

**CITY OF CLINTON WATER
AND
SEWER DEPARTMENT
Clinton, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2021 and 2020**

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For the Years Ended December 31, 2021 and 2020

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**To the Commission
City of Clinton, Arkansas**

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the City of Clinton Water and Sewer Department, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Management has not changed its method of accounting for pensions during the years ended December 31, 2021 and 2020, by not adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accounting principles generally accepted in the United States of America require that the method of accounting be changed for GASB Statement No. 68. The amount by which this departure would affect the assets, net position, and revenues of the City of Clinton Water and Sewer Department has not been determined.

**To the Commission
City of Clinton, Arkansas**

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Clinton Water & Sewer Department as of December 31, 2021 and 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of performing opinions on the financial statements that collectively comprise the Water and Sewer Department of the City of Clinton, Arkansas's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2022 on our consideration of the City of Clinton 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 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 City of Clinton Water and Sewer Department's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Clinton, Arkansas, as of December 31, 2021 and 2020, and the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Berry & Associates

Berry & Associates, P.A.
Little Rock, Arkansas
April 7, 2022

CITY OF CLINTON WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

	<u>ASSETS</u>	
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 486,193	\$ 371,567
Accounts receivable (Net of allowance for doubtful accounts of \$210,761 and \$187,467, respectively)	274,056	258,257
Inventory	196,532	182,277
Prepaid expenses	22,541	34,327
Prepaid loan payments	228,712	169,048
Other current assets	1,392	1,048
Total current assets	<u>1,209,426</u>	<u>1,016,524</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	3,411,338	2,143,488
Capital assets		
Capital assets, net of accumulated depreciation	8,242,309	8,760,213
Other assets		
Deposits	25	25
Total other assets	<u>25</u>	<u>25</u>
TOTAL ASSETS	<u>\$ 12,863,098</u>	<u>\$ 11,920,250</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 275,133	\$ 197,713
Accrued interest payable	10,078	10,586
Accounts payable	90,480	119,975
Sales tax payable	10,940	10,158
Retainage payable	449	5,245
Accrued compensated absences	103,710	88,308
Payroll liabilities payable	250	201
Other accrued expenses	16,080	13,785
Earnest money received	57,574	57,574
Total current liabilities	<u>564,694</u>	<u>503,545</u>
LONG-TERM DEBT, net of current maturities	<u>3,388,326</u>	<u>3,507,302</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer service deposits	<u>234,264</u>	<u>202,314</u>
TOTAL LIABILITIES	<u>4,187,284</u>	<u>4,213,161</u>
NET POSITION		
Net investment in capital assets	4,577,294	5,054,450
Temporarily restricted	1,695,713	1,349,999
Unrestricted	2,402,807	1,302,640
Total net position	<u>8,675,814</u>	<u>7,707,089</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,863,098</u>	<u>\$ 11,920,250</u>

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

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

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water sales	\$ 2,826,637	\$ 2,529,879
Sewer sales	521,560	484,248
Service charges	12,158	8,562
Penalty charges	30,917	33,061
Sewage dumping	11,790	11,925
Clarifier project fees	201,799	199,659
Other revenues	63,424	76,204
Total operating revenues	<u>3,668,285</u>	<u>3,343,538</u>
OPERATING EXPENSES		
Water:		
Agent fees	29,718	27,014
Chemicals	101,716	65,322
Depreciation	550,180	542,285
Employee retirement	79,396	80,618
Insurance	120,082	118,926
Office supplies and expense	52,889	21,422
Other miscellaneous expense	7,107	4,243
Payroll taxes	39,722	42,163
Plant supplies	153,003	159,106
Professional fees	16,318	9,440
Repairs and maintenance	137,697	137,889
Salaries	537,366	537,767
Telephone and utilities	362,782	324,683
Testing	14,007	14,823
Transportation	76,511	52,639
Uniforms	8,240	8,061
Water storage fees	22,167	22,087
Total water expenses	<u>\$ 2,308,901</u>	<u>\$ 2,168,488</u>

