



**City of Waldron, Arkansas  
Water and Sewer Department**

**Financial Statements  
December 31, 2023 and 2022**

**(With Independent Auditor's Report Thereon)**

**City of Waldron, Arkansas  
Water and Sewer Department**

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## INDEPENDENT AUDITOR'S REPORT

The Mayor and the Honorable Members of the City Council  
City of Waldron, Arkansas

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the modified cash basis financial position of the Department as of December 31, 2023 and 2022, and the changes in modified cash basis financial position and cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) 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 Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter – Basis of Accounting*

We draw attention to Note 2, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *Emphasis of Matter – Other*

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Waldron, Arkansas as of December 31, 2023 and 2022, the changes in its financial position or its cash flows for the years then ended in accordance with the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

The Mayor and the Honorable Members of the City Council  
City of Waldron, Arkansas

## **Report on the Audit of the Financial Statements (Continued)**

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 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 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 U.S. GAAS 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 U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 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 audits.

The Mayor and the Honorable Members of the City Council  
City of Waldron, Arkansas

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2024, on our consideration of the 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 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 Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas  
June 4, 2024

# City of Waldron, Arkansas

## Water and Sewer Department

### Statements of Net Position – Modified Cash Basis December 31, 2023 and 2022

	2023	2022
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 62,178	\$ 120,795
<b>Restricted Assets</b>		
Cash and cash equivalents	2,226,241	1,904,773
<b>Capital Assets, Net</b>	11,507,869	11,524,875
<b>Total Assets</b>	13,796,288	13,550,443
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Losses on Refundings of Bonds Payable	10,296	11,005
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 13,806,584	\$ 13,561,448
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities Payable from Current Assets</b>		
Customer deposits	\$ 121,850	\$ 116,611
Due to State of Arkansas	7,269	8,716
<b>Current Liabilities Payable from Restricted Assets</b>		
Current portion of long-term debt	157,611	157,163
<b>Total Current Liabilities</b>	286,730	282,490
<b>Long-Term Debt, Net of Current Portion</b>	4,483,749	4,642,556
<b>Total Liabilities</b>	4,770,479	4,925,046
<b>Net Position</b>		
Net investment in capital assets	7,788,955	7,608,801
Restricted for:		
Debt service	1,043,457	834,179
Acquisitions, repairs and maintenance of capital assets	270,634	197,954
Unrestricted	(66,941)	(4,532)
<b>Total Net Position</b>	9,036,105	8,636,402
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 13,806,584	\$ 13,561,448

See accompanying notes to financial statements.

# City of Waldron, Arkansas

## Water and Sewer Department

### Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,953,121	\$ 1,951,007
Sewer services	396,324	375,168
<b>Total Operating Revenues</b>	<b>2,349,445</b>	<b>2,326,175</b>
<b>OPERATING EXPENDITURES</b>		
Salaries and wages	594,191	580,664
Fringe benefits	248,153	245,722
Depreciation	501,135	503,166
Utilities	273,446	260,881
Repairs and maintenance	66,499	95,181
Professional services	147,098	92,307
Operating supplies	390,824	443,168
Insurance	15,254	13,087
Vehicle operations	24,633	27,420
Office supplies	13,697	4,707
Miscellaneous	13,873	15,041
Dues and subscriptions	27,001	28,516
Uniforms	5,744	4,904
Travel and education	6,688	5,447
<b>Total Operating Expenditures</b>	<b>2,328,236</b>	<b>2,320,211</b>
<b>Operating Income</b>	<b>21,209</b>	<b>5,964</b>
<b>NONOPERATING REVENUES (EXPENDITURES)</b>		
Interest income	59,846	13,632
Interest expenditures	(135,018)	(139,963)
<b>Net Nonoperating Expenditures</b>	<b>(75,172)</b>	<b>(126,331)</b>
<b>Loss Before Capital Contributions and Operating Transfers</b>	<b>(53,963)</b>	<b>(120,367)</b>
<b>CAPITAL CONTRIBUTIONS</b>		
State awards grant	57,150	14,100
<b>Income (Loss) Before Operating Transfers</b>	<b>3,187</b>	<b>(106,267)</b>
<b>OPERATING TRANSFERS FROM CITY OF WALDRON, NET</b>	<b>396,516</b>	<b>49,876</b>
<b>Increase (Decrease) in Net Position</b>	<b>399,703</b>	<b>(56,391)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>8,636,402</b>	<b>8,692,793</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 9,036,105</b>	<b>\$ 8,636,402</b>

See accompanying notes to financial statements.

