

**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023



**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

DECEMBER 31, 2023

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Scranton, Arkansas Water and Sewer Department
Scranton, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Scranton, Arkansas Water and Sewer Department, as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Scranton, Arkansas Water and Sewer Department as of December 31, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted on 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 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 Scranton, Arkansas Water and Sewer 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 audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Scranton, Arkansas Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Scranton, Arkansas, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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.

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 generally accepted auditing standards 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 generally accepted auditing standards 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 on the effectiveness of the City of Scranton, Arkansas Water and Sewer 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 audit.

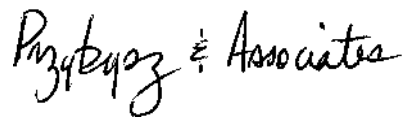
Required Supplementary Information

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 financial statements. Such missing information, although not a part of the 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 statement in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the information for cost-sharing pension plans on pages 23-24 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 July 25, 2024, on our consideration of the City of Scranton, Arkansas Water and Sewer 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 Scranton, Arkansas Water and Sewer 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 Scranton, Arkansas Water and Sewer Department’s internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
July 25, 2024

FINANCIAL STATEMENTS

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2023

Assets	
Current Assets	
Cash and cash equivalents	\$ 195,595
Restricted checking and savings accounts	216,589
Restricted certificate of deposit	412,305
Restricted investments	4,455
Accounts receivable, less allowance for doubtful accounts	168,000
Inventories	3,015
Total Current Assets	999,959
Net Capital Assets	6,822,360
Total Assets	7,822,319
Deferred Outflows	
Deferred outflows of resources related to pension	76,848
Total Deferred Outflows	76,848
Total Assets and Deferred Outflows	\$ 7,899,167
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 73,052
Payroll tax payable	2,806
Sales tax payable	11,661
Accrued interest	1,484
Customer meter deposits	11,114
Current portion of long-term debt	138,716
Total Current Liabilities	238,833
Noncurrent liabilities:	
Long-term debt	139,864
Net pension liability	118,972
Total Noncurrent Liabilities	258,836
Total Liabilities	497,669
Deferred Inflows	
Deferred inflows of resources related to pension	654
Total Deferred Inflows	654
Net Position	
Net investment in capital assets	6,543,780
Restricted	621,377
Unrestricted	235,687
Total Net Position	7,400,844
Total Liabilities, Deferred Inflows, and Net Position	\$ 7,899,167

See accompanying notes to financial statements.

CITY OF SCRANTON, ARKANSAS

WATER AND SEWER DEPARTMENT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2023

Operating Revenue	
Water and sewer revenue	\$ 2,183,726
Hook-up fees	12,263
Other revenue	4,396
Total Operating Revenue	2,200,385
Operating Expense	
Water purchases	921,007
Sewage and water treatment	7,802
Wages	107,509
Employee benefits	44,655
Outside labor	18,307
Insurance	13,871
Professional fees	5,900
Testing	4,660
Miscellaneous	11,857
Bank charges	2,010
Public service fees	2,654
Repairs and maintenance	54,589
Supplies	1,669
Truck expense	6,212
Utilities and telephone	38,664
Memberships and licenses	5,078
Travel	64
Office expense	1,127
Payroll taxes	7,481
Depreciation	334,707
Total Operating Expenses	1,589,823
Net Income From Operations	610,562
Other Revenue (Expenses)	
Interest income	16,647
Interest expense	(25,386)
Transfers	(19,829)
Total Net Other Revenue (Expenses)	(28,568)
Change in Net Position	581,994
Net Position at Beginning of Year, as previously stated	6,831,386
Prior Period Adjustment	(12,536)
Net Position at Beginning of Year, restated	6,818,850
Net Position at End of Year	\$ 7,400,844

See accompanying notes to financial statements.

