

**CITY OF CLINTON WATER  
AND  
SEWER DEPARTMENT  
Clinton, Arkansas  
FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION  
For the Years Ended December 31, 2023 and 2022**

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**Clinton, Arkansas**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**For the Years Ended December 31, 2023 and 2022**

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*Arkansas Society of CPAs*

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**To the Commission  
City of Clinton Water & Sewer Department  
Clinton, Arkansas**

### **INDEPENDENT AUDITOR'S REPORT**

#### **Qualified Opinions**

We have audited the accompanying financial statements of the City of Clinton Water & Sewer Department, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Clinton Water & Sewer Department's basic financial statements as listed on the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Clinton Water & Sewer Department as of December 31, 2023 and 2022, and the changes in financial position thereof for the years 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. 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 Clinton Water & Sewer Department, and to meet our other ethical responsibilities, in accordance with 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 opinion.

#### **Matter Giving Rise to the Qualified Opinion**

Management has not changed its method of accounting for pensions during the years ended December 31, 2023 or 2022, 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 Clinton Water & Sewer Department has not been determined.

#### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Water & Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Clinton, Arkansas as of December 31, 2023, and 2022, the changes in its financial position, or, where applicable, its cash flow for the years 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.

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**To the Commission  
City of Clinton Water & Sewer Department  
Clinton, Arkansas**

**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 Clinton Water & Sewer 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 opinions. 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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 Clinton Water & 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.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Clinton Water & Sewer 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.

**To the Commission  
City of Clinton Water & Sewer Department  
Clinton, Arkansas**

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clinton Water & Sewer Department's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 Supplementary Information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2024 on our consideration of the City of Clinton Water & 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 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 Clinton Water & 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 Clinton Water & Sewer Department's internal control over financial reporting and compliance.



Berry & Associates, P.A.  
Little Rock, Arkansas  
April 26, 2024

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2023 and 2022**  
**ASSETS**

	<u>2023</u>	<u>2022</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 727,188	\$ 821,592
Accounts receivable (Net of allowance for doubtful accounts of \$242,384 and \$175,305, respectively)	304,083	276,438
Other receivable	227,925	12,685
Inventory	500,444	228,124
Prepaid expenses	43,690	24,631
Prepaid loan payments	348,040	288,376
Other current assets	-	952
Total current assets	<u>2,151,370</u>	<u>1,652,798</u>
<b>NON-CURRENT ASSETS</b>		
Restricted assets		
Cash and cash equivalents	4,696,669	3,842,526
Capital assets		
Capital assets, net of accumulated depreciation	7,539,448	7,942,334
Other assets		
Right of use asset, operating lease	7,013	8,846
Deposits	25	25
Total other assets	<u>7,038</u>	<u>8,871</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,394,525</u>	<u>\$ 13,446,529</u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 284,201	\$ 279,611
Current maturities of operating lease payable	1,800	1,800
Accrued interest payable	9,016	9,554
Accounts payable	382,909	145,738
Sales tax payable	11,876	10,994
Retainage payable	14,661	-
Accrued compensated absences	112,943	104,301
Payroll liabilities payable	255	303
Other accrued expenses	16,144	14,876
Earnest money received	57,574	57,574
Total current liabilities	<u>891,379</u>	<u>624,751</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current maturities	3,054,361	3,139,936
Operating lease payable, net of current maturities	5,213	7,046
Total Long-Term Liabilities	<u>3,059,574</u>	<u>3,146,982</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer service deposits	270,432	256,204
<b>TOTAL LIABILITIES</b>	<u>4,221,385</u>	<u>4,027,937</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,196,405	4,521,396
Temporarily restricted	1,798,960	1,714,089
Unrestricted	4,177,775	3,183,107
Total net position	<u>10,173,140</u>	<u>9,418,592</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 14,394,525</u>	<u>\$ 13,446,529</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 3,041,511	\$ 2,961,874
Sewer sales	548,721	534,425
Service charges	13,005	12,720
Penalty charges	26,347	30,359
Sewage dumping	13,275	12,915
Clarifier project fees	206,643	204,587
Other revenues	130,065	97,411
Total operating revenues	<u>3,979,567</u>	<u>3,854,291</u>
<b>OPERATING EXPENSES</b>		
Water:		
Agent fees	27,998	29,549
Chemicals	108,623	109,947
Depreciation	516,658	475,156
Employee retirement	89,567	85,543
Insurance	128,565	119,114
Office supplies and expense	55,846	53,701
Other miscellaneous expense	6,386	8,783
Payroll taxes	44,659	42,739
Plant supplies	192,782	192,081
Professional fees	25,115	11,015
Repairs and maintenance	294,030	177,166
Salaries	592,376	560,191
Telephone and utilities	332,234	382,082
Testing	12,710	12,650
Transportation	69,863	65,977
Uniforms	8,923	9,322
Water storage fees	19,242	19,267
Total water expenses	<u>\$ 2,525,577</u>	<u>\$ 2,354,283</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION,**  
**CONTINUED**

