

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020



CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT
DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Water and Sewer Department of the City of Elkins, Arkansas, as of and for the years ended December 31, 2021 and 2020, 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 Sewer Department of the City of Elkins, Arkansas, as of December 31, 2021 and 2020, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted on the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Elkins, Arkansas Water and Sewer Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer Department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Elkins, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkins, Arkansas Water and Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Elkins, Arkansas Water and Sewer Department's financial statements. The schedule of bonds outstanding is prepared for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the schedule of bonds outstanding is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2023, on our consideration of the City of Elkins, Arkansas Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elkins, Arkansas Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elkins, Arkansas Water and Sewer Department's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
January 4, 2023

FINANCIAL STATEMENTS

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 381,058	\$ 81,285
Restricted checking accounts	652,182	593,784
Certificates of deposit	48,798	49,045
Restricted certificates of deposit	7,610	7,635
Restricted investments	77,355	250,157
Accounts receivable	117,468	125,745
Other receivables	-	47,016
Inventory	22,981	21,364
Prepaid insurance	4,369	3,143
Total Current Assets	1,311,821	1,179,174
Net Capital Assets	4,703,119	4,895,033
Total Assets	\$ 6,014,940	\$ 6,074,207
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 52,734	\$ 55,267
Sales tax payable	7,441	6,473
Accrued wages and compensated absences	9,183	9,229
Accrued interest	3,153	3,450
Meter deposits payable	194,615	186,954
Current maturity of long-term debt	65,537	104,851
Total Current Liabilities	332,663	366,224
Long-Term Debt, Net of Unamortized Bond Discounts	446,652	466,612
Total Liabilities	779,315	832,836
Net Position		
Net investment in capital assets	4,190,930	4,323,570
Restricted	357,876	499,351
Unrestricted	686,819	418,450
Total Net Position	5,235,625	5,241,371
Total Liabilities and Net Position	\$ 6,014,940	\$ 6,074,207

See accompanying notes to financial statements.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2021	2020
Operating Revenue		
Water revenues, less bad debts	\$ 532,275	\$ 505,422
Sewer revenues	463,965	486,291
Sanitation income, net of related expenses	4,964	1,502
Tap income	15,300	60,000
Other income	46,462	48,392
Total Operating Revenue	1,062,966	1,101,607
Operating Expenses		
Water purchases	228,454	221,765
Sewage service	441,473	446,810
Wages	182,618	184,782
Employee benefits	28,706	28,958
Insurance	5,326	6,771
Professional fees	8,480	11,996
Repairs and maintenance	21,909	7,233
Utilities	16,789	16,739
Memberships and dues	14,897	8,148
Operating supplies	74,701	80,828
Travel	6,586	4,095
Office expense	11,265	10,474
Trustee fees	915	4,715
Payroll taxes	14,130	14,199
Other operating expense	11,840	15,884
Depreciation	191,914	191,983
Total Operating Expenses	1,260,003	1,255,380
Net Loss From Operations	(197,037)	(153,773)
Other Income (Expenses)		
Interest income	719	4,342
Interest expense	(31,683)	(46,462)
Loss on bond extinguishment	-	(13,190)
Total Net Other Income (Expenses)	(30,964)	(55,310)
Net Income Before Transfers	(228,001)	(209,083)
Operating Transfers	222,255	528,747
Change in Net Position	(5,746)	319,664
Net Position, Beginning of Year	5,241,371	4,921,707
Net Position, End of Year	\$ 5,235,625	\$ 5,241,371

See accompanying notes to financial statements.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2021	2020
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 1,079,872	\$ 1,101,295
Cash payments to suppliers for goods and services	(890,847)	(939,654)
Cash payments to employees for services	(182,664)	(183,508)
Net Cash Provided (Used) By Operating Activities	6,361	(21,867)
Cash Flows From Non-Capital and Related Financing Activities		
Net transfer activity	269,271	524,212
Net Cash Provided By Non-Capital and Related Financing Activities	269,271	524,212
Cash Flows From Capital and Related Financing Activities		
Acquisition of property, plant and equipment	-	(152,941)
Principal paid on debt	(59,851)	(894,196)
Interest paid on debt	(31,403)	(54,876)
Net Cash Used By Capital and Related Financing Activities	(91,254)	(1,102,013)
Cash Flows From Investing Activities		
Net certificates of deposit activity	272	(851)
Net activity of restricted investment accounts	172,802	336,188
Interest income	719	4,342
Net Cash Provided By Investing Activities	173,793	339,679
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	358,171	(259,989)
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	675,069	935,058
Cash, Cash Equivalents, and Restricted Cash At End of year	\$ 1,033,240	\$ 675,069
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 381,058	\$ 81,285
Restricted checking accounts	652,182	593,784
Total Cash, Cash Equivalents and Restricted Cash	\$ 1,033,240	\$ 675,069

