



**City of Waldron, Arkansas
Water and Sewer Department**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

**City of Waldron, Arkansas
Water and Sewer Department**

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INDEPENDENT AUDITOR'S REPORT

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the modified cash basis financial position of the Department as of December 31, 2021 and 2020, and the changes in modified cash basis financial position and cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. 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 Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Other

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Waldron, Arkansas as of December 31, 2021 and 2020, the changes in its financial position or its cash flows for the years then ended in accordance with the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility 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 U.S. 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 U.S. 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.
- 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 the 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.

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 audits.

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
March 28, 2022

City of Waldron, Arkansas

Water and Sewer Department

Statements of Net Position – Modified Cash Basis December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 164,623	\$ 61,591
Due from City of Waldron	1,140	-
Total Current Assets	<u>165,763</u>	<u>61,591</u>
Restricted Assets		
Cash and cash equivalents	1,840,868	1,676,440
Capital Assets, Net	<u>11,749,136</u>	<u>12,152,194</u>
Total Assets	<u>13,755,767</u>	<u>13,890,225</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Losses on Refundings of Bonds Payable	<u>11,951</u>	<u>12,897</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 13,767,718</u></u>	<u><u>\$ 13,903,122</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities Payable from Current Assets		
Customer deposits	\$ 112,313	\$ 104,023
Due to State of Arkansas	9,967	14,281
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	<u>151,730</u>	<u>146,313</u>
Total Current Liabilities	<u>274,010</u>	<u>264,617</u>
Long-Term Debt, Net of Current Portion	<u>4,800,915</u>	<u>4,953,860</u>
Total Liabilities	<u>5,074,925</u>	<u>5,218,477</u>
Net Position		
Net investment in capital assets	7,708,617	7,965,024
Restricted for:		
Debt service	820,556	736,069
Acquisitions, repairs and maintenance of capital assets	120,137	40,265
Unrestricted	<u>43,483</u>	<u>(56,713)</u>
Total Net Position	<u>8,692,793</u>	<u>8,684,645</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 13,767,718</u></u>	<u><u>\$ 13,903,122</u></u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water sales	\$ 1,919,991	\$ 1,809,472
Sewer services	360,313	335,884
Total Operating Revenues	<u>2,280,304</u>	<u>2,145,356</u>
OPERATING EXPENDITURES		
Salaries and wages	568,077	539,288
Fringe benefits	250,425	248,899
Depreciation	520,556	524,088
Utilities	249,735	218,227
Repairs and maintenance	52,002	116,241
Professional services	158,743	83,726
Operating supplies	322,907	384,871
Insurance	15,694	12,834
Vehicle operations	21,620	16,346
Office supplies	969	1,429
Miscellaneous	14,669	9,955
Dues and subscriptions	32,811	33,410
Uniforms	3,880	5,075
Travel and education	2,049	2,876
Total Operating Expenditures	<u>2,214,137</u>	<u>2,197,265</u>
Operating Income (Loss)	<u>66,167</u>	<u>(51,909)</u>
NONOPERATING REVENUES (EXPENDITURES)		
Interest income	611	1,923
Interest expenditures	(144,486)	(122,927)
Bond issuance costs	-	(131,842)
Net Nonoperating Expenditures	<u>(143,875)</u>	<u>(252,846)</u>
Loss Before Capital Contributions and Operating Transfers	(77,708)	(304,755)
CAPITAL CONTRIBUTIONS		
State awards grant	52,250	-
Loss Before Operating Transfers	(25,458)	(304,755)
OPERATING TRANSFERS FROM (TO) CITY OF WALDRON, NET	<u>33,606</u>	<u>(2,431)</u>
Increase (Decrease) in Net Position	8,148	(307,186)
NET POSITION, BEGINNING OF YEAR	<u>8,684,645</u>	<u>8,991,831</u>
NET POSITION, END OF YEAR	<u><u>\$ 8,692,793</u></u>	<u><u>\$ 8,684,645</u></u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Cash Flows – Modified Cash Basis Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from		
Water sales	\$ 1,927,141	\$ 1,818,574
Sewer services	360,313	335,884
Total Operating Receipts	<u>2,287,454</u>	<u>2,154,458</u>
Disbursements for		
Salaries, wages and fringe benefits	818,502	788,187
Goods and services	879,393	882,695
Total Operating Disbursements	<u>1,697,895</u>	<u>1,670,882</u>
Net Cash Provided by Operating Activities	<u>589,559</u>	<u>483,576</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers from (to) the City of Waldron, net	<u>33,606</u>	<u>(2,431)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(146,355)	(10,911)
Payment to refunded bond escrow agent	-	(3,885,000)
Proceeds from long-term debt	-	4,795,506
Purchases of capital assets	(117,498)	(206,946)
Receipts from state awards grant	52,250	-
Interest paid	(144,713)	(122,616)
Bond issuance costs	-	(131,842)
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(356,316)</u>	<u>438,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from interest income	<u>611</u>	<u>1,923</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	267,460	921,259
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,738,031</u>	<u>816,772</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,005,491</u>	<u>\$ 1,738,031</u>

