

**CITY OF DECATUR
WATER AND WASTEWATER DEPARTMENT
Decatur, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF DECATUR
WATER AND WASTEWATER DEPARTMENT
Decatur, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

**To the City Council
City Decatur, Arkansas**

Report on the Financial Statements

We have audited the accompanying financial statements of the Water and Wastewater Department of the City of Decatur, Arkansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Water and Wastewater Department of the City of Decatur, Arkansas's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Wastewater Department of the City of Decatur, Arkansas as of December 31, 2021 and 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water and Wastewater Department of the City of Decatur, Arkansas'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.

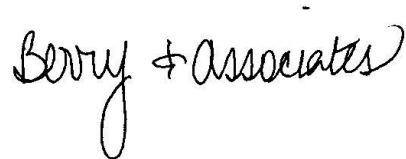
The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial 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 March 11, 2022 on our consideration of the Water and Wastewater Department of the City of Decatur, Arkansas'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 Water and Wastewater Department of the City of Decatur, Arkansas'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 Water and Wastewater Department of the City of Decatur, Arkansas's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Wastewater Department and do not purport to, and do not, present fairly the financial position of the City of Decatur, Arkansas, as of December 31, 2021 and 2020, the changes in its financial position, or where applicable, its cash flows 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.

A handwritten signature in cursive script that reads "Berry & Associates".

BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
March 11, 2022

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2021 and 2020**

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 769,154	\$ 558,733
Accounts receivable	472,565	380,873
Inventory of supplies, at cost	192,798	37,020
Prepaid expenses	23,858	22,446
Total Current Assets	<u>1,458,375</u>	<u>999,072</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	<u>2,494,776</u>	<u>2,333,664</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>29,620,574</u>	<u>30,614,779</u>
Other assets		
Capitalized interest, net of accumulated amortization	<u>100,796</u>	<u>106,455</u>
TOTAL ASSETS	<u><u>\$ 33,674,521</u></u>	<u><u>\$ 34,053,970</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 666,100	\$ 645,000
Accounts payable	127,520	116,591
Accrued payroll taxes	18,358	17,417
Sales tax payable	2,327	2,109
Due to other funds	12,220	11,800
Total Current Liabilities	<u>826,525</u>	<u>792,917</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	59,730	54,686
Accrued interest payable	130,539	133,918
Total Current Liabilities Payable from Restricted Assets	<u>190,269</u>	<u>188,604</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	<u>19,023,202</u>	<u>19,689,339</u>
TOTAL LIABILITIES	<u>20,039,996</u>	<u>20,670,860</u>
NET POSITION		
Net investment in capital assets	10,032,068	10,386,896
Unrestricted	1,982,853	1,511,855
Temporarily restricted	1,619,604	1,484,359
Total Net Position	<u>13,634,525</u>	<u>13,383,110</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 33,674,521</u></u>	<u><u>\$ 34,053,970</u></u>

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

CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Water revenue	\$ 532,627	\$ 431,885
Sewer revenue	4,534,674	4,464,820
Sanitation fees	84,150	83,296
Penalty charges	24,036	22,627
Connection fees	9,375	11,380
Other revenues	30,345	29,753
Total Operating Revenues	<u>5,215,207</u>	<u>5,043,761</u>
OPERATING EXPENSES		
Wages	564,561	578,179
Payroll taxes	41,949	44,634
Employee benefits	83,160	86,538
Purchased water	546,929	520,030
Utilities and telephone	490,425	499,310
Sanitation expense	72,147	70,661
Materials and supplies	129,655	112,350
Vehicle expense	11,243	7,581
Insurance expense	110,258	113,541
Chemical expense	418,259	364,321
Sludge removal	301,618	265,543
Repairs and maintenance	369,261	417,506
Legal and professional fees	58,677	41,710
Miscellaneous expense	39,147	55,899
Depreciation and amortization	1,004,109	1,024,609
Lease expense	14,801	28,873
Total Operating Expenses	<u>4,256,199</u>	<u>4,231,285</u>
OPERATING INCOME	<u>959,008</u>	<u>812,476</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	35,388	40,743
Interest expense	(841,826)	(863,177)
Other income	7,747	25,318
Grant income	3,204	5,854
Net Non-Operating Income (Expenses)	<u>(795,487)</u>	<u>(791,262)</u>
INCOME BEFORE TRANSFERS	163,521	21,214
TRANSFERS OUT	<u>(7,412)</u>	<u>-</u>
CHANGE IN NET POSITION	156,109	21,214
NET POSITION - BEGINNING OF YEAR, originally stated	<u>13,383,110</u>	<u>13,361,896</u>
PRIOR PERIOD ADJUSTMENT	<u>95,306</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR, restated	<u>13,478,416</u>	<u>13,361,896</u>
NET POSITION - ENDING OF YEAR	<u>\$ 13,634,525</u>	<u>\$ 13,383,110</u>