**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING EXPENSES</b>		
Sewer:		
Chemicals	\$ 109,303	\$ 94,937
Depreciation	192,648	233,434
Employee retirement	8,046	8,118
Insurance	13,881	13,090
Office supplies and expense	10,624	8,394
Other miscellaneous expense	2,036	275
Payroll taxes	4,006	4,063
Plant supplies	13,594	6,670
Rent expense	-	10,104
Repairs and maintenance	18,146	19,917
Salaries	56,615	55,411
Telephone and utilities	163,476	197,844
Testing	110,721	80,346
Transportation	3,118	5,662
Uniforms	750	915
Engineering	6,895	17,864
Total sewer expenses	<u>713,859</u>	<u>757,044</u>
Total operating expenses	<u>3,239,436</u>	<u>3,111,327</u>
<b>OPERATING INCOME</b>	740,131	742,964
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	126,494	27,555
Gain on disposal of fixed assets	-	1
Interest expense	(43,279)	(45,746)
Bad debt expense	(69,307)	(7,018)
Other income	509	987
Total non-operating income (expenses)	<u>14,417</u>	<u>(24,221)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS FROM OTHER FUNDS</b>	<u>754,548</u>	<u>718,743</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>-</u>	<u>24,035</u>
<b>CHANGE IN NET POSITION</b>	754,548	742,778
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>9,418,592</u>	<u>8,675,814</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 10,173,140</u></u>	<u><u>\$ 9,418,592</u></u>

The accompanying notes to the financial statements are an integral part of these statements



**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>INCREASE (DECREASE) IN CASH AND RESTRICTED CASH:</b>		
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 3,951,922	\$ 3,851,909
Cash payments for goods and services	(2,238,973)	(1,823,502)
Cash payments to employees	(648,991)	(615,602)
Net cash provided by operating activities	<u>1,063,958</u>	<u>1,412,805</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(279,585)	(274,962)
Interest payments on long-term debt	(43,817)	(46,269)
Proceeds from long-term debt	198,600	31,050
Proceeds from the sale of capital assets	-	1
Purchase of capital assets	(163,359)	(126,063)
Payments on construction in progress	(143,061)	(282,552)
Capital contribution received	-	24,035
Proceeds from other income	509	987
Net cash used by capital and related financing activities	<u>(430,713)</u>	<u>(673,773)</u>
<b>Cash flows from investing activities:</b>		
Interest received	126,494	27,555
Change in restricted cash	(854,143)	(431,188)
Net cash used by investing activities	<u>(727,649)</u>	<u>(403,633)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(94,404)</u>	<u>335,399</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>821,592</u>	<u>486,193</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 727,188</u></u>	<u><u>\$ 821,592</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 740,131	\$ 742,964
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	709,306	708,590
Amortization of operating lease right of use asset	1,833	614
Provision for gain on the disposal of capital assets	-	(1)
Provision for bad debt expense	69,307	7,018
(Increase) / Decrease In:		
Accounts receivable	(166,260)	(29,102)
Prepaid expenses	(78,723)	(61,754)
Inventory	(272,320)	(31,592)
Other current assets	(214,288)	440
Increase / (Decrease) In:		
Accounts payable	237,172	55,257
Retainage payable	14,661	(449)
Customer meter deposits	14,228	21,940
Other accrued expenses	10,744	(506)
Operating lease liability	(1,833)	(614)
Total adjustments	<u>323,827</u>	<u>669,841</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 1,063,958</u></u>	<u><u>\$ 1,412,805</u></u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**STATEMENTS OF CASH FLOWS, CONTINUED**  
**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Non-cash investing and financing information:		
Recognition of operating lease right of use asset and liabilities	\$ <u>          -</u>	\$ <u>      9,460</u>