**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2023

Cash Flows From Operating Activities	
Cash receipts from customers and other sources	\$ 2,190,452
Cash payments to suppliers for goods and services	(1,111,125)
Cash payments to employees for services	(107,509)
Net Cash Provided By Operating Activities	971,818
Cash Flows From Non-capital And Related Financing Activities	
Transfers	(19,829)
Net Cash Used In Non-capital and Related Financing Activities	(19,829)
Cash Flows From Capital and Related Financing Activities	
Capital asset purchases	(49,299)
Repayment of debt	(830,283)
Interest paid on debt	(30,679)
Net Cash Used In Capital and Related Financing Activities	(910,261)
Cash Flows From Investing Activities	
Net restricted investment activity	39,794
Reinvestment of certificate of deposit earnings	(9,954)
Interest income	16,647
Net Cash Provided By Investing Activities	46,487
Net Increase in Cash, Cash Equivalents and Restricted Cash	88,215
Cash, Cash Equivalents, and Restricted Cash At Beginning of Year	323,969
Cash, Cash Equivalents, and Restricted Cash At End of year	\$ 412,184
Reconciliation to the Statement of Net Position	
Cash and cash equivalents	\$ 195,595
Restricted checking and savings accounts	216,589
Total Cash, Cash Equivalents and Restricted Cash	\$ 412,184
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Net income from operations	\$ 610,562
Items not effecting cash:	
Depreciation	334,707
Changes in:	
Accounts receivable	(11,883)
Deferred outflows of resources related to pension	(3,647)
Accounts payable	7,134
Payroll tax payable	(894)
Sales tax payable	(704)
Customer deposits	2,654
Net pension liability	34,258
Deferred inflows of resources related to pension	(369)
Net Cash Provided By Operating Activities	\$ 971,818

See accompanying notes to financial statements.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

Nature of Business

The City of Scranton, Arkansas, Water and Sewer System (the Department) is a proprietary type fund and is a component unit of the City of Scranton, Arkansas. The City of Scranton, through its Mayor and City Council, has oversight authority over the Department to set user charges, establish budgets, select management, and control all aspects of the Department's daily operations. The purpose of the Department is to provide water, which it purchases, and sewer services to the residents of the City of Scranton, Dublin area, East Logan County, and also Tyson Foods, Inc. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Department's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The Department accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 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.

The Department is considered to be a component unit of the City of Scranton, Arkansas. These financial statements reflect only the Water and Sewer Department Enterprise Fund of the City of Scranton, and, accordingly, do not reflect other activities, funds and account groups of the City.

Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Department. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Income Taxes

The Department is exempt from income taxes as a governmental agency.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

1. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For purposes of the Statement of Cash Flows, the Department considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents including restricted cash.

Restricted Investments

Investments are presented at fair value. Restricted investments, consist primarily of U.S. Government securities designated to service annual bond payments.

Accounts Receivable

Accounts receivable consists of sewer and water fees and surcharges billed to residential and commercial/industrial customers based on consumption. The District does not charge interest on overdue accounts but does charge a late fee for late payments. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for doubtful accounts is estimated based on professional judgement and historical information and is \$2,977 on December 31, 2023.

Inventories

Inventories consist of materials and supplies and are stated at the lower of cost or market using the first-in, first-out method.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position has 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 a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The Department recognizes deferred outflows of resources related to pensions.

In addition to liabilities, the Statement of Net Position has a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department recognizes deferred inflows of resources related to pensions.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

1. Summary of Significant Accounting Policies (continued)

Capital Outlays and Depreciation

The water system is stated at actual cost, and when actual cost was unavailable at estimated cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized as incurred. The estimated useful lives of the assets are as follows:

Water and sewer system	5 - 40 Years
Equipment	5 Years
Truck	5 Years

It is the Department's policy to capitalize asset purchases greater than \$1,000 and expense asset purchases less than \$1,000.

Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. If the customer owns the property and makes timely payments for twelve consecutive months their deposit is applied to their account balance. Otherwise, when the Department no longer serves the customer, the deposit is applied to the customers final bill, and any remaining balance is refunded to the customer.

Compensated Absences

The Department does not have a written policy for compensated absences. Employees of the Department generally use vacation during the time earned and sick time is taken as needed, therefore, no accrual is necessary at December 31, 2023.

Net Position

Net position of the Department are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets".

The Department does not have a policy addressing whether it considers restricted or unrestricted to have been spent when expenditures are incurred for purposes when both are available. Department personnel decide which resources to use at the time the expenditures are incurred. For classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted. The Department's restricted net position are those resources necessary to comply with various covenants of bond financing agreements.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of water sales and fees for miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following new accounting standards which became effective during the Department's fiscal year.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. The purpose of this statement is to improve financial reporting issues related to PPPs.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

1. Summary of Significant Accounting Policies (continued)

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance and financial reporting for subscription-based technology arrangements (SBITAs). The statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA.

These statements did not have any impact on the Department's financial statements.