(Continued)

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Statements of Cash Flows – Modified Cash Basis *(Continued)* Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 66,167	\$ (51,909)
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided by Operating Activities		
Depreciation	520,556	524,088
Net increase in due from City of Waldron	(1,140)	-
Net increase in customer deposits	8,290	9,102
Net (decrease) increase in due to State of Arkansas	(4,314)	2,295
	<u>\$ 589,559</u>	<u>\$ 483,576</u>
Net Cash Provided by Operating Activities		
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENTS OF NET POSITION - MODIFIED CASH BASIS		
Current Assets - Cash and Cash Equivalents	\$ 164,623	\$ 61,591
Restricted Assets - Cash and Cash Equivalents	<u>1,840,868</u>	<u>1,676,440</u>
	<u>\$ 2,005,491</u>	<u>\$ 1,738,031</u>
Total Cash and Cash Equivalents		
SUPPLEMENTAL DISCLOSURE OF CASH TRANSACTIONS		
Interest capitalized	<u>\$ -</u>	<u>\$ 26,668</u>

See accompanying notes to financial statements.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2021 and 2020**

NOTE 1: REPORTING ENTITY

The City of Waldron, Arkansas Water and Sewer Department (the Department) provides water sales and sewer treatment services, on an unsecured credit basis, to the citizens of the City of Waldron, Arkansas (the City), and to commercial and industrial customers located within the Department's service area. The City Council serves as the governing board of the Department and approves rates and fees for user charges.

These financial statements present only balances and transactions that are directly attributable to the Department, and are not intended to present, and do not present, the financial position and changes therein of the City or its other proprietary funds.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

Although the Department is not included in the regulatory financial statements of the City, the Department is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the Department generally recognizes assets, deferred outflows of resources, deferred inflows of resources and liabilities, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect deferred outflows of resources, deferred inflows of resources and liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are improvements funded by City funds and depreciation of the Department's capital assets over the estimated useful lives of the assets.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The presentation of the Department's financial statements follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the distribution of water and treatment of wastewater are distinguished from nonoperating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenditures include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities, including those fees and charges levied for the purpose of capital improvements.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to first apply that expenditure to restricted net position to the extent available and then to unrestricted net position.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and money market mutual funds.

Capital Assets

The Department's capital assets are reported at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to fifty years.

The Department capitalizes all significant direct costs, including salaries, materials and supplies, related to construction and improvements completed by Department personnel, while costs of repairs and maintenance that do not add significant value or extend the useful life of the related asset are expensed as incurred.

Deferred Outflows of Resources

In addition to assets, the statements of net position – modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The only items that qualify for reporting in this category on the Department's financial statements are the deferred losses on the refundings of bonds payable. Deferred losses on refundings result from the

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2021 and 2020**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources (Continued)

differences in the carrying value of refunded debt and the related reacquisition price. These deferred charges are amortized using the straight-line method over the shorter of the life of the refunded or refunding debt.

Long-Term Debt

Long-term debt is 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.

Tax Status

The City, and thus the Department, is exempt from income taxes under Section 115 of the Internal Revenue Code.

Estimates

The preparation of financial statements, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Recently Adopted Accounting Standard

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB Statement No. 89), became effective for the Department on January 1, 2021. The objectives of GASB Statement No. 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The requirements of GASB Statement No. 89 were applied prospectively, thus interest cost incurred after January 1, 2021 is included in interest expense on the statements of revenues, expenditures and changes in net position-modified cash basis. No changes were made to the amounts previously recorded as capitalized interest before January 1, 2021 as a result of adopting GASB Statement No. 89.