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION, CON'T
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING EXPENSES		
Sewer:		
Chemicals	\$ 31,216	\$ 49,850
Depreciation	241,026	256,207
Employees retirement	7,303	7,194
Insurance	12,081	11,938
Office supplies and expense	7,229	8,056
Other miscellaneous expense	1,574	2,867
Payroll taxes	3,656	3,595
Plant supplies	9,418	7,762
Repairs and maintenance	9,855	7,467
Salaries	46,229	48,139
Telephone and utilities	157,525	145,952
Testing	19,563	23,689
Transportation	3,339	1,601
Uniforms	747	720
Engineering	15,683	920
Total sewer expenses	<u>566,444</u>	<u>575,957</u>
Total operating expenses	<u>2,875,345</u>	<u>2,744,445</u>
OPERATING INCOME	<u>792,940</u>	<u>599,093</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	12,939	11,754
Gain on disposal of fixed assets	16,750	-
Interest expense	(48,143)	(54,786)
Bad debt expense	(23,294)	(69,478)
Bond issuance costs	-	(16,078)
Other income	360	7,200
Total non-operating expenses	<u>(41,388)</u>	<u>(121,388)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS FROM OTHER FUNDS	<u>751,552</u>	<u>477,705</u>
CAPITAL CONTRIBUTIONS	<u>217,173</u>	<u>-</u>
CHANGE IN NET POSITION	<u>968,725</u>	<u>477,705</u>
NET POSITION - BEGINNING OF YEAR	<u>7,707,089</u>	<u>7,229,384</u>
NET POSITION - END OF YEAR	<u>\$ 8,675,814</u>	<u>\$ 7,707,089</u>

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
INCREASE (DECREASE) IN CASH AND RESTRICTED CASH:		
Cash flows from operating activities:		
Cash received from customers	\$ 3,652,486	\$ 3,312,358
Cash payments for goods and services	(1,564,884)	(1,473,093)
Cash payments to employees	(583,595)	(585,906)
Net cash provided by operating activities	<u>1,504,007</u>	<u>1,253,359</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(197,713)	(530,945)
Interest payments on long-term debt	(48,651)	(57,868)
Proceeds from long-term debt	156,157	1,113,519
Proceeds from the sale of capital assets	16,750	
Purchase of capital assets	(112,837)	(64,226)
Payments on construction in progress	(165,709)	(1,104,035)
Bond issuance costs	-	(16,078)
Capital contribution	217,173	-
Proceeds from other income	360	7,200
Net cash used by capital and related financing activities	<u>(134,470)</u>	<u>(652,433)</u>
Cash flows from investing activities:		
Interest received	12,939	11,754
Change in restricted cash	(1,267,850)	(375,012)
Net cash used by investing activities	<u>(1,254,911)</u>	<u>(363,258)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	114,626	237,668
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	371,567	133,899
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 486,193</u>	<u>\$ 371,567</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 792,940	\$ 599,093
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	791,206	798,492
Provision for gain on the disposal of capital assets	(16,750)	-
Provision for bad debt expense	23,294	69,478
(Increase) / Decrease In:		
Accounts receivable	(39,093)	(170,134)
Prepaid expenses	(47,878)	(69,243)
Inventory	(14,255)	(16,371)
Other current assets	(1,644)	23,851
Increase / (Decrease) In:		
Accounts payable	(29,495)	13,772
Retainage payable	(4,796)	5,245
Customer meter deposits	31,950	21,617
Other accrued expenses	18,528	(22,441)
Total adjustments	<u>711,067</u>	<u>654,266</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,504,007</u>	<u>\$ 1,253,359</u>

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The City of Clinton Water and Sewer Department is a municipal utility operated by the City of Clinton, Arkansas. The Department serves substantially all the households and businesses in the City, consisting of approximately 3,006 water system customers and approximately 1,056 sewer system customers. In addition to the above water and sewer customers, the Department also supplies water wholesale to two local water associations.

Basis of Presentation and Accounting

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

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this Department are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt service; and unrestricted components.

Estimates

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

Cash and Cash Equivalents

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

Allowance for Bad Debts

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

Budgets and Budgetary Accounting

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

Compensated Absences

The Department allows employees to accumulate unused sick leave to a maximum of 60 days. Employees are required to take five days vacation annually. Upon termination, up to 30 days of accumulated vacation will be paid to the employee. Sick leave is not paid upon termination, only death or retirement. At December 31, 2021 and 2020, the accrued liability for vacation and sick leave totaled \$103,710 and \$88,308, respectively.

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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

Capital Assets

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

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

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

Operating Revenues and Expenses

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

Net Position

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

Net investment in capital assets- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

Restricted Assets

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

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

Inventory

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

Date of Management's Review

Subsequent events have been evaluated through April 7, 2022, which is the date the financial statements were available to be issued and management determined that no additional disclosures were required.

