

**CITY OF DECATUR
WATER AND WASTEWATER DEPARTMENT
Decatur, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022
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, 2023 and 2022**

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American Institute of CPAs

Arkansas Society of CPAs

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2023 and 2022, 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 Water and Wastewater Department of the City of Decatur, Arkansas as of December 31, 2023 and 2022 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in 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 Water and Wastewater Department of the City of Decatur, Arkansas 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 opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water & 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, 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.

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.

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 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 Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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.

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

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 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 the 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.

Supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 14, 2024 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 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.



BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
March 14, 2024

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2023 and 2022**

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 720,297	\$ 758,677
Accounts receivable	565,314	374,696
Inventory of supplies, at cost	80,303	192,798
Total Current Assets	<u>1,365,914</u>	<u>1,326,171</u>
NON-CURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	<u>10,564,344</u>	<u>8,547,263</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>28,553,956</u>	<u>29,053,842</u>
Other assets		
Capitalized interest, net of accumulated amortization	89,476	95,136
Operating Lease, right-of-use assets	<u>7,549</u>	<u>23,950</u>
Total Other Assets	<u>97,025</u>	<u>119,086</u>
TOTAL ASSETS	<u>\$ 40,581,239</u>	<u>\$ 39,046,362</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 593,200	\$ 572,100
Accounts payable	241,867	152,543
Accrued payroll taxes	20,299	16,019
Sales tax payable	4,763	2,819
Due to other funds	11,233	14,210
Current portion of operating lease liabilities	7,549	16,400
Total Current Liabilities	<u>878,911</u>	<u>774,091</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	65,105	61,435
Accrued interest payable	171,551	175,973
Total Current Liabilities Payable from Restricted Assets	<u>236,656</u>	<u>237,408</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current maturities	24,652,919	25,246,202
Operating lease liabilities, net of current maturities	-	7,550
Total Noncurrent Liabilities	<u>24,652,919</u>	<u>25,253,752</u>
TOTAL LIABILITIES	<u>25,768,486</u>	<u>26,265,251</u>
NET POSITION		
Net investment in capital assets	3,397,312	3,330,740
Unrestricted	9,642,060	7,639,684
Temporarily restricted	<u>1,773,381</u>	<u>1,810,687</u>
Total Net Position	<u>14,812,753</u>	<u>12,781,111</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 40,581,239</u>	<u>\$ 39,046,362</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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water revenue	\$ 584,227	\$ 634,200
Sewer revenue	5,022,750	4,546,868
Sanitation fees	88,978	86,879
Penalty charges	-	9,888
Connection fees	8,295	3,675
Other revenues	30,385	21,124
Total Operating Revenues	<u>5,734,635</u>	<u>5,302,634</u>
OPERATING EXPENSES		
Wages	656,898	609,264
Payroll taxes	49,819	45,879
Employee benefits	95,119	87,768
Purchased water	451,738	534,048
Utilities and telephone	713,521	536,760
Sanitation expense	88,128	71,603
Materials and supplies	179,448	198,514
Vehicle expense	12,183	17,791
Insurance expense	106,765	124,573
Chemical expense	550,507	521,744
Sludge removal	386,243	343,348
Repairs and maintenance	768,826	428,734
Legal and professional fees	68,776	57,874
Miscellaneous expense	12,011	34,733
Depreciation and amortization	1,001,673	996,254
Lease expense	17,497	24,304
Total Operating Expenses	<u>5,159,152</u>	<u>4,633,191</u>
OPERATING INCOME	<u>575,483</u>	<u>669,443</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	424,699	86,451
Interest expense	(1,082,237)	(972,452)
Other income	8,489	36,010
Grant income	2,000,000	-
Bond original issue discount	-	(390,192)
Bond issuance costs	-	(282,674)
Net Non-Operating Revenues (Expenses)	<u>1,350,951</u>	<u>(1,522,857)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,926,434	(853,414)
TRANSFERS IN	<u>105,208</u>	<u>-</u>
CHANGE IN NET POSITION	2,031,642	(853,414)
NET POSITION - BEGINNING OF YEAR	<u>12,781,111</u>	<u>13,634,525</u>
NET POSITION - ENDING OF YEAR	<u>\$ 14,812,753</u>	<u>\$ 12,781,111</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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 5,544,017	\$ 5,400,503
Cash payments to suppliers	(3,291,844)	(2,976,944)
Cash payments to employees	(656,898)	(609,264)
Net cash provided by operating activities:	1,595,275	1,814,295
Cash flows from investing activities:		
Interest received	424,699	86,451
Net cash provided by investing activities:	424,699	86,451
Cash flows from non-capital financing activities:		
Transfers in from other funds	105,208	-
Other income received, net of other expenses	8,489	36,010
Net cash provided by non-capital financing activities:	113,697	36,010
Cash flows from capital and related financing activities:		
Purchases of capital assets	(247,299)	(241,616)
Payments on construction in progress	(248,828)	(182,245)
Bond fees	-	(282,674)
Bond original issue discount	-	(390,192)
Proceeds from long-term debt	-	16,215,000
Proceeds from grants	2,000,000	-
Principal payments on long-term debt	(572,183)	(10,086,000)
Interest payments on long-term debt	(1,086,660)	(927,019)
Net cash provided (used) by capital and related financing activities:	(154,970)	4,105,254
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,978,701	6,042,010
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,305,940	3,263,930
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 11,284,641	\$ 9,305,940
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 575,483	\$ 669,443
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,001,673	996,254
(Increase) decrease in-		
Accounts receivable	(190,618)	97,869
Inventory	112,495	-
Prepaid expenses	-	23,858
Right of use asset	16,401	(23,950)
Increase (decrease) in-		
Accounts payable	89,325	25,023
Lease liability	(16,401)	23,950
Payroll taxes payable	4,280	(2,339)
Sales tax payable	1,944	492
Customer deposits	3,670	1,705
Due to general fund	(2,977)	1,990
Total adjustments	1,019,792	1,144,852
Net cash provided by operating activities:	\$ 1,595,275	\$ 1,814,295
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash capital and related financing activities:		
Increase in operating lease right-of-use asset	\$ -	23,950