**The accompanying notes to the financial statements are an integral part of these statements**

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization**

The City of Clinton Water and Sewer Department is a municipal utility operated by the City of Clinton, Arkansas. The Department serves substantially all the households and businesses in the City, consisting of approximately 3,057 water system customers and approximately 1,060 sewer system customers. In addition to the above water and sewer customers, the Department also supplies water wholesale to two local water associations.

**Basis of Presentation and Accounting**

The accompanying basic financial statements present only the Department and are not intended to present the financial position of the City, and the results of its operations or, where applicable, its cash flows.

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this 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 or 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 and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt service; and unrestricted components.

**Estimates**

Management of the Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

**Cash and Cash Equivalents**

The Department considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

**Allowance for Bad Debts**

The Department uses the allowance method to account for uncollectible accounts receivable.

**Budgets and Budgetary Accounting**

Prior to the beginning of the new year, the Commission adopts an annual budget for the Department. The budget of the Department is adopted under a basis consistent with GAAP, except that certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at year-end.

**Compensated Absences**

The Department allows employees to accumulate unused sick leave to a maximum of 60 days. Employees are required to take five days vacation annually. Upon termination, up to 30 days of accumulated vacation will be paid to the employee. Sick leave is not paid upon termination, only death or retirement. At December 31, 2023 and 2022, the accrued liability for vacation and sick leave totaled \$112,943 and \$104,301, respectively.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:**

**Capital Assets**

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on Departments borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades and extensions of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Asset	Years
Buildings	10-20 years
Water and Sewer System	5-40 years
Equipment	5-10 years
Vehicles	5-7 years

**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 charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

**Net Position**

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets*- 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.

*Temporarily restricted*- This component of net position consists of 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 assets that do not meet the definition of "restricted."

**Restricted Assets**

Certain proceeds of the Department's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Department are also considered restricted.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:**

**Inventory**

Inventory consists of pipe, fittings, parts, and chemicals used in normal operations of the water and sewer department. Inventory is valued at the lower of cost or market, determined using the FIFO (first-in, first-out) method.

**Leases**

The Fund calculates operating lease using the implicit interest rate, or their incremental borrowing rate if the lease rate is not determinable. All lease and non-lease components are combined for all leases. Lease payments for leases with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

**Date of Management's Review**

Subsequent events have been evaluated through April 26, 2024, which is the date the financial statements were available to be issued and management determined that additional disclosures were required. On March 26, 2024, the Department signed a resolution expressing its intent to acquire Bee Branch Water Association's water system.

On March 14, 2024 the Department signed two Memorandum of Agreements with Arkansas Natural Resources Commission for project funding. One Memorandum of Agreement is for wastewater improvements funded from the State Revolving Loan Fund program not to exceed \$5,472,225. The second Memorandum of Agreement is for water department improvements funded from the State Revolving Loan Fund program not to exceed \$6,416,494.

**NOTE 2 – PUBLIC DEPARTMENTS: DEPOSITS WITH FINANCIAL INSTITUTIONS:**

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Department's name.