NOTE 2 – PUBLIC DEPARTMENTS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

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

NOTE 3 – CAPITAL ASSETS:

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

	Balance 12/31/2020	Additions	Deletions/ Transfers	Balance 12/31/2021
Buildings	\$ 16,139	\$ 11,469	\$ -	\$ 27,608
Construction in Progress	1,151,725	160,464	-	1,312,189
Land	87,031	-	-	87,031
Machinery and Equipment	571,665	-	-	571,665
Office Equipment	28,980	13,913	-	42,893
Transportation Equipment	295,680	65,125	(30,323)	330,482
Sewer System	11,542,060	-	-	11,542,060
Water System	16,506,327	22,330	-	16,528,657
Total	30,199,607	\$ 273,301	\$ (30,323)	30,442,585
Less: Accumulated Depreciation	(21,439,394)			(22,200,276)
Total Capital Assets	\$ 8,760,213			\$ 8,242,309

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 – CAPITAL ASSETS (con’t):

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

	Balance 12/31/2019	Additions	Deletions/ Transfers	Balance 12/31/2020
Buildings	\$ 16,139	\$ -	\$ -	\$ 16,139
Construction in Progress	47,690	1,104,035	-	1,151,725
Land	87,031	-	-	87,031
Machinery and Equipment	530,726	59,846	(18,907)	571,665
Office Equipment	27,964	1,016	-	28,980
Transportation Equipment	295,680	-	-	295,680
Sewer System	11,542,060	-	-	11,542,060
Water System	16,502,963	3,364	-	16,506,327
Total	29,050,253	\$ 1,168,261	\$ (18,907)	30,199,607
Less: Accumulated Depreciation	(20,659,808)			(21,439,394)
Total Capital Assets	\$ 8,390,445			\$ 8,760,213

NOTE 4 – LONG-TERM DEBT:

	2021	2020
2014 Water and Sewer Revenue Bonds due in semi-annual installments of \$99,368 through April 2037 including interest at 1.9% and a service fee at 1.0% (1)	\$ 2,467,017	2,591,495
2020 Water and Sewer Revenue Bonds due in semi-annual installments of \$76,984 through April 2031 including interest at 0% and a service fee at .5% (1)	1,196,442	1,113,520
Less current portion	3,663,459	3,705,015
Total Long-Term Portion	(275,133)	(197,713)
	\$ 3,388,326	\$ 3,507,302

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 – LONG-TERM DEBT (cont’):

Annual maturities of long-term debt at December 31, 2021 are as follows:

	Principal	Interest	Total
2022	\$ 275,133	\$ 77,571	\$ 352,704
2023	279,610	73,094	352,704
2024	284,202	68,502	352,704
2025	288,909	63,795	352,704
2026	293,736	58,968	352,704
2027-2031	1,238,212	217,372	1,455,584
2032-2036	905,685	87,995	993,680
2037	97,972	1,419	99,391
	<u>\$ 3,663,459</u>	<u>\$ 648,716</u>	<u>\$ 4,312,175</u>

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

	Balance			Balance	Due Within One Year
	12/31/20	Additions	Retirements	12/31/21	
Long Term Debt					
Revenue Bonds	<u>\$ 3,705,015</u>	<u>\$ 156,157</u>	<u>\$ (197,713)</u>	<u>\$ 3,663,459</u>	<u>\$ 275,133</u>

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

	Balance			Balance	Due Within One Year
	12/31/19	Additions	Retirements	12/31/20	
Long Term Debt					
Revenue Bonds	<u>\$ 3,122,441</u>	<u>\$ 1,113,519</u>	<u>\$ (530,945)</u>	<u>\$ 3,705,015</u>	<u>\$ 197,713</u>

The Department has pledged future customer revenues, net of specified operating expenses, to repay \$3,663,459 in long-term debt. Proceeds from the bonds were used for building of the Department’s water and sewer systems. Principal and interest on the bonds are payable through 2037, solely from the water and sewer customer net revenues. Principal and interest paid in the year ended December 31, 2021 were \$197,713 and \$48,651, respectively. Principal and interest paid in the year ended December 31, 2020 were \$530,945 and \$57,868, respectively.

NOTE 5 – EMPLOYEE BENEFITS:

Plan Description. The Department contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

**CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 5 – EMPLOYEE BENEFITS (con’t):

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department’s contributions to APERS for the year ending December 31, 2021 and 2020 was \$86,699 and \$87,812, respectively, which is equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with the years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principle.

NOTE 6 – WATER ASSOCIATION CONTRACTS:

The Department has an eighteen (18) year contract to supply water to two local water associations. Rates are subject to change annually.