See accompanying notes to financial statements.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2021	2020
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net loss from operations	\$ (197,037)	\$ (153,773)
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	191,914	191,983
(Increase) decrease in:		
Accounts receivable	8,277	(16,208)
Inventory	(1,617)	(925)
Prepaid insurance	(1,226)	1,683
Increase (decrease) in:		
Accounts payable	(2,533)	(61,797)
Accrued wages and compensated absences	(46)	1,274
Sales tax payable	968	513
Customer meter deposits	7,661	15,383
Net Cash Provided (Used) By Operating Activities	\$ 6,361	\$ (21,867)

See accompanying notes to financial statements.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Nature of Operations

The purpose of the Elkins Water and Sewer Department (the Department) is to provide and maintain a water and sewer system for the residents in and around Elkins, Arkansas. The Mayor and the City Council governs the Water and Sewer Department.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

The Department accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

Financial Reporting

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

Income Tax Status

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

Cash and Cash Equivalents

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

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consists of water, sewer and sanitation fees and surcharges billed to residential and commercial/industrial customers. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for doubtful accounts is estimated based on professional judgement and historical information and was \$10,144 and \$9,889 at December 31, 2021 and 2020, respectively.

Inventories

Inventory consists of supplies and repair parts for the operation and maintenance of plant and equipment. The amount recorded in these financial statements is valued at cost, which approximates market, using the first-in, first-out method. The cost of inventory is recognized as an expense when used (consumption method).

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expense in the year which services are consumed.

Capital Outlays And Depreciation

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Water plant, tower and lines	7-50
Sewer system improvements	5-50
Equipment	3-7

It is the Department's policy to capitalize asset purchases greater than \$2,000 and expense asset purchases less than \$2,000.

Compensated Absences

Employees earn vacation and sick pay in varying amounts based upon length of service with the Department. No more than five vacation days may be carried over past January 1 of each new year. Employees can carryforward a maximum of ninety unused sick days for the succeeding calendar year. Upon termination from the Department, employees are paid their accumulated unused vacation.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

Only employees who retire from the Department are paid accrued unused sick days.

The Department recognizes its obligation relating to employees' rights to receive compensation for future absences attributable to employees' service already rendered. These rights are accumulated and paid up to a maximum of sixteen hours.

The Department had \$2,508 and \$1,089 accrued for compensated absences at December 31, 2021 and 2020, respectively.

Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. These deposits are refundable to customers when the Department no longer serves the customer. The Department uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

Unamortized Bond Discount

Bond discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of bond discounts. Bond issuance costs are reported as an expense of the current period. Amortization of the bond discount is included with interest expense on the Statement of Revenues, Expenses and Changes in Net Position.

Net Position

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

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

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

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

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

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

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. The principal operating revenues of the Department consist of water sales and fees for sewer, sanitation and miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New Accounting Pronouncements

The Department implemented the following accounting pronouncements during the year:

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements using the economic resources measurement focus. Implementation of this standard did not have any effect on the Department.

Reclassifications

Certain 2020 amounts have been reclassified in order to conform with the 2021 financial statement presentation. Net position and changes in net position are unchanged due to these reclassifications.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

2. Deposits and Investments

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be recovered. At December 31, 2021 and 2020, the Department had no deposits that were uninsured. The bank balances and carrying amount of the Department's deposits held were as follows:

Description	At December 31, 2021		At December 31, 2020	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Collateralized - held by pledging bank or pledging bank's trust department in the Department's name	618,445	533,240	256,307	175,069
Total	\$ 1,118,445	\$ 1,033,240	\$ 756,307	\$ 675,069

Deposits as reported in the following statement of net position captions:

As Of December 31,	2021	2020
Cash and cash equivalents	\$ 381,058	\$ 81,285
Restricted checking accounts	652,182	593,784
Total	\$ 1,033,240	\$ 675,069

