions, to the extent fully insured, (4) any bond, note or other indebtedness insured by U.S. government or those agencies insured and guaranteed by the federal government and (5) in equity securities, to a limited extent.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 42,171	\$ -	\$ -	\$ 42,171
Construction in progress	1,885,795	1,614,346	-	3,500,141
Total Capital Assets, Not Being Depreciated	1,927,966	1,614,346	-	3,542,312
Capital assets, being depreciated:				
Buildings and improvements	239,407	13,875	-	253,282
Equipment and fixtures	263,162	9,427	-	272,589
Office equipment	50,394	-	-	50,394
Small tools and equipment	9,987	-	-	9,987
System software	5,920	-	-	5,920
Tanks and distribution system	4,248,751	94,757	-	4,343,508
Total Capital Assets, Being Depreciated	4,817,621	118,059	-	4,935,680
Less: Accumulated Depreciation	2,995,862	151,905	-	3,147,767
Total Capital Assets, Being Depreciated, Net	1,821,759	(33,846)	-	1,787,913
Total Capital Assets, Net	\$ 3,749,725	\$ 1,580,500	\$ -	\$ 5,330,225

NOTE 4 – CONCENTRATIONS

The Authority provides water services to its members which are concentrated in the Hardin Community and surrounding areas of Jefferson County, Arkansas. Accordingly, the Authority's water revenues and related receivables are concentrated with members in the service area.

NOTE 5 – LONG-TERM DEBT

The Authority's long-term debt consists of the following:

United States Department of Agriculture (USDA) Note Payable

The USDA note payable was obtained for the purpose of financing a portion of the costs of constructing betterments and improvements to the Authority's water system. The original amount of the note payable was \$1,027,000. The note payable is payable from revenues derived from the water system and has an annual interest rate of 4.25%. Principal and interest payments are due on the 16th of each month with the final payment scheduled in 2043.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 5 – LONG-TERM DEBT (Continued)

Arkansas Department of Transportation

The ARDOT note payable was obtained for the purpose of financing a portion of the costs of relocating water lines along sections of State Highway 270 in Jefferson County. The original note payable agreement estimated the Authority's share of the costs to be \$2,361,256 but stated the agreement would be modified by ARDOT for total project costs once billing was final. At September 30, 2021, the Authority had drawn \$2,561,781. The note payable has an annual interest rate of 0.0%. Principal payments will be due annually once the note payable agreement is finalized by ARDOT.

Changes in long-term debt for the year ended September 30, 2021, are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
USDA Note Payable	\$ 773,571	\$ -	\$ (22,544)	\$ 751,027	\$ 22,494
ARDOT Note Payable	1,634,319	927,462	-	2,561,781	-
Total Long-Term Debt	\$ 2,407,890	\$ 927,462	\$ (22,544)	\$ 3,312,808	\$ 22,494

The annual principal and interest requirements to retire debt outstanding as of September 30, 2021 are as follows:

	USDA Note Payable		ARDOT Note Payable Projected Maturities		Total
	Principal	Interest	Principal	Interest	
Year ending September 30,					
2022	\$ 22,494	\$ 31,494	\$ -	\$ -	\$ 53,988
2023	23,469	30,519	-	-	53,988
2024	24,486	29,502	-	-	53,988
2025	25,547	28,441	128,089	-	182,077
2026	26,654	27,334	128,089	-	182,077
2027-2031	151,632	118,308	640,445	-	910,385
2032-2036	187,463	82,477	640,445	-	910,385
2037-2041	231,761	38,179	640,445	-	910,385
2042-2046	57,521	1,457	384,268	-	443,246
Total Long-term Maturities	\$ 751,027	\$ 387,711	\$ 2,561,781	\$ -	\$ 3,700,519

NOTE 6 – RETIREMENT BENEFITS

Prior to conversion to a public water authority, the Authority maintained a profit sharing 401K plan (the Plan) which covered substantially all of the Authority's employees. Eligible employees were able to contribute up to 3% of their compensation to the plan, and the Authority contributed 6% of each eligible employee's salary. During the year ended September 30, 2021, the Authority contributed \$4,959 to the Plan.

Subsequent to conversion to a public water authority, the Authority's employees are eligible to receive retirement benefits through participation in the Arkansas Public Employees' Retirement Plan (APERS).

Plan description: Effective January 1, 2021, the Authority entered the Arkansas Public Employees' Retirement Plan (the Plan), a multi-employer, cost sharing, defined benefit plan, qualified under Section 401(a) of the Internal Revenue Code, with defined contribution options. The administration and control of the plan is vested in the Board of Trustees of APERS.

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September 30, 2021

NOTE 6 – RETIREMENT BENEFITS (Continued)

Benefits provided: The Plan provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Current retirement law provides for a three percent (3%) COLA to all APERS retirees who have been retired or participated in the Deferred Retirement

Option Plan (DROP) for at least twelve months on July 1 of each year. Benefit provisions are established by state law and may be amended only by state legislature.

Contributions: Contributions are set forth by Arkansas statute and the Plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978 was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Because the Authority entered the plan on January 1, 2021, all the Authority's eligible employees are contributory members. The Authority is required to contribute a percent of covered salary at an actuarially determined rate. Employer contribution rate applicable for 2021 was 15.32% of covered payroll.