# City of Waldron, Arkansas

## Water and Sewer Department

### Statements of Cash Flows – Modified Cash Basis Years Ended December 31, 2023 and 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts from</b>		
Water sales	\$ 1,958,360	\$ 1,956,445
Sewer services	396,324	375,168
<b>Total Operating Receipts</b>	2,354,684	2,331,613
<b>Disbursements for</b>		
Salaries, wages and fringe benefits	842,344	826,386
Goods and services	986,108	991,906
<b>Total Operating Disbursements</b>	1,828,452	1,818,292
<b>Net Cash Provided by Operating Activities</b>	526,232	513,321
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating transfers from the City of Waldron, net	396,516	49,876
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long-term debt	(157,186)	(151,753)
Purchases of capital assets	(484,225)	(278,909)
Receipts from state awards grant	57,150	14,100
Interest paid	(135,482)	(140,190)
<b>Net Cash Used by Capital and Related Financing Activities</b>	(719,743)	(556,752)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts from interest income	59,846	13,632
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	262,851	20,077
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,025,568	2,005,491
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 2,288,419	\$ 2,025,568

*(Continued)*

See accompanying notes to financial statements.

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**Statements of Cash Flows – Modified Cash Basis (Continued)**  
**Years Ended December 31, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 21,209	\$ 5,964
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	501,135	503,166
Loss on disposal of capital assets	96	4
Net decrease in due from City of Waldron	-	1,140
Net increase in customer deposits	5,239	4,298
Net decrease in due to State of Arkansas	(1,447)	(1,251)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 526,232</b>	<b>\$ 513,321</b>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION - MODIFIED CASH BASIS</b>		
Current Assets - Cash and Cash Equivalents	\$ 62,178	\$ 120,795
Restricted Assets - Cash and Cash Equivalents	2,226,241	1,904,773
<b>Total Cash and Cash Equivalents</b>	<b>\$ 2,288,419</b>	<b>\$ 2,025,568</b>

See accompanying notes to financial statements.

# City of Waldron, Arkansas

## Water and Sewer Department

### Notes to Financial Statements December 31, 2023 and 2022

#### **NOTE 1: REPORTING ENTITY**

The City of Waldron, Arkansas Water and Sewer Department (the Department) provides water sales and sewer treatment services, on an unsecured credit basis, to the citizens of the City of Waldron, Arkansas (the City), and to commercial and industrial customers located within the Department's service area. The City Council serves as the governing board of the Department and approves rates and fees for user charges.

These financial statements present only balances and transactions that are directly attributable to the Department, and are not intended to present, and do not present, the financial position and changes therein of the City or its other proprietary funds.

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Measurement Focus and Basis of Accounting**

Although the Department is not included in the regulatory financial statements of the City, the Department is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the Department.

The Department's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the Department generally recognizes assets, deferred outflows of resources, deferred inflows of resources and liabilities, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect deferred outflows of resources, deferred inflows of resources and liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are improvements funded by City funds, depreciation of the Department's capital assets over the estimated useful lives of the assets and amortization of the Department's deferred losses on refunding over the shorter of the life of the refunded or refunding debt.

# City of Waldron, Arkansas

## Water and Sewer Department

Notes to Financial Statements  
December 31, 2023 and 2022

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Basis of Presentation**

The presentation of the Department's financial statements follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the distribution of water and treatment of wastewater are distinguished from nonoperating revenues and expenditures for purposes of presentation in the Department's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenditures include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities, including those fees and charges levied for the purpose of capital improvements.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Department's policy to first apply that expenditure to restricted net position to the extent available and then to unrestricted net position.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposit accounts and money market mutual funds.

#### **Capital Assets**

The Department's capital assets are reported at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to fifty years.