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

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 5,123,515	\$ 5,061,869
Cash payments to suppliers	(2,731,860)	(3,050,858)
Cash payments to employees	(564,561)	(578,179)
Net cash provided by operating activities:	<u>1,827,094</u>	<u>1,432,832</u>
Cash flows from investing activities:		
Interest received	35,388	40,743
Net cash provided by investing activities:	<u>35,388</u>	<u>40,743</u>
Cash flows from non-capital financing activities:		
Transfers out to other funds	(7,412)	-
Other income received, net of other expenses	7,747	25,318
Net cash provided by non-capital financing activities:	<u>335</u>	<u>25,318</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(4,245)	(187,095)
Proceeds from grants	3,204	5,854
Principal payments on long-term debt	(645,037)	(626,864)
Interest payments on long-term debt	(845,206)	(865,929)
Net cash used by capital and related financing activities:	<u>(1,491,284)</u>	<u>(1,674,034)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	371,533	(175,141)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,892,397</u>	<u>3,067,538</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,263,930</u></u>	<u><u>\$ 2,892,397</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 959,008	\$ 812,476
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,004,109	1,024,609
(Increase) decrease in-		
Accounts receivable	(91,692)	18,108
Inventory	(60,472)	-
Prepaid expenses	(1,412)	(8,834)
Increase (decrease) in-		
Accounts payable	10,929	(422,261)
Payroll taxes payable	942	5,861
Sales tax payable	218	(2,202)
Customer deposits	5,044	3,025
Due to general fund	420	2,050
Total adjustments	<u>868,086</u>	<u>620,356</u>
Net cash provided by operating activities:	<u><u>\$ 1,827,094</u></u>	<u><u>\$ 1,432,832</u></u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash capital and related financing activities:		
Adjustments to correct omissions in prior years	<u><u>\$ 95,306</u></u>	<u><u>\$ -</u></u>

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

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department is a component of the City of Decatur, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Decatur and certain properties outside the city limits.

Basis of Presentation and Accounting

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 invested in capital assets, net of related debt; 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.

Accounts Receivable

The Department has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of December 31, 2021 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2021 was \$0.

Inventories

Inventories consist of expendable supplies held for the Department's use and are carried at cost using the first-in, first-out method.

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 initial, individual cost of more than \$1,000 and 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 Department did not capitalize interest during the fiscal years 2021 and 2020. 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 position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades 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:

Buildings	10-40 years
Water and sewer system	5-40 years
Automobiles and equipment	5-15 years

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: con't

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

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 position that does not meet the definition of "restricted."

Date of Management's Review

Subsequent events have been evaluated through March 11, 2022, which is the date the financial statements were available to be issued.

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

NOTE 2 - MAJOR CUSTOMERS:

Of the total wastewater revenues of \$4,534,674 earned in the year ended December 31, 2021, a combined total of \$4,421,751 was earned from two customers. These earnings represent 97% of the total revenues earned for wastewater services.

NOTE 3 - LONG-TERM DEBT:

	2021	2020
General Obligation Bond, payable to Arkansas Natural Resources Commission, due in semi-annual installments, including interest at 4.75% beginning December 2009 through June 2039. (1)	\$ 624,302	\$ 664,339
Revenue bond payable to Citizens Bank and Trust, due in varying monthly installments, including interest at a variable rate beginning June 2015 through December 2033. (2)	1,320,000	1,405,000

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 3 - LONG-TERM DEBT (con't):

