

**CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

BALLARD & COMPANY, LTD.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements 1

FINANCIAL STATEMENTS

Statement of Net Position 4

Statement of Revenues, Expenses and Changes in Fund Net Position 5

Statement of Cash Flows 6

Notes to the Financial Statements 7

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Operating Expenses 15

Schedule of Water and Wastewater Usage and Rates 16

Schedule of City Officials 17

OTHER REQUIRED REPORTS

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* 18



BALLARD & COMPANY, LTD.

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of City Council
City of Flippin, Arkansas

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the water and wastewater department of the City of Flippin, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the water and wastewater department of the City of Flippin, Arkansas' basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the City of Flippin water and wastewater department as of December 31, 2021, 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.

Basis for Qualified 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 the City of Flippin water and wastewater department 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 qualified audit opinion.

Matter Giving Rise to the Qualified Opinion

Management has not changed its method of accounting for pensions during the year ended December 31, 2021, by not adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. Accounting principles generally accepted in the United States of America require that the method of accounting be changed for GASB Statement No. 68. The amount by which this departure would affect the assets, net position, and revenues of the City of Flippin, Arkansas water and wastewater department has not been determined.

Responsibilities of Management 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, 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 the City of Flippin water and wastewater department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.
- 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 of the effectiveness of the City of Flippin water and wastewater department'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 no conditions or events, considered in the aggregate, that raise substantial doubt about the City of Flippin water and wastewater department'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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the water and wastewater department of the City of Flippin, Arkansas, and do not purport to, and do not present fairly the financial position of the City of Flippin as of December 31, 2021, and the changes in its financial position and cash flows, where applicable, for the year then ended 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 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion of the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Flippin water and wastewater department's basic financial statements. The Schedule of Operating Expenses and the Schedules of Water and Wastewater Usage Rates are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Expenses and the Schedules of Water and Wastewater Usage Rates are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of City Officials but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 06, 2023, on our consideration of the City of Flippin, Arkansas water and wastewater department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Flippin water and wastewater 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 City of Flippin, Arkansas water and wastewater department's internal control over financial reporting and compliance.

Ballard & Company, Ltd.

Ballard & Company, Ltd.
Mountain Home, Arkansas
January 06, 2023

**CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 632,619
Accounts receivable	109,005
Inventory	69,912
Total current assets	811,536
Restricted assets - cash and cash equivalents	234,232
Capital assets:	
Nondepreciable assets	303,080
Depreciable assets, net of accumulated depreciation	1,016,979
Total capital assets, net of accumulated depreciation	1,320,059
Total assets	2,365,827

LIABILITIES

Current liabilities:	
Accounts payable	36,494
Payroll liabilities	509
Sales tax payable	7,193
Accrued interest	2,955
Current maturities of long-term notes and bonds payable	58,282
Total current liabilities	105,433
Liabilities payable from restricted assets:	
Refundable meter deposits	83,760
Long-term liabilities:	
Notes and bonds payable, net of current maturities	347,845
Total liabilities	537,038

NET POSITION

Net investment in capital assets	913,933
Restricted:	
Debt service requirements	30,933
Other	119,538
Unrestricted	764,385
Total net position	\$ 1,828,789

The accompanying notes are an integral part of these statements.

**CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

OPERATING REVENUES

Water service fees	\$	861,270
Wastewater service fees		309,092
Sanitation fees		81,498
Connection, reconnection fees		28,017
Late penalties		16,594
Other		2,489
		1,298,960
Total operating revenue		1,298,960

OPERATING EXPENSES

Water department		779,779
Wastewater department		147,798
Depreciation expense		92,072
		1,019,649
Total operating expenses		1,019,649
Operating income (loss)		279,311

NONOPERATING REVENUES (EXPENSES)

Interest income		227
Series 2021B bond principal forgiveness		250,823
Bond issue costs		(18,245)
Interest expense		(17,465)
		215,340
Total nonoperating revenues (expenses)		215,340