The Department capitalizes all significant direct costs, including salaries, materials and supplies, related to construction and improvements completed by Department personnel, while costs of repairs and maintenance that do not add significant value or extend the useful life of the related asset are expensed as incurred.

#### **Deferred Outflows of Resources**

In addition to assets, the statements of net position – modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The only items that qualify for reporting in this category on the Department's financial statements are the deferred losses on the refunding of bonds payable. Deferred losses on refunding results from the

# City of Waldron, Arkansas

## Water and Sewer Department

**Notes to Financial Statements**  
**December 31, 2023 and 2022**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows of Resources (Continued)**

differences in the carrying value of refunded debt and the related reacquisition price. These deferred charges are amortized using the straight-line method over the shorter of the life of the refunded or refunding debt.

**Long-Term Debt**

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

**Tax Status**

The City, and thus the Department, is exempt from income taxes under Section 115 of the Internal Revenue Code.

**Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3: CASH AND CASH EQUIVALENTS**

State of Arkansas (the State) statutes require the City, and thus the Department, to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the Department. To mitigate this risk, it is generally the Department’s policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the City’s name by an agent of the City. At December 31, 2023, there were balances held in demand deposit accounts in excess of FDIC limits that were not secured by collateral held in the City’s name by the City’s agent. At December 31, 2022, all balances held in demand deposit accounts in excess of FDIC limits were secured by collateral held in the City’s name by the City’s agent.

The money market mutual fund held by the Department is a U.S. Treasury obligation fund and has a Standard & Poor’s and Moody’s rating of AAAm and Aaa-mf, respectively, at December 31, 2023.

Restricted cash and cash equivalents are as follows as of December 31:

	<b>2023</b>	<b>2022</b>
Bond funds	\$ 156,878	\$ 132,448
Debt service reserves	886,579	701,731
Depreciation fund	270,634	197,954
Water and wastewater improvements	912,150	872,640
Restricted cash and cash equivalents	<b>\$ 2,226,241</b>	<b>\$ 1,904,773</b>

# City of Waldron, Arkansas

## Water and Sewer Department

### Notes to Financial Statements December 31, 2023 and 2022

**NOTE 3: CASH AND CASH EQUIVALENTS (Continued)**

The long-term debt agreements require the establishment and maintenance of certain reserve accounts (see Note 5). Debt covenants require monthly deposits into a bond fund account for the next installment of debt service and monthly deposits into a depreciation fund account restricted for acquisitions, repairs and maintenance of capital assets.

**NOTE 4: CAPITAL ASSETS**

The following is a summary of the major components of the Department’s capital assets and related activities resulting from modified cash basis transactions for the year ended December 31:

	<b>2023</b>				<b>Balance End of Year</b>
	<b>Estimated Useful Life</b>	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	1,265,373	361,311	-	1,626,684
Depreciable:					
Water treatment plants	50 years	8,120,864	45,236	(1,814)	8,164,286
Wastewater treatment plant	50 years	4,778,077	39,916	(6,233)	4,811,760
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	467,500	37,762	(23,842)	481,420
		<u>23,697,497</u>	<u>484,225</u>	<u>(31,889)</u>	<u>24,149,833</u>
Accumulated depreciation		<u>(12,172,622)</u>	<u>(501,135)</u>	<u>31,793</u>	<u>(12,641,964)</u>
Capital assets, net		<u>\$ 11,524,875</u>	<u>\$ (16,910)</u>	<u>\$ (96)</u>	<u>\$ 11,507,869</u>

**City of Waldron, Arkansas**  
**Water and Sewer Department**

**Notes to Financial Statements**  
**December 31, 2023 and 2022**

**NOTE 4: CAPITAL ASSETS (Continued)**

	Estimated Useful Life	2022			Balance End of Year
		Balance Beginning of Year	Increases	Decreases	
Non-depreciable:					
Land and improvements	-	\$ 532,924	\$ -	\$ -	\$ 532,924
Construction in progress	-	1,065,452	199,921	-	1,265,373
Depreciable:					
Water treatment plants	50 years	8,070,370	51,197	(703)	8,120,864
Wastewater treatment plant	50 years	4,756,824	21,253	-	4,778,077
Water and sewer lines	50 years	8,532,759	-	-	8,532,759
Equipment	3-7 years	463,386	6,538	(2,424)	467,500
		<u>23,421,715</u>	<u>278,909</u>	<u>(3,127)</u>	<u>23,697,497</u>
Accumulated depreciation		<u>(11,672,579)</u>	<u>(503,166)</u>	<u>3,123</u>	<u>(12,172,622)</u>
Capital assets, net		<u>\$ 11,749,136</u>	<u>\$ (224,257)</u>	<u>\$ (4)</u>	<u>\$ 11,524,875</u>