Pension Liabilities, Pension Expense, and Deferred Inflows of Resources Related to Pensions: At September 30, 2021, the Authority reported a liability of \$34,556 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the Authority's proportion was 0.0045%.

For the year ended September 30, 2021, the Authority recognized pension expense of \$25,321. At September 30, 2021, the Authority reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ (242)
Changes in proportion and differences between employer contributions and share of contributions	85,311	-
Differences between expected and actual experience	791	(2,216)
Net difference between projected and actual investment earnings on pension plan investments	-	(60,658)
Contributions subsequent to the measurement date	7,751	-
Total	<u>\$ 93,853</u>	<u>\$ (63,116)</u>

\$7,751 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2022.

Other amounts reported as deferred inflows and outflows of resources related to pension will be recognized in pension expense as follows:

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 6 – RETIREMENT BENEFITS (Continued)

Year ended June 30:	Deferred Outflow/Inflow Amounts
2022	\$ 13,520
2023	15,152
2024	12,722
2025	(18,408)
	<u>\$ 22,986</u>

Actuarial assumptions: The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Discount rate	7.15%
Inflation rate	3.25%
Salary increases	3.25% to 9.85%, including inflation
Investment rate of return, net	7.15%

The mortality tables used to measure retired life mortality were the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. The disability post-retirement mortality tables used were the RP-2006 Disabled Retiree benefit weighted generational mortality tables for males and females. The death-in-service mortality tables used were the RP-2006 Employee benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017. This assumption was first used for the June 30, 2018 valuation. All other actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2012 - June 30, 2017 and were applied to all prior periods included in the measurement.

Investment Rate of Return: The investment return rate used in making the valuation was 7.15% per year, compounded annually (net after investment expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the wage inflation rate. Considering the assumed wage inflation rate of 3.25%, the 7.15% investment return rate translates to an assumed net real rate of return of 3.90%. The wage inflation assumption was first used for the June 30, 2015 valuation. The investment return assumption was first used for the June 30, 2017 valuation.

For each major asset class included in the Plan's target asset allocation as of September 30, 2021, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
	<u>100%</u>	

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.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2021

NOTE 6 – RETIREMENT BENEFITS (Continued)

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 Authority's proportionate share of the net pension liability to changes in the discount rate: The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate of one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Authority's proportionate share of the net pension liability	\$ 103,371	\$ 34,556	\$ (22,275)

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss from: torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life and accident benefits. Commercial insurance is purchased for claims arising from such matters other than business interruption.

Settled claims have not materially exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in fiscal year 2021.

NOTE 8 – COMMITMENTS

At September 30, 2021, the Authority had a construction contract commitment in place on the following project:

Project Description	Project Authorization	Paid through 09/30/21	Remaining Commitment
Highway 270 waterline relocation	\$ 3,041,775	\$ 2,606,687	\$ 435,088

NOTE 9 – SUBSEQUENT EVENTS

Arbitration Settlement – Subsequent to September 30, 2021, a construction company initiated an arbitration proceeding with the Authority to bring claims against the Authority for breach of contract and quantum meruit claims, and the Authority countered. On December 14, 2023, the arbitration was settled, and the arbitrator found the construction company liable for \$110,183 and the Authority liable for \$112,000. Since the construction company was found to be the prevailing party, the Authority is also liable for the arbitration fees and the construction company's legal fees. Because the arbitration proceeding was related to conditions existing at September 30, 2021, the Authority has recorded the arbitration fees and a noncurrent liability in the accompanying financial statements.

Management has evaluated subsequent events through March 12, 2024, the date the financial statements were available to be issued.

Required Supplementary Information

Hardin Public Water Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability – Last Ten Years
September 30, 2021

	<u>2021</u>
Authority's proportion of the net pension liability	0.004495%
Authority's proportionate share of the net pension liability	\$ 34,556
Authority's covered-employee payroll	\$ 140,348
Authority's proportionate share of the net pension liability as a percentage of its covered-employee	24.62%
Plan fiduciary net position as a percentage of the total pension liability	93.57%

The Authority began participating in the pension plan during the plan year ended June 30, 2021; accordingly, information for years prior to 2021 is not available.

Hardin Public Water Authority
Schedule of the Authority's Contributions to the Pension Plan – Last Ten Years
September 30, 2021

	<u>2021</u>
Statutorily required contribution	\$ 21,501
Contributions in relation to the statutorily required contribution	<u>21,501</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Utility's covered-employee payroll	\$ 140,348
Contributions as a percentage of covered-employee payroll	15.32%

The Authority began participating in the pension plan during the plan year ended June 30, 2021; accordingly, information for years prior to 2021 is not available.

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

To the Board of Directors
Hardin Public Water Authority
White Hall, 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 Hardin Public Water Authority, which comprise the statement of net position as of September 30, 2021 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2024.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Hardin Public Water Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Hardin Public Water Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hardin Public Water Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Emrich & Scroggins, LLP
El Dorado, Arkansas

March 12, 2024