CHANGE IN NET POSITION 494,651

Net Position - Beginning of Year 1,334,138

NET POSITION - END OF YEAR \$ 1,828,789

The accompanying notes are an integral part of these statements.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,287,972
Payments to and/or for employees	(348,462)
Payments to suppliers for goods and services	(543,963)
	395,547
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid to purchase and construct assets	(412,322)
Bond proceeds	9,122
Bond proceeds with principal forgiveness	250,823
Bond issuance costs	(18,245)
Principal paid on notes payable	(68,756)
Interest paid on notes payable	(17,903)
	(257,281)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest earned	227
	227
NET INCREASE (DECREASE) IN CASH	138,493
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	728,358
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 866,851
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided</u>	
(Used In) Operating Activities:	
Operating income (loss)	\$ 279,311
Depreciation expense	92,072
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:	
Accounts receivable	(8,930)
Interfund balance	24,927
Inventory	(19,904)
Accounts payable	29,188
Meter deposits refundable	(2,400)
Accrued expenses	1,283
	1,283
Net Cash Flows from Operating Activities	\$ 395,547
 <u>Reconciliation of Total Cash and Cash Equivalents - End of Year</u>	
Current assets - cash and cash equivalents	\$ 632,619
Restricted assets - cash and cash equivalents	234,232
	\$ 866,851
 <u>Reconciliation of Total Cash and Cash Equivalents - Beginning of Year</u>	
Current assets - cash and cash equivalents	\$ 525,269
Restricted assets - cash and cash equivalents	203,089
	\$ 728,358

The accompanying notes are an integral part of these statements.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Flippin, Arkansas, (the City) was incorporated in 1921 and operates under a Mayor - Council form of government. The water and wastewater department (the Department) is responsible for the operation and maintenance of the City's water distribution system as well as its wastewater treatment system.

The financial statements of the Department have been prepared and are presented herewith, separately from the comprehensive financial statements of the City of Flippin, Arkansas. These financial statements are intended to present only the financial position, results of operations and cash flows attributable to the Department and are not intended to, and do not, reflect the financial position, results of operation and cash flows of the City of Flippin, Arkansas as a whole.

Basis of Accounting

The water and wastewater department is used to account for the operations of the City of Flippin, Arkansas' proprietary fund and is an enterprise fund. Enterprise funds are for operations which 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 services to the general public be financed or recovered primarily through user charges.

The financial statements of the Department are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation and Accounting

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

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

In addition, operating income reported in the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for water, wastewater, and related services. Principal operating expenses include the costs of providing these services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budget and Budgetary Accounting

Enterprise fund service delivery levels are determined by the extent of consumer demand. Because enterprise fund revenues and expenses fluctuate with the changing service delivery levels, accounting principles generally accepted in the United States of America do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons have not been included.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be bank deposits and certificates of deposit. All balances are displayed separately on the statement of net position as current and restricted cash and cash equivalents.

Accounts Receivable

Consumer accounts receivable reflects the balances due from the individuals and entities using the water and wastewater services provided by the Department. These consumers are substantially all local residents and businesses.

Management closely monitors outstanding balances and evaluates collectability of its accounts receivable on a per-customer basis. Customer accounts are typically collected within a short period of time, and, based on its assessment of current conditions, management believes realization losses on the amount outstanding at the end of 2021 will be immaterial. Accordingly, the account balance is reported at the full amount outstanding.

Inventories

Inventories held by the water and wastewater department are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets which are purchased or constructed are reported at historical cost. Contributed assets are reported at fair market value as of the date received. All capital assets are depreciated by the straight-line method over their estimated useful lives. Maintenance, repairs and minor renewals are charged against earnings when incurred. Additions, betterments and major renewals are capitalized.

Estimated useful lives are as follows:

Buildings and improvements	10 - 40 Years
System and improvements	10 - 40 Years
Vehicles	5 Years
Equipment	5-10 Years

Accounts Payable

Accounts payable consists of various trade accounts which are generally payable within thirty (30) days.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities and deferred inflows of resources, and is classified into the following categories:

- * *Net Investment in Capital Assets* - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- * *Restricted net position* - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the City's bonds. Restricted net position is restricted assets reduced by liabilities and deferred inflows of resources related to the restricted assets.