**NOTE 5: LONG-TERM DEBT**

Balances and repayment terms of the Department's long-term debt are as follows at December 31:

	<u>2023</u>	<u>2022</u>
\$413,000 Revenue Bond, Series 2009 (Series 2009); payable in monthly installments including interest at 3.625%, through 2040; secured by the Department's operating revenues (subordinate to the Series 2020 Bonds).	\$ 269,960	\$ 282,146
\$4,765,000 Refunding and Construction Revenue Bonds, Series 2020 (Series 2020); payable in annual installments; interest payable semiannually at rates ranging from 2.0% to 3.125%, through 2045; secured by the Department's operating revenues.	<u>4,345,000</u>	<u>4,490,000</u>
Unamortized premium, net	<u>4,614,960</u>	<u>4,772,146</u>
Total long-term debt	<u>26,400</u>	<u>27,573</u>
Less current portion	<u>4,641,360</u>	<u>4,799,719</u>
	<u>(157,611)</u>	<u>(157,163)</u>
Long-term debt, net of current portion	<u>\$ 4,483,749</u>	<u>\$ 4,642,556</u>

# City of Waldron, Arkansas

## Water and Sewer Department

### Notes to Financial Statements December 31, 2023 and 2022

**NOTE 5: LONG-TERM DEBT (Continued)**

Long-term debt activity is summarized as follows for the years ended December 31:

	<b>2023</b>	<b>2022</b>
Beginning principal balance	\$ 4,772,146	\$ 4,923,899
Principal payments	(157,186)	(151,753)
Ending principal balance	\$ 4,614,960	\$ 4,772,146

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2023:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	157,611	132,870	290,481
2025	163,076	128,055	291,131
2026	168,558	123,073	291,631
2027	174,058	117,923	291,981
2028	179,576	114,205	293,781
2029-2033	961,344	505,560	1,466,904
2034-2038	1,102,483	363,347	1,465,830
2039-2043	1,188,254	191,279	1,379,533
2044-2045	520,000	24,531	544,531
	\$ 4,614,960	\$ 1,700,843	\$ 6,315,803

On April 23, 2020, the City issued \$4,765,000 of Water and Sewer Refunding and Construction Revenue Bonds, Series 2020. The City issued the bonds to current refund approximately \$3.9 million of the outstanding Water and Sewer Refunding and Construction Revenue Bonds, Series 2015 and to finance all or a portion of the costs of acquiring, constructing and equipping extensions, betterments and improvements to the water and wastewater treatment plants. The difference between the reacquisition price and the net carrying amount of the refunded bonds of \$12,354 is reported as a deferred outflow of resources in the statements of net position – modified cash basis and is being amortized through the year 2041 using the straight-line method.

Both the Series 2009 and Series 2020 bond agreements require the Department to maintain rates sufficient to provide for the payment of the reasonable expenses of operation and maintenance of the Department in addition to the payment of the principal of and interest on all outstanding bonds to which revenues are pledged. At December 31, 2023 and 2022, rates were sufficient to satisfy the related bond covenant requirements that net revenues, as defined, at least equal 115 percent of the average annual debt service.

# City of Waldron, Arkansas

## Water and Sewer Department

### Notes to Financial Statements December 31, 2023 and 2022

#### **NOTE 5: LONG-TERM DEBT (Continued)**

The Series 2009 and the 2020 bond agreements also require the establishment and maintenance of certain reserve accounts (See Note 3). At December 31, 2023 and 2022, these account balances were sufficient to satisfy the related debt covenant requirements.