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, 2023 and 2022**

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, 2023 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2023 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 2023 and 2022. 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, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 14, 2024, which is the date the financial statements were available to be issued.

Leases

The Department 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.

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 - CONCENTRATIONS:

The Department has two major customers, Simmons Prepared Foods and Centerton Water and Sewer. These customers comprised approximately 88% of the total wastewater revenues in 2023. For the year ended December 31, 2022, these customers comprised approximately 97% of the total wastewater revenues.

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 3 - LONG-TERM DEBT:

	<u>2023</u>	<u>2022</u>
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)	\$ 541,119	\$ 583,302
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)	1,140,000	1,230,000
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 2036. (3)	7,365,000	7,790,000
Revenue bond payable to Simmons Bank, due in varying monthly installments, including interest at a variable rate beginning Nov 2022 through May 2042. (4)	7,420,000	7,435,000
Revenue bond payable to Simmons Bank, due in varying monthly installments, including interest at a variable rate beginning Nov 2022 through May 2049. (4)	<u>8,780,000</u>	<u>8,780,000</u>
	25,246,119	25,818,302
Less Current Portion	<u>(593,200)</u>	<u>(572,100)</u>
Total Long-Term Portion	<u>\$ 24,652,919</u>	<u>\$ 25,246,202</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 \$750,275 while the bond is outstanding.

The annual maturities of long-term debt payable at December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 593,200	\$ 1,067,549	\$ 1,660,749
2025	609,300	1,052,536	1,661,836
2026	630,400	1,027,842	1,658,242
2027	651,600	1,010,548	1,662,148
2028	677,800	988,960	1,666,760
2029-2033	3,883,100	4,466,916	8,350,016
2034-2038	4,835,719	3,469,255	8,304,974
2039-2043	5,670,000	2,457,722	8,127,722
2044-2048	6,250,000	1,163,956	7,413,956
2049	<u>1,445,000</u>	<u>36,125</u>	<u>1,481,125</u>
	<u>\$ 25,246,119</u>	<u>\$ 16,741,409</u>	<u>\$ 41,987,528</u>

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 3 - LONG-TERM DEBT, continued:

Long-term liability activity for the years ended December 31, 2023 and 2022 is as follows:

	<u>Balance</u> <u>1/1/2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2023</u>	<u>Due Within</u> <u>One Year</u>
Long Term Debt					
Bonds Payable	\$ 25,818,302	\$ -	\$ (572,183)	\$ 25,246,119	\$ 593,200
	<u>Balance</u> <u>1/1/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2022</u>	<u>Due Within</u> <u>One Year</u>
Long Term Debt					
Bonds Payable	\$ 19,689,302	\$ 16,215,000	\$ (10,086,000)	\$ 25,818,302	\$ 572,100

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 2049, solely from the water and sewer customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$572,183 and \$1,086,660, respectively. Principal and interest paid in the year ended December 31, 2022 were \$10,086,000 and \$927,019, 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 5.25% 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, 2023 and 2022 were \$95,119 and \$87,768, respectively, 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*, 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, 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, 2023 and 2022**

NOTE 6 –CAPITAL ASSETS:

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

	Balance at December 31, 2022	Additions	Deletions/ Transfers	Balance at December 31, 2023
City complex	\$ 231,688	\$ -	\$ -	\$ 231,688
Land	41,835	-	-	41,835
Machinery & equipment	1,101,963	13,835	-	1,115,798
New sewer plant	1,293,797	128,256	-	1,422,053
Sewer extension costs	769,946	-	-	769,946
Sewer improvements	22,118,966	-	-	22,118,966
Shop building	53,014	-	-	53,014
Water improvements	13,745,637	105,208	-	13,850,845
Water wells	891,274	-	-	891,274
Construction in progress	182,245	248,828	-	431,073
	<u>40,430,365</u>	<u>496,127</u>	<u>-</u>	<u>40,926,492</u>
Accumulated depreciation	<u>(11,376,523)</u>	<u>(996,013)</u>	<u>-</u>	<u>(12,372,536)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 29,053,842</u>	<u>\$ (499,886)</u>	<u>\$ -</u>	<u>\$ 28,553,956</u>