CITY OF FLIPPIN, ARKANSAS
 WATER AND WASTEWATER DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position - Continued

* *Unrestricted net position* - consists of all other net position that does not meet the definition of the above two components and is available for general use of the Department.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The City's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

NOTE 2: CASH AND INVESTMENTS

State law generally provides that municipal funds be deposited in federally insured banks located in the State of Arkansas. These deposits may be in the form of checking accounts, savings accounts, and/or certificates of deposit. Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America.

The carrying amount of the Department's cash deposits was \$866,851 and the respective bank balances totaled \$879,931. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the water and wastewater department of the City of Flippin, Arkansas will not be able to recover deposits or will not be able to recover collateral securities. The Department's policy is to place deposits only in collateralized or insured accounts. As of December 31, 2021, all bank balances of the Department were fully insured or collateralized.

NOTE 3: RESTRICTED ASSETS

Restricted assets consist of cash and equivalents restricted by various bond ordinances and the City Council for debt service and other specific uses. Restricted assets as of December 31, 2021 were as follows:

Debt service reserve funds	\$	30,933
Depreciation funds		112,335
Capital project fund		500
Meter deposit fund		<u>90,464</u>
Total restricted assets	\$	<u>234,232</u>

NOTE 4: FUND REQUIREMENTS

The various bond and loan documents established certain funds and the manner in which revenues are to be deposited and transferred between the various funds. Cash funds were deposited and transferred as required.

Meter deposits are customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposit reserves at December 31, 2021 were \$90,464, a surplus in the amount of \$6,704 from the total customer deposits of \$83,760.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<i>Capital assets, not being depreciated:</i>				
Land and land rights	\$ 45,000	\$ -	\$ -	\$ 45,000
Construction in progress	16,380	241,700	-	258,080
	<u>61,380</u>	<u>241,700</u>	<u>-</u>	<u>303,080</u>
<i>Capital assets, being depreciated:</i>				
Equipment	345,685	170,622	(13,861)	502,446
Vehicles	112,592	-	-	112,592
Buildings and improvements	115,425	-	-	115,425
System and improvements	2,954,865	-	-	2,954,865
	<u>3,528,567</u>	<u>170,622</u>	<u>(13,861)</u>	<u>3,685,328</u>
<i>Less accumulated depreciation for:</i>				
Equipment	(258,174)	(17,980)	13,861	(262,293)
Vehicles	(69,948)	(16,454)	-	(86,402)
Buildings and improvements	(71,847)	(4,676)	-	(76,523)
System and improvements	(2,190,169)	(52,962)	-	(2,243,131)
	<u>(2,590,138)</u>	<u>(92,072)</u>	<u>13,861</u>	<u>(2,668,349)</u>
Total capital assets, being depreciated, net	<u>938,429</u>	<u>78,550</u>	<u>-</u>	<u>1,016,979</u>
Capital assets, net	<u>\$ 999,809</u>	<u>\$ 320,250</u>	<u>\$ -</u>	<u>\$ 1,320,059</u>

Depreciation expense was charged to the water and wastewater departments as follows:

Water department	\$ 69,065
Wastewater department	<u>23,007</u>
	<u>\$ 92,072</u>

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 6: LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2021 are as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Notes Payable:					
Arkansas Natural Resources Commission \$125,000 dated September 2004, bears interest at 5%, payable in annual installments of \$10,030, maturing 2024	\$ 35,568	\$ -	\$ (8,252)	\$ 27,316	\$ 8,664
Arkansas Natural Resources Commission \$216,300 dated November 2017, bears interest at 2.75%, payable in one annual installment of \$24,044 and remaining annual installments of \$25,035, maturing 2028	177,601	-	(20,151)	157,450	20,705
First Service Bank \$26,904 dated March 2017, bears interest at 2.62%, payable in monthly installments of \$479, secured by a vehicle, maturing 2022	7,040	-	(5,631)	1,409	1,409
First Service Bank \$76,659 dated June 2017, bears interest at 2.62%, payable in monthly installments of \$1,350, secured with equipment, maturing 2022	23,335	-	(15,761)	7,574	7,574
Bonds Payable:					
ADFA - Series 2021A Water and Sewer Revenue Bond \$1,780,000 dated December 2021, bears interest at .75% plus a 1% servicing fee, interest-only payments April 15 and October 15 each year with principal payments every April 15 and October 15 beginning April 15, 2023 through October 2042	-	9,122	-	9,122	-
USDA – RD 92-11 \$210,200 dated May 1987, bears interest at 5%, payable in monthly installments of \$1,024, secured by system revenues, maturing 2027	65,145	-	(9,241)	55,904	9,713
USDA – RD 91-13 \$294,400 dated September 1993, bears interest at 5%, payable in monthly installments of \$1,446, secured by system revenues, maturing 2033	157,072	-	(9,720)	147,352	10,217
Total long-term debt	\$ 465,761	\$ -	\$ (68,756)	\$ 406,127	\$ 58,282