NOTE 7 – COMMITMENTS:

The Department purchases water from the Greers Ferry Reservoir pursuant to a long-term contract with the United States of America dated September 8, 1970. Under the contract, the city has agreed to pay certain storage costs of the water and certain operation, maintenance and replacement costs of the water storage and supply system. Total costs for the years ended December 31, 2021 and 2020 was \$22,167 and \$22,087, respectively.

On September 19, 2018, the Department was approved for financial assistance in the form of a loan in an amount up to \$1,500,000 from the Arkansas Drinking Water State Revolving Loan Fund. The funds are to be used for water meter replacement. As of December 31, 2021, \$1,269,677 has been received. Of the \$1,269,677 received, \$1,265,621 has been spent on this project as of December 31, 2021.

The Department started a meter change out project during the year ended December 31, 2020. The Department has entered into a contract with a construction contractor for the amount of \$123,732. As of December 31, 2021, the Department has incurred costs of \$123,732 on this contract.

The Department started a pole-yard project during the year ended December 31, 2020. The Department has entered into a contract with a construction contractor for the amount of \$282,514. As of December 31, 2021, the Department has incurred costs of \$8,975 on this contract.

The Department entered into a management agreement with the Dennard Water System in 2018. The Department is in the process of refinancing the outstanding indebtedness of Dennard Water System into the Department’s name. The Department has absorbed the Dennard Water System into the Department’s system and is currently in the process of finalizing the transfer of assets. As of December 31, 2021, the Department has paid \$228,712 towards Dennard’s debt, as recorded on the balance sheet as a prepaid item. As of December 31, 2021, the department received inventory and assets totaling \$57,574, as recorded on the balance sheet as earnest money received.

CITY OF CLINTON WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 8 – RESTRICTED CASH:

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

	<u>2021</u>	<u>2020</u>
Meter deposits	\$ 234,264	\$ 202,315
Construction funds	1,151,780	448,397
Cash held in trust	87,818	49,692
Depreciation & debt service	1,290,550	1,048,403
Bond funds	82,975	49,487
Other restricted funds	563,951	345,194
	<u>\$ 3,411,338</u>	<u>\$ 2,143,488</u>

SUPPLEMENTARY INFORMATION



**To the Commission
City of Clinton, Arkansas**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, the financial statements of the City of Clinton Water and Sewer Department (“Department”) as of and for the year ended December 31, 2021, and the related notes to the financial statements which collectively comprise the Department's financial statements and have issued our report thereon dated April 7, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 the internal control was for the limited purpose described in the first paragraph 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2021-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision 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 is required to be reported under *Government Auditing Standards*.

To the Commission
City of Clinton, Arkansas

Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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

Berry & Associates, P.A.
Little Rock, AR
April 7, 2022

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2021

2021-001 Internal Control – Segregation of Duties

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

Condition: Presently the same individual that is responsible for service billing and adjustment, posts payments to the subsidiary accounts receivable ledger. The same individual that is responsible for the general ledger activity, also reconciles the bank accounts, writes the checks and is one of the authorized check signers. This finding was also noted in 2020.

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

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

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

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 1
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2021

SCHEDULE OF WATER AND SEWER RATES:

	Per Thousand Gallons
Water Rates:	
Residential:	
Inside City Limits:	
First 1,000 Gallons	\$ 20.84
Excess Over 1,000 Gallons	6.95
Outside City Limits:	
First 1,000 Gallons	27.78
Excess Over 1,000 Gallons	6.95
Burnt Ridge, Dennard Area and Oil & Gas Customers:	
First 1,000 Gallons	27.78
Excess Over 1,000 Gallons	6.95
Industrial:	
First 100,000 Gallons	441.00
Excess Over 100,000 Gallons	4.41
Commercial:	
Inside City Limits:	
First 1,000 Gallons	24.31
Excess Over 1,000 Gallons	6.95
Outside City Limits:	
First 1,000 Gallons	32.41
Excess Over 1,000 Gallons	6.95
Other Meter Sizes:	
1" Meters	
First 1,000 Gallons	50.62
Excess Over 1,000 Gallons	6.95
2" Meters	
First 1,000 Gallons	89.26
Excess Over 1,000 Gallons	6.95
3" Meters	
First 1,000 Gallons	127.90
Excess Over 1,000 Gallons	6.95

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 1, CONTINUED
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2021