**NOTE 3 – CAPITAL ASSETS:**

A summary of changes in capital assets for the year ended December 31, 2023 is as follows:

	Balance 12/31/2022	Additions	Deletions/ Transfers	Balance 12/31/2023
Buildings	\$ 27,608	\$ -	\$ -	\$ 27,608
Construction in Progress	329,119	143,061	(289,653)	182,527
Land	87,031	-	-	87,031
Machinery and Equipment	586,389	1,339	-	587,728
Office Equipment	43,035	-	-	43,035
Transportation Equipment	327,355	145,159	-	472,514
Sewer System	11,620,060	16,335	-	11,636,395
Water System	17,813,476	290,180	-	18,103,656
Total	30,834,073	\$ 596,074	\$ (289,653)	31,140,494
Less: Accumulated Depreciation	(22,891,739)			(23,601,046)
Total Capital Assets	\$ 7,942,334			\$ 7,539,448

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 3 – CAPITAL ASSETS, Continued:**

A summary of changes in capital assets for the year ended December 31, 2022 is as follows:

	Balance 12/31/2021	Additions	Deletions/ Transfers	Balance 12/31/2022
Buildings	\$ 27,608	\$ -	\$ -	\$ 27,608
Construction in Progress	1,312,189	301,749	(1,284,819)	329,119
Land	87,031	-	-	87,031
Machinery and Equipment	571,665	14,724	-	586,389
Office Equipment	42,893	142	-	43,035
Transportation Equipment	330,482	14,000	(17,127)	327,355
Sewer System	11,542,060	78,000	-	11,620,060
Water System	16,528,657	1,284,819	-	17,813,476
Total	30,442,585	\$ 1,693,434	\$ (1,301,946)	30,834,073
Less: Accumulated Depreciation	(22,200,276)			(22,891,739)
Total Capital Assets	\$ 8,242,309			\$ 7,942,334

**NOTE 4 – LONG-TERM DEBT:**

	2023	2022
2014 Water and Sewer Revenue Bonds due in semi-annual installments of \$99,368 through April 2037 including interest at 1.9% and a service fee at 1.0% (1)	\$ 2,207,045	\$ 2,338,902
2020 Water and Sewer Revenue Bonds due in semi-annual installments of \$76,984 through April 2031 including interest at 0% and a service fee at .5% (1)	1,131,517	1,080,645
	3,338,562	3,419,547
Less current portion	(284,201)	(279,611)
Total Long-Term Portion	\$ 3,054,361	\$ 3,139,936

- (1) The water and sewer revenue bonds have restrictive covenants, including the requirement to accumulate a depreciation reserve in monthly installments of 3% of the total monthly revenue, until \$150,000 is reached.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 4 – LONG-TERM DEBT, Continued:**

Annual maturities of long-term debt at December 31, 2023 are as follows:

	Principal	Interest & Service Charges	Total
2024	\$ 284,201	\$ 68,503	\$ 352,704
2025	288,909	63,795	352,704
2026	293,736	58,968	352,704
2027	298,686	54,018	352,704
2028	303,761	48,943	352,704
2029-2033	1,212,799	165,809	1,378,608
2034-2037	656,470	39,129	695,599
	<u>\$ 3,338,562</u>	<u>\$ 499,165</u>	<u>\$ 3,837,727</u>

Long-term liability activity for the year ended December 31, 2023 is as follows:

	Balance 12/31/22	Additions	Retirements	Balance 12/31/23	Due Within One Year
Long Term Debt					
Revenue Bonds	\$ 3,419,547	\$ 198,600	\$ (279,585)	\$ 3,338,562	\$ 284,201

Long-term liability activity for the year ended December 31, 2022 is as follows:

	Balance 12/31/21	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Revenue Bonds	\$ 3,663,459	\$ 31,050	\$ (274,962)	\$ 3,419,547	\$ 279,611

The Department has pledged future customer revenues, net of specified operating expenses, to repay \$3,338,562 in long-term debt. Proceeds from the bonds were used for building of the Department's water and sewer systems. Principal and interest on the bonds are payable through 2037, solely from the water and sewer customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$278,585 and \$43,817, respectively. Principal and interest paid in the year ended December 31, 2022 were \$274,962 and \$46,269, respectively.