2. Deposits with Financial Institutions

The Department does not have a formal deposit and investment policy, but does follow state laws and bond ordinance resolutions.

State statutes generally require that municipal funds be deposited in federally insured banks located in the state of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States government.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Department's deposits may not be recovered. At December 31, 2023, all of the Department's deposits were insured and/or collateralized. The bank balances and carrying amount of the Department's deposits held were as follows:

Deposits (continued)

Description	At December 31, 2023	
	Bank Balance	Carrying Amount
Insured	\$ 291,083	\$ 291,083
Collateralized - held by pledging bank or pledging bank's trust department in the Department's name	533,445	533,406
Total	\$ 824,528	\$ 824,489

**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

2. Deposits with Financial Institutions (continued)

Deposits as reported in the following Statement of Net Position captions:

As Of December 31, 2023	
Cash and cash equivalents	\$ 195,595
Restricted checking and savings accounts	216,589
Certificate of deposit	412,305
Total	\$ 824,489

Investments

Investments consist of certificates of deposit for depreciation reserves and an account established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due. The investments are stated at fair market value, which approximates cost.

As of December 31, 2023	Market	Weighted Avg. Maturity	Credit Rating
Government mutual fund:			
Bond funds	\$ 4,455	45 days	AAA
Certificates of Deposit	412,305	307 days	N/A
Total	\$ 416,760		

Investments as reported in the following Statement of Net Position captions:

As Of December 31, 2023	
Current Assets:	
Certificates of deposit	\$ 412,305
Restricted investments	4,455
Total	\$ 416,760

Interest Rate Risk

Interest rate risk is the risk the changes in interest of debt investments will adversely affect the fair value of an investment. The Department's investments are not subject to interest rate risk as the investments are short-term in nature.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

2. Deposits with Financial Institutions (continued)

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

At December 31, 2023, the District has \$4,455 in a government money market account that primarily invest in U.S. Treasury and government securities which are investments permitted by Arkansas statutes and generally considered to be risk-free as they have the backing of the government.

The District also has \$412,305 invested in a certificates of deposit at December 31, 2023, all of which is covered by FDIC insurance or through the pledging of securities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held by the Department or by an agent of the Department are in the Department's name.

Fair Value Measurements

The District's investments are categorized using fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categories are as follows:

Level 1 - Quoted prices for identical investments in active markets.

Level 2 - Quoted prices for identical investments in markets that are not active.

Level 3 - Unobservable inputs

The following table represents the District's investments that are measured at fair value on a recurring basis at December 31, 2023:

	Level 1	Level 2	Level 3	Total
Government money market fund \$	4,455 \$	- \$	- \$	4,455
Certificates of deposit	412,305	-	-	412,305
Total	\$ 416,760 \$	- \$	- \$	416,760

The government mutual fund is valued at market value as reported by the external account manager. Certificates of deposit are valued at cost plus interest earned.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

3. Restricted Funds and Required Accounts

Restricted cash and cash equivalents and restricted investments are restricted by the various council ordinances of the City Council, bond ordinances and laws. Expenditures from these accounts are restricted to improvements and betterments to the distribution system, paying the principal and interest on the loans and bonds and the trustee's and paying agent's fees, and customer meter deposits.

As of December 31, 2023	
Restricted checking and savings:	
Depreciation Fund	\$ 128,173
Meter Deposits	10,488
ADFA Bond Fund	41,083
Dublin Bond Fund	6,145
Debt Service	30,700
Total restricted checking and savings accounts	\$ 216,589
Restricted certificate of deposit:	
Depreciation Fund	\$ 412,305
Total restricted certificate of deposit	\$ 412,305
Restricted investments:	
2017 Bond Fund	\$ 4,455
Total restricted investments:	\$ 4,455

4. Capital Assets

Activity of capital assets consists of the following:

As of	January 1, 2023		Additions	Deletions	December 31, 2023	
Land	\$	27,212	\$ -	\$ -	\$	27,212
Water and sewer system		12,676,305	44,612	-		12,720,917
Truck		17,289	-	-		17,289
Equipment		3,680	4,687	-		8,367
Total	\$	12,724,486	\$ 49,299	\$ -	\$	12,773,785
Less accumulated depreciation		5,616,718	334,707	-		5,951,425
Capital assets, net	\$	7,107,768	\$ (285,408)	\$ -	\$	6,822,360