Investments

Investments consist of certificates of deposit and accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due. The investments are stated at fair market value, which approximates cost. The Department's investments consist of the following:

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

2. Deposits and Investments (continued)

Investments (continued)

As of December 31, 2021	Market Value	Maturity	Credit Rating
<u>Bond Fund</u>			
Government Money Market Fund	\$ 6,275	< 1 year	AAAm/Aaa-mf
<u>Debt Service Reserve Fund</u>			
Government Money Market Fund	71,080	< 1 year	AAAm/Aaa-mf
Certificates of deposit	13,497	< 1 year	n/a
Certificates of deposit	42,911	< 2 years	n/a
Total	\$ 133,763		

As of December 31, 2020	Market Value	Maturity	Credit Rating
<u>Bond Funds</u>			
Government Money Market Fund	\$ 179,077	< 1 year	AAAm/Aaa-mf
<u>Debt Service Reserve Fund</u>			
Government Money Market Fund	71,080	< 1 year	AAAm/Aaa-mf
Certificates of deposit	56,680	< 1 year	n/a
Total	\$ 306,837		

Investments as reported in the following statement of net position captions:

As Of December 31,	2021	2020
Certificates of deposit	\$ 48,798	\$ 49,045
Restricted certificates of deposit	7,610	7,635
Restricted investments	77,355	250,157
Total	\$ 133,763	\$ 306,837

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. All of the Department's investments are covered by FDIC limits or invested in U.S. Treasury securities

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

2. Deposits and Investments (continued)

Investments (continued)

Custodial Credit Risk

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

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

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

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

Level 3 - Unobservable inputs

The following table represents the Department's investments that are measured at fair value on a recurring basis at December 31, 2021:

		Level 1		Level 2		Level 3		Total
Government Money Market Fund	\$	77,355	\$	-	\$	-	\$	77,355
Certificates of deposit		56,408		-		-		56,408
Total	\$	133,763	\$	-	\$	-	\$	133,763

3. Restricted Funds And Required Accounts

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

As Of December 31,		2021		2020
Restricted checking accounts are comprised of the following:				
Soil and water reserve	\$	142,327	\$	125,549
Depreciation fund		261,227		235,951
Water Tower #3 reserve		40,926		38,737
Local water impact fee trust fund		15,046		14,666
Local wastewater impact fee trust fund		7,401		2,026
Meter deposit checking		185,255		176,855
Total	\$	652,182	\$	593,784

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

3. Restricted Funds And Required Accounts (continued)

Restricted certificates of deposit are comprised of the following:

Meter deposits	\$	7,639	\$	7,635
Total	\$	7,639	\$	7,635

Restricted investments are comprised of the following:

2008 Series revenue bond fund	\$	6,275	\$	6,423
2008 Series revenue bonds debt service reserve		71,080		71,080
2012 Series revenue bond fund		-		171,363
2012 Sales and use tax bond fund		-		1,291
Total	\$	77,355	\$	250,157

4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2021	Additions	Retirements	December 31, 2021
Land	\$ 3,867	\$ -	\$ -	\$ 3,867
Plant and lines	2,508,861	-	-	2,508,861
Water plant	271,329	-	-	271,329
Water tower #3	244,123	-	-	244,123
Water tower and lines	273,142	-	-	273,142
Sewer system improvements	1,350,116	-	-	1,350,116
Equipment	332,697	-	-	332,697
Phase II water line	2,449,328	-	-	2,449,328
Construction in progress	172,247	-	-	172,247
Total Capital Assets	7,605,710	-	-	7,605,710
Less: Depreciation	(2,710,677)	(191,914)	-	(2,902,591)
Capital Assets, Net	\$ 4,895,033	\$ (191,914)	\$ -	\$ 4,703,119

Construction in progress of \$172,247 at December 31, 2021 and 2020, consists primarily of engineering fees for the sewer rehabilitation project. The project involves building a new pump station and increasing the line sizes throughout the system. The project is estimated to cost approximately \$18.5 million and will primarily be financed with the City's Sales and Use Tax Bonds Series 2021A and 2021B in the amounts of \$5,670,000 and \$8,020,000 respectively, that were issued on July 14, 2021. Construction of the project started in 2022 and estimated completion is late 2023 or early 2024.