	<u>2021</u>	<u>2020</u>
Revenue bond payable to First Arkansas Bank and Trust, due in varying monthly installments, including interest at a variable rate beginning May 2017 through May 2036. (3)	\$ 8,205,000	\$ 8,610,000
Revenue bond payable to First Arkansas Bank and Trust, due in varying monthly installments, including interest at a variable rate beginning May 2017 through May 2041. (4)	<u>9,540,000</u>	<u>9,655,000</u>
	19,689,302	20,334,339
Less Current Portion	<u>(666,100)</u>	<u>(645,000)</u>
Total Long-Term Portion	<u>\$ 19,023,202</u>	<u>\$ 19,689,339</u>

- (1) The general obligation bonds have restrictive covenants including requirements to accumulate a debt service reserve at a rate equal to 3% of the gross monthly revenue while the bond is outstanding.
- (2) The Revenue Bonds have restrictive covenants including a requirement to have a reserve of \$147,000 while the bond is outstanding.
- (3) The Revenue Bonds have restrictive covenants including a requirement to have a reserve of \$437,000 while the bond is outstanding.
- (4) The Revenue Bonds have restrictive covenants including a requirement to have a reserve of \$745,900 while the bond is outstanding.

The annual maturities of long-term debt payable at December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 666,100	\$ 817,074	\$ 1,483,174
2023	687,100	798,474	1,485,574
2024	708,200	779,199	1,487,399
2025	729,300	759,449	1,488,749
2026	755,400	729,811	1,485,211
2027-2031	4,280,300	3,198,090	7,478,390
2032-2036	5,287,902	2,071,452	7,359,354
2037-2041	<u>6,575,000</u>	<u>734,451</u>	<u>7,309,451</u>
	<u>\$ 19,689,302</u>	<u>\$ 9,888,000</u>	<u>\$ 29,577,302</u>

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 3 - LONG-TERM DEBT (con't):

Long-term liability activity for the years ended December 31, 2021 and 2020 is as follows:

	Balance 1/1/2021	Additions	Retirements	Balance 12/31/2021	Due Within One Year
Long Term Debt					
Bonds Payable	\$ 20,334,339	\$ -	\$ (645,037)	\$ 19,689,302	\$ 666,100

	Balance 1/1/2020	Additions	Retirements	Balance 12/31/2020	Due Within One Year
Long Term Debt					
Bonds Payable	\$ 20,961,203	\$ -	\$ (626,864)	\$ 20,334,339	\$ 645,000

Proceeds from the bonds were used for the building of and additional improvements to the Department's water and sewer systems. Principal and interest on the bonds are payable through 2041, solely from the water and sewer customer net revenues. Principal and interest paid in the year ended December 31, 2021 were \$645,037 and \$845,206, respectively. Principal and interest paid in the year ended December 31, 2020 were \$626,864 and \$865,929, respectively.

NOTE 4 – PENSION PLAN:

Plan Description. The City of Decatur 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.

Funding Policy. APERS has contributory plans. Contributory members are required by code to contribute 5% 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 years ending December 31, 2021 and 2020 were \$83,160 and \$86,538, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, 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, but would be included in the government wide financial statements and not the individual fund financial statements.

NOTE 5 –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.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 6 –CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2021 was as follows:

	Balance at December 31, 2020	Additions	Deletions/ Transfers	Balance at December 31, 2021
City complex	\$ 231,688	\$ -	\$ -	\$ 231,688
Land	41,835	-	-	41,835
Machinery & equipment	1,071,633	4,245	-	1,075,878
New sewer plant	1,293,797	-	-	1,293,797
Sewer extension costs	769,946	-	-	769,946
Sewer improvements	21,983,231	-	-	21,983,231
Shop building	20,017	-	-	20,017
Water improvements	13,698,837	-	-	13,698,837
Water wells	891,274	-	-	891,274
	<u>40,002,258</u>	<u>4,245</u>	<u>-</u>	<u>40,006,503</u>
Accumulated depreciation	<u>(9,387,479)</u>	<u>(998,450)</u>	<u>-</u>	<u>(10,385,929)</u>
Total capital assets, net of accumulated depreciation	\$ <u><u>30,614,779</u></u>	\$ <u><u>(994,205)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>29,620,574</u></u>

A summary of changes in capital assets for the year ended December 31, 2020 was as follows:

	Balance at December 31, 2019	Additions	Deletions/ Transfers	Balance at December 31, 2020
City complex	\$ 231,688	\$ -	\$ -	\$ 231,688
Land	41,835	-	-	41,835
Machinery & equipment	1,071,633	-	-	1,071,633
New sewer plant	1,293,797	-	-	1,293,797
Sewer extension costs	769,946	-	-	769,946
Sewer improvements	21,796,136	187,095	-	21,983,231
Shop building	20,017	-	-	20,017
Water improvements	13,698,837	-	-	13,698,837
Water wells	891,274	-	-	891,274
	<u>39,815,163</u>	<u>187,095</u>	<u>-</u>	<u>40,002,258</u>
Accumulated depreciation	<u>(8,368,530)</u>	<u>(1,018,949)</u>	<u>-</u>	<u>(9,387,479)</u>
Total capital assets, net of accumulated depreciation	\$ <u><u>31,446,633</u></u>	\$ <u><u>(831,854)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>30,614,779</u></u>

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 7 – COMMITMENTS:

Operating Lease Commitments

The Department leases equipment under a five-year operating lease with John Deere Credit requiring semi-annual payments through December 2024. The Department also leases a mailing machine under a five-year lease with US Bank Equipment Finance requiring monthly payments through June 2024. Lease expense amounted to \$14,801 and \$28,873 respectively for the years ended December 31, 2021 and 2020.

Future minimum rental commitments for operating leases for the next year is as follows:

2022	\$	19,975
2023		19,975
2024		18,124
	\$	<u>58,074</u>

Contract Commitments

The Department has five individual contracts with Utility Service Co., Inc., to provide the professional service needed to maintain the water storage tanks. Payments are made to Utility Service Co., Inc. quarterly for an indefinite period of time. Contract payments amounted to \$53,272 for the year ended December 31, 2021.

Future minimum commitments for contracts for the next five years are as follows:

2022	\$	51,140
2023		51,140
2024		51,140
2025		51,140
2026		51,140
	\$	<u>255,700</u>

The Department has entered into a 30-year service contract with the City of Centerton, commencing on August 19, 2013. The Department will accept and treat at its Plant, Centerton's sewage as delivered by Centerton. Centerton agrees to pay the Department the same rates as charged to Decatur's customers. The initial Base Rate shall be \$3.10 per 1,000 gallons of flow for residential customers and for commercial customers discharging less than 300,000 gallons of flow per month, and \$3.68 per 1,000 gallons of flow for commercial customers discharging 300,000 gallons or more per month. In addition to the Base Rate, Centerton agrees to pay Decatur a treatment surcharge of \$.20 per 1,000 gallons of flow. Said surcharge shall continue until the earlier of: (1) Expiration of 10 years from the date of Centerton's commencement of delivery of sewage to the Plant; or (2) Aggregate surcharge payments of \$500,000.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 8 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for debt service reserves (see Note 2).

The following is a list of the restricted cash at December 31:

	<u>2021</u>	<u>2020</u>
Debt Service Reserves	\$ 1,619,142	\$ 1,483,897
Bond Fund	650,451	598,128
Customer Meter Deposits	91,000	77,709
Construction Funds	<u>134,183</u>	<u>173,930</u>
	<u>\$ 2,494,776</u>	<u>\$ 2,333,664</u>

NOTE 9 – PRIOR PERIOD ADJUSTMENT:

For the year ended December 31, 2020, the Department's inventory listing did not properly calculate the total ending value of inventory on hand at the end of the year. During the current year, it was realized that inventory was understated by \$95,306 as of December 31, 2020. Adjustments related to the corrections of these omissions resulted in an increase to unrestricted net assets of \$95,306 as of December 31, 2020.



**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 City Council
City of Decatur, Arkansas**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water and Wastewater Department of the City of Decatur, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Water and Wastewater Department of the City of Decatur, Arkansas's financial statements and have issued our report thereon dated March 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the 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 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 in a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

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 amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2021-003.

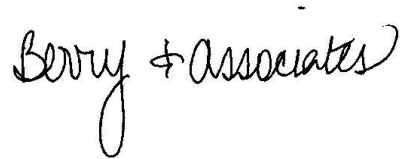
**To the City Council
City of Decatur, Arkansas**

Response to Findings

The Water and Sewer Department of the City of Decatur, Arkansas' responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Berry & Associates".