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 6: LONG-TERM LIABILITIES - Continued

Water and Sewer Revenue Bonds, Series 2021A and 2021B

Under the authority of Ordinance 333 dated August 17, 2021, the City issued revenue bonds, Series 2021A and Series 2021B in the amounts of \$1,780,000 and \$1,524,560, respectively, to finance betterments and improvements to the wastewater system. The Arkansas Development Finance Authority (ADFA) purchased the bonds subject to an interest rate of .75% per annum during a twenty-year repayment period. A servicing fee equal to 1% per annum of the outstanding principal amount of the Series 2021A bond is also required.

The Series 2021A bond will incur interest-only payments on April 15 and October 15, 2022. Principal payments will commence April 15, 2023 with semi-annual payments through October 15, 2042.

Under an agreement with the Arkansas Natural Resources Commission, the Arkansas Development Finance Authority, and the City of Flippin, the principal of the Series 2021B bond will be forgiven. Such forgiveness of principal will occur simultaneously with each disbursement. Further, as no principal will be outstanding under the Bond, no servicing fee will be due. Once all disbursements have been made, the Bond will be returned to the City of Flippin for cancellation. During the year ended December 31, 2021, \$253,823 of the Series 2021B Bond was disbursed and simultaneously forgiven.

The bonds are secured by a pledge of the system revenues and incurred total issuance costs of \$18,245. These issuance costs were expensed during the year ended December 31, 2021.

Combined maturity requirements of all the notes and bonds payable subsequent to December 31, 2021 are as follows:

	Principal	Interest
12-31-2022	\$ 58,282	\$ 15,553
12-31-2023	51,706	13,542
12-31-2024	53,826	11,423
12-31-2025	46,007	9,211
12-31-2026	47,815	7,403
2027 - 2031	124,928	16,728
2032 - 2036	20,483	910
2037 - 2041	2,543	172
2042	537	7
Total	\$ 406,127	\$ 74,949

NOTE 7: DEBT SERVICE COVERAGE

Various debt covenants require that the net revenues of the system shall equal not less than a certain percentage of the annual debt service requirements of all outstanding bonds plus other indebtedness of the system, including any additional bonds proposed.

The actual percentage at December 31, 2021 was 502%, computed as follows:

Operating Income	\$ 279,311
Plus Depreciation Expense	92,072
Funds Available for Debt Service	\$ 371,383
Annual Debt Service Requirement on Outstanding Notes and Bonds Payable	\$ 73,835
Debt Service Coverage Percentage	502%

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 8: RISK MANAGEMENT

The water and wastewater department of the City of Flippin, Arkansas has purchased insurance coverage to cover potential losses due to the various risks related to the damage to and/or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Department participates in the Arkansas Municipal League Program for its workers' compensation coverage. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission. The Department also participates in the Arkansas Municipal Property and Vehicle Programs for building and contents, vehicle, and general liability coverage. The amount of settlements has not exceeded the insurance coverage in the past three years. Further, there were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

NOTE 9: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)

Plan Description

The water and wastewater department of the City of Flippin, Arkansas provides pension benefits for its eligible employees through the Arkansas Public Employees Retirement System (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan that covers municipal employees whose municipalities have elected coverage under this system. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957.