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

4. Capital Assets (continued)

As Of	January 1, 2020	Additions	Retirements	December 31, 2020
Land	\$ 3,867	\$ -	\$ -	\$ 3,867
Plant and lines	2,508,861	-	-	2,508,861
Water plant	271,329	-	-	271,329
Water tower #3	244,123	-	-	244,123
Water tower and lines	273,142	-	-	273,142
Sewer system improvements	1,314,702	35,414	-	1,350,116
Equipment	293,140	39,557	-	332,697
Phase II water line	2,449,328	-	-	2,449,328
Construction in progress	94,277	77,970	-	172,247
Total Capital Assets	7,452,769	152,941	-	7,605,710
Less: Depreciation	(2,518,695)	(191,982)	-	(2,710,677)
Total	\$ 4,934,074	\$ (39,041)	\$ -	\$ 4,895,033

5. Long-Term Debt

Long-term debt of the Department consists of:

As Of December 31,	2021	2020
City of Elkins, Arkansas Water and Sewer Revenue Construction Bonds - Series 2008. Issued in the aggregate amount of \$855,000 in December 2008 at interest rates ranging from 3.70% to 5.40%, due annually, on December 1. Interest is payable semi-annually with principal maturity paid from December 2009 through December 2028. The bonds are secured by revenues of the Department.	\$ 395,000	\$ 440,000
Arkansas Natural Resources Commission, issued June 12, 2003. Interest is deferred until June 1, 2013 at which time it starts accruing at 5.00%. Annual payments of \$4,132 will begin June 1, 2014 and carry on until maturity in 2033. The note is secured by properties and equipment.	36,632	38,823
Arkansas Natural Resources Commission, payments are made semi-annually in the amount of \$8,447 and include interest of 4.50%. The note is secured by property and equipment and is scheduled to mature in 2027.	84,549	97,209
Total	516,181	576,032
Less current maturities	65,537	104,851
Long-term debt	450,644	471,181
Less unamortized bond discounts	3,992	4,569
Long-Term Debt	\$ 446,652	\$ 466,612

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

5. Long-Term Debt (continued)

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

Debt is scheduled to mature as follows:

December 31,	Principal	Interest	Total
2022	\$ 65,537	\$ 26,519	\$ 92,056
2023	66,254	23,252	89,506
2024	72,005	19,951	91,956
2025	72,790	16,196	88,986
2026	78,612	12,404	91,016
2027-2031	156,285	15,056	171,341
2032-2033	4,698	582	5,280
Total	\$ 516,181	\$ 113,960	\$ 630,141

6. Activity of Long-Term Liabilities

The activity of long-term liabilities is summarized below:

As Of	January 1, 2021	Additions	Retirements	December 31, 2021	Due Within One Year
General Obligation					
Bonds	\$ 440,000	\$ -	\$ 45,000	\$ 395,000	\$ 50,000
ANRC	136,032	-	14,851	121,181	15,537
Total	\$ 576,032	\$ -	\$ 59,851	\$ 516,181	\$ 65,537

As Of	January 1, 2020	Additions	Retirements	December 31, 2020	Due Within One Year
General Obligation					
Bonds	\$ 1,320,000	\$ -	\$ 880,000	\$ 440,000	\$ 45,000
ANRC	150,228	-	14,196	136,032	14,851
Total	\$ 1,470,228	\$ -	\$ 894,196	\$ 576,032	\$ 59,851

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

7. Rate Covenant

The Trust Indentures of the Arkansas Water and Sewer Revenue Construction Bonds - Series 2008 require the Department to maintain their water rates at an amount sufficient to pay all operation, repair and maintenance expenses and leave a balance equal to 115% of the debt service requirements for that fiscal year of all outstanding Bonds and Parity obligations, maintain specific restricted cash accounts and to meet various other general requirements. The Department was in compliance with all such other significant financial covenants and restrictions for the year ending December 31, 2021.

8. Deferred Compensation Plan

The Department offers employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The Plan permits employees to defer a portion of their salary until future years. Participation is optional and available to all employees after 90 days of employment. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. The Department has no liability for losses under the plan.

Investments are managed by the plan's administrator under several different investment options, or combinations thereof. The choice of the investment option(s) is made by the participants. The Department has no management control over the assets of the plan. Thus the assets of the plan and the offsetting liability to employees are not recorded in the Department's financial statements.

On behalf of each participant, the employer will contribute to the Plan 5% of each participant's compensation. The Department contributed \$9,099 and \$9,147 to the Plan during the years ended December 31, 2021 and 2020, respectively.