The Series 2020 bond agreement also requires that all City deposits be fully insured by the FDIC or collateralized (see Note 3). At December 31, 2023, not all deposits held by the City were fully insured and collateralized, and did not satisfy the related debt covenant. At December 31, 2022, all deposits held by the City were fully insured and collateralized.

#### **NOTE 6: ECONOMIC DEPENDENCY**

Water sales to one industrial customer accounted for approximately 49% of total operating revenues of the Department for both of the years ended December 31, 2023 and 2022.

#### **NOTE 7: RETIREMENT PLANS**

##### Plan Description

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multi-employer defined benefit plan created by the State Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by State statute. APERS issues a stand-alone financial report which may be obtained by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

##### Funding Policy

Employees covered by APERS have the option to contribute a portion of their salary. Those that choose to contribute must contribute 5.00% of their salary. Effective July 1, 2018, the City was required to contribute 15.32% of eligible payroll for employees covered by APERS. Contributions attributable to Department employees for the years ended December 31, 2023, 2022, and 2021 were approximately \$82,800, \$82,400, and \$86,400, respectively, and were equal to the annual required contributions.

#### **NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON**

Certain employees of the City may perform administrative duties for the Department. The cost of these services are not reflected in the Department's financial statements as management believes that any amounts allocable to the Department are not readily determinable and would not be material. At times during the year, transfers may be made to and from the City's general fund, as

# City of Waldron, Arkansas

## Water and Sewer Department

Notes to Financial Statements  
December 31, 2023 and 2022

### ***NOTE 8: TRANSACTIONS WITH THE CITY OF WALDRON (Continued)***

needed, to meet certain cash flow requirements of the Department or the City. During the year ended December 31, 2023 and 2022, net transfers from (to) the City were \$35,205 and (\$150,045), respectively, which are included in operating transfers from (to) the City of Waldron, net, on the statements of revenues, expenditures and changes in net position – modified cash basis.

During the years ended December 31, 2023 and 2022, the City paid costs related to construction in progress and paid certain administrative expenses on behalf of the Department. Amounts received from the City during the years ended December 31, 2023 and 2022 totaled \$361,311 and \$199,921, respectively, and are included in operating transfers from (to) City of Waldron, net on the statements of revenues, expenditures and changes in net position – modified cash basis.

### ***NOTE 9: 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 City has purchased insurance to address these risks. There have been no significant reductions in the Department's coverage during the years ended December 31, 2023 and 2022. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.



**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***

The Mayor and the Honorable Members of the City Council  
City of Waldron, 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 modified cash basis financial statements of the **City of Waldron, Arkansas Water and Sewer Department** (the Department), which comprise the statement of net position – modified cash basis as of December 31, 2023, and the related statements of revenues, expenditures and changes in net position – modified cash basis, and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 4, 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 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Mayor and the Honorable Members of the City Council  
City of Waldron, Arkansas

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

As part of obtaining reasonable assurance about whether the Department's financial statements 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 an instance of noncompliance that are required to be reported under *Government Auditing Standards*, and is described in the accompanying schedule of findings and responses as item 2023-1.

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

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas  
June 4, 2024

# City of Waldron, Arkansas

## Water and Sewer Department

### Schedule of Findings and Responses Year Ended December 31, 2023

#### Material Weakness in Internal Control over Compliance

<i>Finding</i>	<b>2023-1</b>
<i>Criteria</i>	The Series 2020 bond agreement requires that all of the Department's deposits be fully insured by the FDIC, and those deposits in excess of FDIC insurance be collateralized in the City of Waldron's name by the City of Waldron's agent.
<i>Condition</i>	At December 31, 2023, not all deposits held by the Department that were over FDIC insurance coverage were fully collateralized.
<i>Effect</i>	Certain deposits of the Department were undercollateralized.
<i>Cause</i>	Throughout the year ended December 31, 2023, a financial institution where the Department held certain deposits did not obtain sufficient collateralization to cover all deposits, which caused the Department to not meet the debt covenant related to the Series 2020 bond agreement.
<i>Recommendation</i>	We recommend that management communicates with the financial institution to determine appropriate collateral is held to ensure compliance with the Series 2020 bond agreement.
<i>Response</i>	Management will set up communications with the bank on at least a quarterly basis to determine there is sufficient collateral for all deposits held by the Department.