The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or can be accessed at www.apers.org.

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 established by state law 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.

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 55 with 35 credited service for elected officials or public safety members.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with at least 25 years but less than 28 years of actual service. The plan also provides for disability and survivor benefits.

Contributions

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. Employees hired prior to this date that are noncontributory have the option to become a contributory member at any time.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS) - Continued

Contributions - Continued

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. Member 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. For the twelve months of 2021, employers contributed 15.32% of compensation. Contributions made to the plan by the Department for the year ended December 31, 2021 amounted to \$45,462.

NOTE 10: WASTEWATER IMPROVEMENTS

During the year ended December 31, 2021, the Department began funding a project to make improvements to the City's aging wastewater treatment facility. The project is being funded through the issuance of revenue bonds as discussed in Note 6, as well as further funding through the Arkansas Natural Resources Commission/Arkansas Development Finance Authority, the U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Program, and the Arkansas Economic Development Commission.

SUPPLEMENTARY AND OTHER INFORMATION

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Water Department</u>	<u>Wastewater Department</u>
Advertising	\$ 79	\$ 3,051
Auto and fuel expense	9,787	1,246
Billing support	2,992	-
DMR reports	-	2,003
Dues and licenses	10,204	3,492
Educational expense	1,210	-
Insurance - general	6,346	1,867
Insurance - health and life	15,911	11,900
Legal and professional services	3,125	3,125
Miscellaneous	25	-
Postage and freight	5,403	-
Rent - equipment	-	2,423
Repairs and maintenance	2,087	3,058
Retirement expense	31,502	13,960
Salaries	183,955	71,905
Sanitation	88,863	-
Sludge removal	-	3,279
Supplies - operating	61,193	3,615
Taxes - payroll	13,831	5,508
Travel and mileage	-	550
Uniforms	5,268	4,381
Utilities	8,742	12,435
Water purchases	329,256	-
Total Operating Expenses	<u>\$ 779,779</u>	<u>\$ 147,798</u>

See auditor's report on supplementary information.

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF WATER AND WASTEWATER USAGE AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2021

Water Rates

During 2021, the monthly water usage rates are as follows:

In City:

First 2,000 gallons or less	\$23.27
All over 2,000 gallons	\$ 6.51 per 1,000 gallons or portion thereof

Rural:

First 1,500 gallons or less	\$24.35
All over 1,500 gallons	\$ 8.06 per 1,000 gallons or portion thereof

Wastewater Rates

During 2021, the monthly wastewater usage rates were as follows:

First 1,000 gallons or less	\$15.50
All over 1,000 gallons	\$ 5.00 per 1,000 gallons

Water Usage

Gallons purchased and sold during the year ended December 31, 2021 were as follows:

Gallons of water purchased	104,816,000
Gallons of water sold	<u>78,586,000</u>
Gallons of water lost	<u>26,230,000</u>

CITY OF FLIPPIN, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF CITY OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Position</u>	<u>Official</u>
Mayor	Jerald Marberry
Council Member	Tony Ford
Council Member	Joe Cantrell
Council Member	Heath Hogan
Council Member	Tim McEuen

See auditor's report on other information.

OTHER REQUIRED REPORTS



BALLARD & COMPANY, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

BUSINESS CONSULTANTS

Members of the American Institute of Certified Public Accountants
Member of the Arkansas Society of Certified Public Accountants

668 HIGHWAY 62 EAST
MOUNTAIN HOME, AR 72653
870-425-6256

416 N. E. MAIN STREET
MOUNTAIN VIEW, AR 72560
870-269-2390

980 ASH FLAT DRIVE
ASH FLAT, AR 72513
870-994-2812

352 HIGHWAY 62 EAST
SALEM, AR 72576
870-895-2661

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 Members of City Council
City of Flippin, 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 financial statements of the water and wastewater department of the City of Flippin, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Flippin, Arkansas water and wastewater department's basic financial statements, and have issued our report thereon dated January 06, 2023.

Report on Internal Control Over Financial Reporting

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Ballard & Company, Ltd.

Mountain Home, Arkansas
January 06, 2023