9. Interfund Transfers

The Department received transfers totaling \$222,255 from the City during the year ended December 31, 2021 to pay certain debt and other operating expenses.

10. Concentrations of Credit Risks

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

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

11. Risk Management

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department carries property and liability insurance as well as workers' compensation insurance through Arkansas Municipal League and Risk Reducers.

There has been no significant reduction in the Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

12. Subsequent Events

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2021 through January 4, 2023 the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

SCHEDULE OF BONDS OUTSTANDING

AS OF DECEMBER 31, 2021

City of Elkins, Arkansas Water and Sewer Revenue Construction Bonds - Series 2008

Year	Principal	Interest Rate	Interest June 1,	Interest December 1,	Total
2022	\$ 50,000	\$ 5.10	\$ 10,515	\$ 10,515	\$ 71,030
2023	50,000	5.10	9,240	9,240	68,480
2024	55,000	5.40	7,965	7,965	70,930
2025	55,000	5.40	6,480	6,480	67,960
2026	60,000	5.40	4,995	4,995	69,990
2027	60,000	5.40	3,375	3,375	66,750
2028	65,000	5.40	1,755	1,755	68,510
	\$ 395,000		\$ 44,325	\$ 44,325	\$ 483,650

See independent auditor's report.

ADDITIONAL REQUIRED REPORT



Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based on An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Elkins, Arkansas Water and Sewer Department, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Elkins, Arkansas Water and Sewer Department's financial statements, and have issued our report thereon dated January 4, 2023, which was modified to reflect the omission of the management's discussion and analysis.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elkins, Arkansas Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkins, Arkansas Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elkins, Arkansas Water and Sewer Department's internal control.

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

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkins, Arkansas Water and Sewer Department's financial statement are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Elkins, Arkansas Water and Sewer Department's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Elkins, Arkansas, Water and Sewer Department's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Elkins, Arkansas Water and Sewer Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



Przybysz & Associates, CPAs, P.C.
Fayetteville, Arkansas
January 4, 2023

CITY OF ELKINS, ARKANSAS WATER AND SEWER DEPARTMENT

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2021

Findings - Financial Statement Audit

Material Weaknesses

2021-001 Segregation of Duties

Condition:

Office manager records activity in the accounting system and collects cash from customers that pay their bills at the office.

Criteria:

Authorization of transactions, custody of assets, and record keeping should be duties that are assigned to different individuals.

Cause and Effect:

The Department does not have the resources, nor the volume to hire another individual to segregate the duties. This can lead to material misstatements caused by error or fraud.

Recommendation:

Management should develop, implement, and maintain a system of internal controls and procedures to mitigate the risk of material misstatement caused by the lack of resources and personnel. These controls should include written policies and procedures implemented on the accrual basis of accounting according to GAAP (Generally Accepted Accounting Principles).

Responsible Official's Comments and Plan of Action

The City Council has reviewed the internal controls and are modifying them as necessary to prevent misstatements. Management knows that monitoring procedures will be key to preventing and detecting misstatements in a timely manner. Management is in the process of updating and improving processes.

2020-002 Recording Transactions on a Cash Basis.

Condition:

Generally Accepted Accounting Principles (GAAP) require books and records to be maintained on an accrual basis in order to properly reflect revenues and expenses in the appropriate periods. The Water & Sewer Department keeps its records on a cash basis requiring that they be adjusted at the end of each year.

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002 Recording Transactions on a Cash Basis. (Continued)

Criteria:

Revenue from the RVS billing software is not recorded and reconciled in Centerpoint on a monthly basis. The only records that are recorded is that when the customers cash is collected. Receipts are offered, but not given to every customer.

Cause and Effect:

Failure to keep financial records on an accrual basis prevents an accurate picture of the financial situation of the Water and Sewer Department throughout the year. Without an account to control the collections, material misstatements are at high risk.

Recommendation:

We recommend that the accrual basis on accounting be used monthly and that the RVS billing software be reconciled to the books at the end of each month.

Responsible Official's Comments and Plan of Action

The City Council will review the internal controls and modify them as necessary to the extent possible. The Council knows that monitoring procedures will be key to preventing, detecting, and correcting material misstatements in a timely manner, and will review these procedures for modification. Governance and management have plans in motion to implement controls in their IT system to record on the accrual basis.

Findings - Compliance

No findings.