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

	Balance at December 31, 2021	Additions	Deletions/ Transfers	Balance at December 31, 2022
City complex	\$ 231,688	\$ -	\$ -	\$ 231,688
Land	41,835	-	-	41,835
Machinery & equipment	1,075,878	26,085	-	1,101,963
New sewer plant	1,293,797	-	-	1,293,797
Sewer extension costs	769,946	-	-	769,946
Sewer improvements	21,983,231	135,735	-	22,118,966
Shop building	20,017	32,997	-	53,014
Water improvements	13,698,837	46,800	-	13,745,637
Water wells	891,274	-	-	891,274
Construction in progress	-	182,245	-	182,245
	<u>40,006,503</u>	<u>423,862</u>	<u>-</u>	<u>40,430,365</u>
Accumulated depreciation	<u>(10,385,929)</u>	<u>(990,594)</u>	<u>-</u>	<u>(11,376,523)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 29,620,574</u>	<u>\$ (566,732)</u>	<u>\$ -</u>	<u>\$ 29,053,842</u>

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 7 – COMMITMENTS:**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 \$56,285 for the year ended December 31, 2023.

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

2024	\$	56,860
2025		56,860
2026		56,860
2027		56,860
	<u>\$</u>	<u>227,440</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.

The Department started a construction project for wastewater treatment plant improvements during the year ended December 31, 2022. The Department has entered into a contract with a construction firm for the amount of \$523,925, and total costs of \$431,072 were incurred on this contract as of December 31, 2023.

The Department was awarded \$1,036,910 in grant funds from Arkansas Economic Development Commission in April 2023. As of December 31, 2023, none of the grant funds had been received by the Department.

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 3).

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

	<u>2023</u>	<u>2022</u>
Debt Service Reserves	\$ 1,772,911	\$ 1,810,217
Bond Fund	545,750	570,006
Customer Meter Deposits	98,851	94,433
ARPA Funds	2,048,592	-
Construction Funds	6,098,240	6,072,607
	<u>\$ 10,564,344</u>	<u>\$ 8,547,263</u>

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 9 – LEASES

The Department leases various equipment using operating lease agreements. The terms of the leases are three to five years, and they do not include the option to purchase the equipment at the end of the lease term. Where the implicit interest rate of the lessor was unknown, the Company elected to use their incremental borrowing rate of 3.90%. 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>7,549</u>
Current portion of operating lease liabilities	\$	7,549
Operating lease liabilities, less current portion		<u>-</u>
Total operating lease liabilities	\$	<u>7,549</u>

The components of operating lease expense that are included in the statement of revenues, expenses, and changes in net position for the year ended December 31, 2023 are as follows:

Operating expenses		
Lease payments	\$	17,497

The maturities of operating lease liabilities are as follows:

	2024	\$ <u>9,154</u>
	Total lease payments	9,154
	Less: interest	<u>(1,605)</u>
	Present value of lease liability	<u>\$ 7,549</u>



American Institute of CPAs

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Texas Society of CPAs

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**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, 2023, 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 14, 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 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 2022-001 and 2022-002 that we consider to be significant deficiencies.

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 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 2022-003.

To the City Council
City of Decatur, Arkansas

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 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.



Berry & Associates, P.A.
Little Rock, Arkansas
March 14, 2024

**CITY OF DECATUR, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF FINDINGS AND REPOSSES
December 31, 2023**

2023-001 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 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 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.

2023-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2023 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 2022.

Cause: The Department 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, 2023**

2023-003 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 2022.

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, 2023**

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
David Johnson	Aldermen
Danny Harrington	Aldermen
Linda Martin	Aldermen
Mike Price	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	\$ 10.79
Next	9,000	\$ 5.05
Next	40,000	\$ 4.76
Next	250,000	\$ 4.59
Excess	300,001	\$ 4.53

	<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
Next	9,000	\$ 3.64
Next	40,000	\$ 3.34
Excess	50,001	\$ 3.24
	Next 250,000	\$ 3.24
	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, 2022**

USAGE OF THE WATER AND WASTEWATER SYSTEM, CONT:

As of December 31, 2023, water service and wastewater service were provided to 945 and 643 users, respectively.

Total gallons of water consumed during the year ended December 31, 2023 amounted to approximately 1,206,294.

ACCOUNTING:

Reserve accounts are not being properly maintained.

INSURANCE COVERAGE:

	<u>Amount of Coverage</u>	<u>Policy Period</u>
Arkansas Municipal League Property	\$ 233,222	January 2, 2023 to January 1, 2024
Vehicle	\$ 481,740	January 1, 2023 to December 31, 2023
Workers Compensation	Statutory	January 1, 2023 to December 31, 2023
Nationwide Property & Casualty Ins Co Property	\$ 5,973,000	August 26, 2023 to August 26, 2024