**NOTE 5 – EMPLOYEE BENEFITS:**

**Plan Description.** The Department contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial 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 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**NOTE 5 – EMPLOYEE BENEFITS, Continued:**

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5.50% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department's contributions to APERS for the year ending December 31, 2023 and 2022 was \$97,613 and \$93,661, respectively, which is equal to the required contributions for the year.

Requirements. GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which establishes standards for public pension plan obligations for participating employers. A cost-sharing employer whose employees receive pensions through a trust will report in the financial statements 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 liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal.

**NOTE 6 – WATER ASSOCIATION CONTRACTS:**

The Department has a sixteen (16) year contract to supply water to two local water associations. Rates are subject to change annually.

**NOTE 7 – COMMITMENTS:**

The Department purchases water from the Greers Ferry Reservoir pursuant to a long-term contract with the United States of America dated September 8, 1970. Under the contract, the city has agreed to pay certain storage costs of the water and certain operation, maintenance and replacement costs of the water storage and supply system. Total costs for the years ended December 31, 2023 and 2022 was \$19,242 and \$19,267, respectively.

On September 19, 2018, the Department was approved for financial assistance in the form of a loan in an amount up to \$1,500,000 from the Arkansas Drinking Water State Revolving Loan Fund. The funds are to be used for water meter replacement. As of December 31, 2023, \$1,499,327 has been received. Of the \$1,499,327 received, \$1,499,327 has been spent on this project as of December 31, 2023.

The Department entered into a management agreement with the Dennard Water System in 2018. The Department is in the process of refinancing the outstanding indebtedness of Dennard Water System into the Department's name. The Department has absorbed the Dennard Water System into the Department's system and is currently in the process of finalizing the transfer of assets. As of December 31, 2023, the Department has paid \$348,040 towards Dennard's debt, as recorded on the balance sheet as a prepaid item. As of December 31, 2023, the department received inventory and assets totaling \$57,574, as recorded on the balance sheet as earnest money received.



**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**NOTE 8 – RESTRICTED CASH:**

Restricted assets consist of cash reserves restricted by long-term debt covenants, cash deposits for meters by customers, and internally restricted funds for special purposes. The following is a list of the restricted cash at December 31:

	<u>2023</u>	<u>2022</u>
Meter deposits	\$ 270,432	\$ 256,204
Construction funds	2,318,801	1,562,023
Cash held in trust	90,082	88,729
Depreciation & debt service	1,329,623	1,276,971
Bond funds	108,722	92,084
Other restricted funds	579,009	566,515
	<u>\$ 4,696,669</u>	<u>\$ 3,842,526</u>

**NOTE 9 – LEASES:**

The Department leases a postage machine using an operating lease agreement. The remaining term of the lease is forty-seven months from December 31, 2023. Where the implicit interest rate of the lessor was unknown, the Department elected to use their incremental borrowing rate of 0.95%. The following summarizes the line items in the balance sheet which include amounts for operating leases as of December 31, 2023.

Operating lease right-of-use assets	\$ <u>7,013</u>
Current portion of operating lease liabilities	\$ 1,800
Operating lease liabilities, less current portion	<u>5,213</u>
Total operating lease liabilities	<u>\$ 7,013</u>

The components of operating lease expense that are included in the income statement for the year ended December 31, 2023 are as follows:

Operating expenses	
Office Expense	\$ <u>1,848</u>

The maturities of operating lease liabilities are as follows:

2024	\$ 1,848
2025	1,848
2026	1,848
2027	<u>1,694</u>
Total lease payments	7,238
Less: interest	<u>(225)</u>
Present value of lease liability	<u>\$ 7,013</u>

## **SUPPLEMENTARY INFORMATION**



*American Institute of CPAs*

*Arkansas Society of CPAs*

*Texas Society of CPAs*

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**To the Commission  
City of Clinton Water & Sewer Department  
Clinton, Arkansas**

**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***

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 of the United States, the financial statements of the City of Clinton Water and Sewer Department ("Department") as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the Department's financial statements and have issued our report thereon dated April 26, 2024.