SCHEDULE OF WATER AND SEWER RATES: con't

	Per Thousand Gallons
Water Rates:	
4" Meters	
First 1,000 Gallons	\$ 185.42
Excess Over 1,000 Gallons	6.95
6" Meters	
First 1,000 Gallons	243.87
Excess Over 1,000 Gallons	6.95
Sewer Rates:	
Residential:	
First 1,000 Gallons	\$ 15.51
Excess over 1,000 Gallons	6.95
Commercial:	
First 1,000 Gallons	17.37
Excess over 1,000 Gallons	6.95
Industrial:	
First 100,000 Gallons	441.00
Excess Over 100,000 Gallons	4.41

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

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

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 2
SCHEDULE OF FUTURE ANNUAL DEBT SERVICE REQUIREMENT
2014 WATER AND SEWER REFUNDING REVENUE BONDS
DECEMBER 31, 2021

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

Year	Principal	Principal	1.9% Interest	1.9% Interest	1% Service Fees	1% Service Fees	Total
	April 1	October 1	April 1	October 1	April 1	October 1	
2022	\$ 63,596	\$ 64,519	\$ 23,437	\$ 22,832	\$ 12,335	\$ 12,017	\$ 198,736
2023	65,453	66,403	22,220	21,598	11,695	11,367	198,736
2024	67,366	68,343	20,967	20,327	11,035	10,698	198,736
2025	69,333	70,339	19,678	19,019	10,357	10,010	198,736
2026	71,359	72,393	18,351	17,673	9,658	9,302	198,736
2027	73,443	74,509	16,985	16,287	8,940	8,572	198,736
2028	75,588	76,684	15,580	14,862	8,190	7,822	198,726
2029	77,797	78,925	14,133	13,394	7,438	7,049	198,736
2030	80,069	81,230	12,644	11,883	6,655	6,254	198,735
2031	82,408	83,603	11,112	10,329	5,848	5,436	198,736
2032	84,815	86,045	9,535	8,729	5,018	4,594	198,736
2033	87,292	88,558	7,912	7,089	4,164	3,728	198,743
2034	89,842	91,145	6,241	5,387	3,285	2,836	198,736
2035	92,466	93,808	4,522	3,643	2,380	1,917	198,736
2036	95,168	96,546	2,752	1,848	1,448	973	198,735
2037	97,972	-	931	-	490	-	99,393
	\$ 1,273,967	\$ 1,193,050	\$ 207,000	\$ 194,900	\$ 108,936	\$ 102,575	\$ 3,080,428

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 3
SCHEDULE OF FUTURE ANNUAL DEBT SERVICE REQUIREMENT
2020 WATER AND SEWER REVENUE BONDS
DECEMBER 31, 2021

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

Year	Principal	Principal	.5% Service	.5% Service	Total
	April 1	October 1	Fees April 1	Fees October 1	
2022	\$ 73,417	\$ 73,601	\$ 3,567	\$ 3,383	\$ 153,968
2023	73,785	73,969	3,199	3,015	153,968
2024	74,154	74,339	2,830	2,645	153,968
2025	74,525	74,712	2,459	2,272	153,968
2026	74,898	75,086	2,086	1,898	153,968
2027	75,273	75,461	1,711	1,523	153,968
2028	75,650	71,416	1,334	-	148,400
2029	76,029	76,219	955	765	153,968
2030	3,908	-	-	-	3,908
	<u>\$ 601,639</u>	<u>\$ 594,803</u>	<u>\$ 18,141</u>	<u>\$ 15,501</u>	<u>\$ 1,230,084</u>

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 4
SURETY BOND AND INSURANCE SCHEDULE
DECEMBER 31, 2021

Surety Bond and Insurance in Force		Amount of Coverage	Policy Period
Nationwide Insurance			
Blanket Building and Contents	\$	27,323,592	June 1, 2021
Elected Officials and Employees		50,000	to June 1, 2022
Business Income/Extra Expense		250,000	
Money and Securities		25,000	
Arkansas Municipal League			July 7, 2021
Bodily Injury		50,000	to July 6, 2022
Property Damage		25,000	
Comprehensive (\$1,000 Deductible)		Actual Cash Value	
Collision (\$1,000 Deductible)		Actual Cash Value	
Arkansas Municipal League:			
Workers Compensation		Statutory	January 1, 2021
			to December 31, 2022

CITY OF CLINTON WATER AND SEWER DEPARTMENT
SCHEDULE 5
WATER AND SEWER COMMISSION
DECEMBER 31, 2021

<u>Name</u>	<u>Title</u>
Adam McJunkins	Chairman
Kristin Fleming	Commissioner
Matthew Stewart	Commissioner
John Treece	Commissioner