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

5. Long-Term Debt

As of December 31, 2023	
Arkansas Development Finance Authority - Series 2014 Water and Sewer Revenue Bonds dated April 1, 2014, in the amount of \$5,000,000. Payments are made semi-annually in the amount of \$170,974 including interest and service fees at 2.25% and 1.00%, respectively. The bonds are secured by revenues of the system. The bonds were schedule to mature in October 2035 but due to additional principal payments by the Department, will mature in 2024.	\$ 125,456
Arkansas Natural Resources Commission - loan dated April 17, 2017, in the amount of \$257,500. Payments are made annually in the amount of \$19,440 including interest at 3.90%. The note is secured by property & equipment of the system. The note was scheduled to mature in December 2036 but due to additional principal payments made by the Department, will mature in December 2033.	153,124
Total	278,580
Less: Current portion	138,716
Long-Term Debt	\$ 139,864

The Department made additional principal payments totaling \$550,000 during the year ended December 31, 2023 .

The Department's outstanding notes from direct borrowings and direct placements contain different provisions for loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the Department on behalf of the issuer until all defaults have been cured; enforce any and all other rights and remedies by law.

Debt is scheduled to be repaid as follows:

December 31,	Principal	Interest	Total
2024	\$ 138,716	\$ 9,003	\$ 147,719
2025	13,777	5,663	19,440
2026	14,315	5,125	19,440
2027	14,873	4,567	19,440
2028	15,453	3,987	19,440
2029-2033	81,446	10,421	91,867
Total	\$ 278,580	\$ 38,766	\$ 317,346

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

6. Long-Term Liabilities

The activity of long-term liabilities is summarized below:

As of	January 1, 2023	Debt Additions	Debt Retirements	December 31, 2023	Due Within One Year
ADFA	\$ 902,160	\$ -	\$ 776,704	\$ 125,456	\$ 125,455
ANRC	206,703	-	53,579	153,124	13,260
Net pension liability	84,714	34,258	-	118,972	-
Total	\$ 1,193,577	\$ 34,258	\$ 830,283	\$ 397,552	\$ 138,715

7. Pension Plan

Prior Period Adjustment

The Department commenced participation in the Arkansas Public Employees Retirement System (APERS) system in 2021. During the year ended December 31, 2023, the Department implemented GASB 68, *Accounting and financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Under this statement, a cost-sharing employer whose employees receive pensions through a trust will report in the Statement of Net Position a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension

Implementation of this GASB required the following prior period adjustment:

	Opening January 1, 2023 Balance	Change	Restated January 1, 2023 Balance
Statement of Net Position			
Deferred outflows of resources related to pensions	\$ -	\$ 73,201	\$ 73,201
Net pension liability	-	84,714	84,714
Deferred inflows of resources related to pensions	-	1,023	1,023
Unrestricted net position	6,831,386	(12,536)	6,818,850

Plan Description

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

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

Plan Description (continued)

The general administration and responsibility for the proper operation of the System is vested in the thirteen 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; 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, and four additional board positions that were added in Act 868 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other appointed by the Senate.

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

Summary of Significant Accounting Policies

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (the Plan) and additions to / deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

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

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

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

Benefits Provided (continued)

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

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

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

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

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the Plan fiscal years ended June 30, 2023. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

Contributions made by the Department were \$14,423 for the year ended December 31, 2023.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

APERS Fiduciary Net Position

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

Timing of the Valuation

The collective Net Pension Liability was measured as of June 30, 2023, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. Based on this information, the Department's proportionate share as of June 30, 2023 was 0.00408252%

There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of June 30, 2023 and the Department's report ending date of December 31, 2023, that would have had a significant impact on the net pension liability.

Actuarial Assumptions

The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2023. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.00%
Wage Inflation Rate	3.25%
Salary Increases	3.25% – 9.85%
Investment Rate of Return	7.15%
Mortality Rate Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017

All other actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2022, and were applied to all prior periods included in the measurement.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

Long-Term Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the APERS target asset allocation as of June 30, 2023 are summarized in the table below:

Asset Class	Target	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
	100%	
Total Real Rate of Return		4.94%
Plus: Price Inflation - Actuary's Assumption		2.50%
Net Expected Return		7.44%

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the June 30, 2023 valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 3.86% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"; and the resulting single discount rate is 7.00%.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

Single Discount Rate (continued)