**Report on 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 that we consider to be significant deficiencies.

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PO Box 2485 • Madison, MS 39130 • 601-383-0119**

To the Commission  
City of Clinton Water & Sewer Department  
Clinton, Arkansas

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 determination of financial statement. 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*.

### **Department's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying Schedule of Finding and Responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### **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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.  
Little Rock, AR  
April 26, 2024

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2023**

**2023-001 Internal Control – Segregation of Duties**

Criteria: The segregation of duties and responsibilities between different individuals or custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual that is responsible for service billing and adjustment, posts payments to the subsidiary accounts receivable ledger. The same individual that is responsible for the general ledger activity, also reconciles the bank accounts, writes the checks and is one of the authorized check signers. This finding was also noted in 2022.

Cause: The Department's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the members of the Commission should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

View of Responsible Officials: The Department concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Department has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**SCHEDULE 1**  
**SCHEDULE OF WATER AND SEWER RATES**  
**DECEMBER 31, 2023**

**SCHEDULE OF WATER AND SEWER RATES:**

<u>Water Rates:</u>	<u>Per Thousand Gallons</u>
Residential:	
Inside City Limits:	
First 1,000 Gallons	\$ 22.97
Excess Over 1,000 Gallons	7.67
Outside City Limits:	
First 1,000 Gallons	30.63
Excess Over 1,000 Gallons	7.67
Burnt Ridge, Dennard Area and Oil & Gas Customers:	
First 1,000 Gallons	30.63
Excess Over 1,000 Gallons	7.67
Industrial:	
First 100,000 Gallons	486.20
Excess Over 100,000 Gallons	4.86
Commercial:	
Inside City Limits:	
First 1,000 Gallons	26.81
Excess Over 1,000 Gallons	7.67
Outside City Limits:	
First 1,000 Gallons	35.73
Excess Over 1,000 Gallons	7.67
Other Meter Sizes:	
1" Meters	
First 1,000 Gallons	55.81
Excess Over 1,000 Gallons	7.67
2" Meters	
First 1,000 Gallons	98.41
Excess Over 1,000 Gallons	7.67
3" Meters	
First 1,000 Gallons	141.02
Excess Over 1,000 Gallons	7.67

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
SCHEDULE 1, CONTINUED  
SCHEDULE OF WATER AND SEWER RATES  
DECEMBER 31, 2023**

**SCHEDULE OF WATER AND SEWER RATES, Continued:**

<u>Water Rates:</u>		<u>Per Thousand Gallons</u>
4" Meters		
First 1,000 Gallons	\$	204.42
Excess Over 1,000 Gallons		7.67
6" Meters		
First 1,000 Gallons		268.86
Excess Over 1,000 Gallons		7.67
<u>Sewer Rates:</u>		
Residential:		
First 1,000 Gallons	\$	17.10
Excess over 1,000 Gallons		7.67
Commercial:		
First 1,000 Gallons		19.15
Excess over 1,000 Gallons		7.67
Industrial:		
First 100,000 Gallons		486.20
Excess Over 100,000 Gallons		4.86

The sewer rates above apply to customers within the city limits who are connected to the sewer system.