NOTE 3: CASH AND CASH EQUIVALENTS

State of Arkansas (the State) statutes require the City, and thus the Department, 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 Department. To mitigate this risk, it is generally the Department'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 City's name by an agent of the City. At December 31, 2021 and 2020, all balances held in demand deposit accounts in excess of FDIC limits were secured by collateral held in the City's name by the City's agent.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2021 and 2020

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

The money market mutual fund held by the Department is a U.S. Treasury obligation fund and has a Standard & Poor's and Moody's rating of AAAM and Aaa-mf, respectively, at December 31, 2021.

Restricted cash and cash equivalents are as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Bond funds	\$ 124,620	\$ 119,527
Debt service reserves	695,936	616,542
Depreciation fund	120,137	40,265
Water and wastewater improvements	<u>900,175</u>	<u>900,106</u>
Restricted cash and cash equivalents	<u>\$ 1,840,868</u>	<u>\$ 1,676,440</u>

The long-term debt agreements require the establishment and maintenance of certain reserve accounts (see Note 5). Debt covenants require monthly deposits into a bond fund account for the next installment of debt service and monthly deposits into a depreciation fund account restricted for acquisitions, repairs and maintenance of capital assets.

NOTE 4: CAPITAL ASSETS

The following is a summary of the major components of the Department's capital assets and related activities resulting from modified cash basis transactions for the year ended December 31:

		<u>2021</u>			
	<u>Estimated Useful Life</u>	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	978,408	87,044	-	1,065,452
Depreciable:					
Water treatment plants	50 years	8,048,092	22,278	-	8,070,370
Wastewater treatment plant	50 years	4,748,648	8,176	-	4,756,824
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	463,386	-	-	463,386
		<u>23,304,217</u>	<u>117,498</u>	<u>-</u>	<u>23,421,715</u>
Accumulated depreciation		<u>(11,152,023)</u>	<u>(520,556)</u>	<u>-</u>	<u>(11,672,579)</u>
Capital assets, net		<u>\$12,152,194</u>	<u>\$ (403,058)</u>	<u>\$ -</u>	<u>\$11,749,136</u>

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2021 and 2020

NOTE 4: CAPITAL ASSETS (Continued)

		2020			
	Estimated Useful Life	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	824,171	154,237	-	978,408
Depreciable:					
Water treatment plants	50 years	8,036,062	12,030	-	8,048,092
Wastewater treatment plant	50 years	4,731,204	17,444	-	4,748,648
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	444,443	23,235	(4,292)	463,386
		23,101,563	206,946	(4,292)	23,304,217
Accumulated depreciation		(10,632,227)	(524,088)	4,292	(11,152,023)
Capital assets, net		<u>\$12,469,336</u>	<u>\$ (317,142)</u>	<u>\$ -</u>	<u>\$12,152,194</u>

NOTE 5: LONG-TERM DEBT

Balances and repayment terms of the Department's long-term debt are as follows at December 31:

	2021	2020
\$413,000 Revenue Bond, Series 2009 (Series 2009); payable in monthly installments including interest at 3.625%, through 2040; secured by the Department's operating revenues (subordinate to the Series 2020 Bonds).	\$ 293,899	\$ 305,254
\$4,765,000 Refunding and Construction Revenue Bonds, Series 2020 (Series 2020); payable in annual installments; interest payable semiannually at rates ranging from 2.0% to 3.125%, through 2045; secured by the Department's operating revenues.	4,630,000	4,765,000
	4,923,899	5,070,254
Unamortized premium, net	28,746	29,919
Total long-term debt	4,952,645	5,100,173
Less current portion	(151,730)	(146,313)
Long-term debt, net of current portion	<u>\$ 4,800,915</u>	<u>\$ 4,953,860</u>

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2021 and 2020

NOTE 5: LONG-TERM DEBT (Continued)

Long-term debt activity is summarized as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Beginning principal balance	\$ 5,070,254	\$ 4,201,165
Additions	-	4,765,000
Principal payments	<u>(146,355)</u>	<u>(3,895,911)</u>
Ending principal balance	<u>\$ 4,923,899</u>	<u>\$ 5,070,254</u>