The single discount rate of 7.00% 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 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the participating employers' net pension liability, calculated using a single discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Net Pension Liability	\$ 189,631	\$ 118,972	\$ 60,756

Pension Expense, and Deferred Inflows / Outflows of Resources

The Department's proportionate share of pension expense was \$44,665 for the Plan year ended June 30, 2023. At December 31, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,716	\$ 654
Changes in assumptions	5,593	-
Net difference between projected and actual earnings on pension plan investments	14,808	-
Changes in proportion	42,482	-
Department contributions subsequent to the measurement date	7,249	-
Total	\$ 76,848	\$ 654

**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

7. Pension Plan (continued)

Pension Expense, and Deferred Inflows / Outflows of Resources (continued)

\$7,249 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 30, 2024, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Net Increase (Decrease) in Pension Expense
2023	\$ 29,944
2024	18,133
2025	21,867
2026	(999)
	\$ 68,945

8. Concentrations of Credit Risk and Commitments

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

During the year ended December 31, 2023, the Department received approximately 82%, respectively, of its water revenues from Tyson Foods, Inc. A significant reduction of this revenue, if this were to occur, may have a significant effect on the Department's ability to continue in its current state.

The Department purchases its water from the Municipal Light and Water Organization in Paris, Arkansas and Clarksville Light and Water in Clarksville, Arkansas. If the cost of the water was to increase or if the Department were to have to obtain water from other suppliers, this could negatively impact the Department.

9. Subsequent Events

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2023 through July 25, 2024, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SCRANTON, ARKANSAS
WATER AND SEWER DEPARTMENT**

**REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM**

FOR THE YEAR ENDED DECEMBER 31, 2023

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios Last Fiscal Year

	<u>APERS</u> <u>June 30, 2023</u>	<u>APERS</u> <u>June 30, 2022</u>	<u>APERS</u> <u>June 30, 2021</u>
Department's proportion of the net pension liability	0.00408252%	0.00314177%	0.00099741%
Department's proportionate share of the net pension liability	\$ 118,972	\$ 84,714	\$ 7,668
Department's covered-employee payroll	\$ 90,486	\$ 65,672	\$ 19,917
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.48%	129.00%	38.50%
Plan fiduciary net position as a percentage of the total pension liability	77.94%	78.31%	93.57%

Schedule of Required Contributions Last Fiscal Year

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Contractually required contribution	\$ 14,423	\$ 13,085	\$ 6,716
Contributions in relation to the contractually required contribution	\$ (14,423)	\$ (13,085)	\$ (6,716)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Department's covered-employee payroll	\$ 94,144	\$ 85,411	\$ 43,839
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%

See independent auditor's report.

CITY OF SCRANTON, ARKANSAS WATER AND SEWER DEPARTMENT

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED DECEMBER 31, 2023

Notes to Required Supplemental Information for Cost-Sharing Employer Plans

1. The schedules are intended to show 10 years - additional information will be presented as it becomes available.
2. Changes in benefits: June 30, 2021 and 2022 valuation
 - Extending the maximum time allowed in the DROP from 7 to 10 years, effective March 31, 2021
 - Increasing contributory plan member contributions from 5% to 7%, in 0.25% increments, starting July 1, 2022
 - For members hired on or after July 1, 2022:
 - Change the final average compensation period from 3 to 5 years
 - COLA increases will be the lesser of 3.0% or the increase in the Consumer Price Index

None: June 30, 2023

3. Changes in actuarial assumptions:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Single Discount Rate	7.00%	7.15%	7.15%
Investment Rate of Return	7.15%	7.15%	7.15%
Municipal Bond Rate	3.86%	3.69%	1.92%
Source: 20-Bond GO Index			
Inflation	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price
Salary Increases	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%
Mortality Table	Based on RP-2006 weighted generational mortality tables for healthy annuitant disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017	Based on RP-2006 weighted generational mortality tables for healthy annuitant disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017	Based on RP-2006 weighted generational mortality tables for healthy annuitant disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017

See independent auditor's report.

ADDITIONAL REQUIRED REPORT



**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 Honorable Mayor and City Council
City of Scranton, Arkansas Water and Sewer Department
Scranton, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Scranton, Arkansas Water and Sewer Department, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Departments financial statements, and have issued our report thereon dated July 25, 2024.

Report on Internal Control Over Financial Reporting

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

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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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton, Arkansas Water and Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

This 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 the 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
July 25, 2024