Berry & Associates, P.A.
Little Rock, Arkansas
March 11, 2022

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF FINDINGS AND REPOSSES
December 31, 2021**

2021-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and 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 who is responsible for service billing and adjustment, receives customer payments, and posts payments to subsidiary accounts receivable ledger. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2020.

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 city council should consider a formal evaluation of their risks associated with this lack of duty 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. For example, the entity might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View Of Responsible Officials: The Water and Wastewater Department of the City of Decatur, Arkansas has attempted to segregate duties, but due to the limited number of personnel, effective segregation of duties is not possible.

2021-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2021 the Department's general ledger did not include the current year's transactions for several trust accounts that are administered by third parties that are a material part of the financial statements. This finding was also noted in 2020.

Cause: The Fund did not properly record transactions and maintain accounting records.

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Department's internal financial statements. With these accounts missing, it does not permit the preparation of accurate and reliable financial statements.

Recommendation: We recommend that management of the Department properly records all transactions and appropriately maintains all accounting records in a timely manner.

View Of Responsible Officials: The Department concurs with the recommendation.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF FINDINGS AND REPOSSES
December 31, 2021**

2021-003 Compliance –Bond Covenants

Criteria: The Department was not in compliance with the depreciation reserve requirements set forth by the General Obligation Bond agreement with Arkansas Natural Resources Commission.

Condition: Bond covenants with Arkansas Natural Resources Commission require a depreciation reserve in the amount of three percent of gross monthly revenues to be accumulated for the life of the loan. This finding was also noted in 2020.

Cause: The Department has not been making required monthly transfers to the depreciation reserve accounts.

Effect or Potential Effect: Without having the proper reserve accounts, the Department risks having the ability to pay for any major repair.

Recommendation: We recommend that the Department start making the required monthly transfers to the depreciation and debt service accounts.

View Of Responsible Officials: The Department concurs with the recommendation.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SUPPLEMENTARY INFORMATION
December 31, 2021**

GOVERNMENT:

The Water and Wastewater Department City of Decatur, Arkansas is governed by a mayor and six aldermen. The records are maintained by the City Administrative Assistant.

<u>Name</u>	<u>Title</u>
Bob Tharp	Mayor
Sandra Duncan	Aldermen
Randy Boone	Aldermen
James Jessen	Aldermen
Danny Harrington	Aldermen
Linda Martin	Aldermen
Ladale Clayton	Aldermen
Kim Wilkins	Recorder/Treasurer

USAGE OF THE WATER AND WASTEWATER SYSTEM:

The current water and wastewater rates are shown in the following schedules:

		<u>Within Corporate Limits (Per 1,000 Gal)</u>	<u>Outside Corporate Limits (Per 1,000 Gal)</u>
<u>WATER RATES:</u>			
GALLONS			
Minimum water rates are for the first 1,000 gallons, and the monthly minimums are as follows:			
Minimum	1,000	\$ 10.08	\$ 15.07
Next	9,000	4.34	5.18
Next	40,000	4.05	4.26
Next	250,000	3.88	4.04
Excess	300,001	3.82	4.04

		<u>Within Corporate Limits (Per 1,000 Gal)</u>	<u>Industrial Rates (Per 1,000 Gal)</u>
<u>SEWER RATES:</u>			
Minimum	1,000	\$ 7.20	\$ 7.20
Next	9,000	3.64	3.64
Next	40,000	3.34	3.34
Excess	50,001	3.24	3.24
			Next 250,000
			Excess
			4.22

Sewer rates are based on current usage of water.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SUPPLEMENTARY INFORMATION (Continued)
December 31, 2021**

USAGE OF THE WATER AND WASTEWATER SYSTEM, CONT:

As of December 31, 2021, water service and wastewater service was provided to 960 and 638 users, respectively.

Total gallons of water consumed during the year ended December 31, 2021 amounted to approximately 1,089,585,000.

ACCOUNTING:

Reserve accounts are not being properly maintained.

INSURANCE COVERAGE:

	<u>Amount of Coverage</u>	<u>Policy Period</u>
Arkansas Municipal League Property	\$ 226,429	January 2, 2021 to January 1, 2022
Vehicle	\$ 481,740	January 1, 2021 to December 31, 2021
Workers Compensation	Statutory	January 1, 2021 to December 31, 2021
Nationwide Property & Casualty Ins Co Property	\$ 4,585,900	August 26, 2021 to August 26, 2022