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2021:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 151,730	\$ 142,300	\$ 294,030
2023	157,163	137,668	294,831
2024	157,611	132,870	290,481
2025	163,076	128,055	291,131
2026	168,558	123,073	291,631
2027-2031	915,665	550,491	1,466,156
2032-2036	1,040,674	424,604	1,465,278
2037-2041	1,164,422	261,907	1,426,329
2042-2045	<u>1,005,000</u>	<u>79,843</u>	<u>1,084,843</u>
	<u>\$ 4,923,899</u>	<u>\$ 1,980,811</u>	<u>\$ 6,904,710</u>

On April 23, 2020, the City issued \$4,765,000 of Water and Sewer Refunding and Construction Revenue Bonds, Series 2020. The City issued the bonds to current refund approximately \$3.9 million of the outstanding Water and Sewer Refunding and Construction Revenue Bonds, Series 2015 and to finance all or a portion of the costs of acquiring, constructing and equipping extensions, betterments and improvements to the water and wastewater treatment plants. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$12,354 is reported as a deferred outflow of resources in the statements of net position – modified cash basis and is being amortized through the year 2041 using the straight-line method.

Both the Series 2009 and Series 2020 bond agreements require the Department to maintain rates sufficient to provide for the payment of the reasonable expenses of operation and maintenance of the Department in addition to the payment of the principal of and interest on all outstanding bonds to which revenues are pledged. At December 31, 2021 and 2020, rates were sufficient to satisfy the related bond covenant requirements that net revenues, as defined, at least equal 115 percent of the average annual debt service.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements December 31, 2021 and 2020

NOTE 5: LONG-TERM DEBT (Continued)

The Series 2009 and the 2020 bond agreements also require the establishment and maintenance of certain reserve accounts (See Note 3). At December 31, 2021 and 2020, these account balances were sufficient to satisfy the related debt covenant requirements.

NOTE 6: ECONOMIC DEPENDENCY

Water sales to one industrial customer accounted for approximately 55% and 59% of total operating revenues of the Department for the years ended December 31, 2021 and 2020, respectively.

NOTE 7: RETIREMENT PLANS

Plan Description

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multi-employer defined benefit plan created by the State Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by State statute. APERS issues a stand-alone financial report which may be obtained by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

Funding Policy

Employees covered by APERS have the option to contribute a portion of their salary. Those that choose to contribute must contribute 5.00% of their salary. Effective July 1, 2018, the City was required to contribute 15.32% of eligible payroll for employees covered by APERS. Contributions attributable to Department employees for the years ended December 31, 2021, 2020, and 2019 were approximately \$86,400, \$80,300, and \$69,100, respectively, and were equal to the annual required contributions.

NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON

Certain employees of the City may perform administrative duties for the Department. The cost of these services are not reflected in the Department's financial statements as management believes that any amounts allocable to the Department are not readily determinable and would not be material. At times during the year, transfers may be made to and from the City's general fund, as needed, to meet certain cash flow requirements of the Department or the City. During the years ended December 31, 2021 and 2020, the Department transferred \$68,758 and \$130,000, respectively, to the City, which is included in operating transfers from (to) the City of Waldron, net, on the statements of revenues, expenditures and changes in net position – modified cash basis.

City of Waldron, Arkansas

Water and Sewer Department

Notes to Financial Statements **December 31, 2021 and 2020**

NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON (Continued)

During the years ended December 31, 2021 and 2020, the City paid costs related to construction in progress and paid certain administrative expenses on behalf of the Department. Amounts received from the City during the years ended December 31, 2021 and 2020 totaled \$102,364 and \$127,569, respectively, and are included in operating transfers from (to) City of Waldron, net on the statements of revenues, expenditures and changes in net position – modified cash basis.

NOTE 9: RISK MANAGEMENT

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased insurance to address these risks. There have been no significant reductions in the Department's coverage during the years ended December 31, 2021 and 2020. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

NOTE 10: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Department and financial results will depend on future developments, including the duration and spread of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.



**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***

The Mayor and the Honorable Members of the City Council
City of Waldron, 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 modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department), which comprise the statements of net position – modified cash basis as of December 31, 2021, and the related statements of revenues, expenditures and changes in net position – modified cash basis, and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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.

The Mayor and the Honorable Members of the City Council
City of Waldron, Arkansas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
March 28, 2022