Upon approval by the Clinton, Arkansas Water Commission, a customer outside the city limits may connect to the sewer system provided that sewer service is available. These customers are billed double the standard rates listed above.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**SCHEDULE 2**  
**SCHEDULE OF FUTURE ANNUAL DEBT SERVICE REQUIREMENT**  
**2014 WATER AND SEWER REFUNDING REVENUE BONDS**  
**DECEMBER 31, 2023**

Schedule of Future Annual Debt Service Requirement  
2014 Water and Sewer Revenue Bonds

Year	Principal April 1	Principal October 1	1.9% Interest April 1	1.9% Interest October 1	1% Service Fees April 1	1% Service Fees October 1	Total
2024	\$ 67,366	\$ 68,343	\$ 20,967	\$ 20,327	\$ 11,035	\$ 10,698	\$ 198,736
2025	69,333	70,339	19,678	19,019	10,357	10,010	198,736
2026	71,359	72,393	18,351	17,673	9,658	9,302	198,736
2027	73,443	74,509	16,985	16,287	8,940	8,572	198,736
2028	75,588	76,684	15,580	14,862	8,190	7,822	198,726
2029	77,797	78,925	14,133	13,394	7,438	7,049	198,736
2030	80,069	81,230	12,644	11,883	6,655	6,254	198,735
2031	82,408	83,603	11,112	10,329	5,848	5,436	198,736
2032	84,815	86,045	9,535	8,729	5,018	4,594	198,736
2033	87,292	88,558	7,912	7,089	4,164	3,728	198,743
2034	89,842	91,145	6,241	5,387	3,285	2,836	198,736
2035	92,466	93,808	4,522	3,643	2,380	1,917	198,736
2036	95,168	96,546	2,752	1,848	1,448	973	198,735
2037	97,971	-	931	-	490	-	99,392
	<u>\$ 1,144,917</u>	<u>\$ 1,062,128</u>	<u>\$ 161,343</u>	<u>\$ 150,470</u>	<u>\$ 84,906</u>	<u>\$ 79,191</u>	<u>\$ 2,682,955</u>



**CITY OF CLINTON WATER AND SEWER DEPARTMENT**  
**SCHEDULE 3**  
**SCHEDULE OF FUTURE ANNUAL DEBT SERVICE REQUIREMENT**  
**2020 WATER AND SEWER REVENUE BONDS**  
**DECEMBER 31, 2023**

Schedule of Future Annual Debt Service Requirement  
2020 Water and Sewer Revenue Bonds

Year	Principal April 1	Principal October 1	.5% Service Fees April 1	.5% Service Fees October 1	Total
2024	\$ 74,154	\$ 74,339	\$ 2,830	\$ 2,645	\$ 153,968
2025	74,525	74,712	2,459	2,272	153,968
2026	74,898	75,086	2,086	1,898	153,968
2027	75,273	75,461	1,711	1,523	153,968
2028	75,650	75,839	1,334	1,145	153,968
2029	76,029	76,219	955	765	153,968
2030	76,409	76,600	575	384	153,968
2031	76,323	-	192	-	76,515
	<u>\$ 603,261</u>	<u>\$ 528,256</u>	<u>\$ 12,142</u>	<u>\$ 10,632</u>	<u>\$ 1,154,291</u>

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
SCHEDULE 4  
SURETY BOND AND INSURANCE SCHEDULE  
DECEMBER 31, 2023**

Surety Bond and Insurance in Force		
	Amount of Coverage	Policy Period
Nationwide Insurance		June 15, 2023 to June 15, 2024
Blanket Building and Contents	\$ 31,377,866	
Elected Officials and Employees	50,000	
Business Income/Extra Expense	250,000	
Money and Securities	25,000	
Arkansas Municipal League		July 7, 2023 to July 6, 2024
Bodily Injury	50,000	
Property Damage	25,000	
Comprehensive (\$1,000 Deductible)	Actual Cash Value	
Collision (\$1,000 Deductible)	Actual Cash Value	
Arkansas Municipal League:		
Workers Compensation	Statutory	January 1, 2023 to December 31, 2023

**CITY OF CLINTON WATER AND SEWER DEPARTMENT  
SCHEDULE 5  
WATER AND SEWER COMMISSION  
DECEMBER 31, 2023**

<u>Name</u>	<u>Title</u>
Adam McJunkins	Chairman
Kristin Fleming	Commissioner
Matthew Stewart	Commissioner
Randy Ward	Commissioner
Steve Nichols	Commissioner