

City of Marshall, Arkansas
Water and Wastewater Department
Marshall, Arkansas

Audited Financial Statements
May 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Marshall, Arkansas Water and Wastewater Department

We have audited the accompanying financial statements of the City of Marshall, Arkansas Water and Wastewater Department, as of and for the years ended May 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 an opinion 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 from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Marshall, Arkansas Water and Wastewater Department and do not purport to, and do not present fairly the financial position of the City of Marshall, Arkansas, as of May 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplemental information for cost sharing plans on page 24 be presented to supplement the basic financial statements. Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information presented in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marshall, Arkansas Water and Wastewater Department's basic financial statements. The schedule of insurance coverage and schedule of service users, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of insurance coverage and schedule of service users have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2022, on our consideration of the City of Marshall, Arkansas Water and Wastewater 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 the effectiveness of the City of Marshall, Arkansas Water and Wastewater 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 Marshall, Arkansas Water and Wastewater Department's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Turner Williams and Associates, P.A.
Searcy, Arkansas
February 25, 2022

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Net Position
As of May 31, 2021 and 2020

ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
	2021	2020
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 82,150	\$ 91,243
Accounts Receivable - Trade	136,277	129,192
Due From Other Funds	7,982	-
Other Receivables	2,073	-
Short Term Investments	28,620	28,527
Inventories	134,011	101,179
Total Current Assets	<u>391,113</u>	<u>350,140</u>
<u>Restricted Assets</u>		
Cash and Cash Equivalents	565,146	481,151
Total Restricted Assets	<u>565,146</u>	<u>481,151</u>
<u>Property, Plant and Equipment</u>		
Land	185,147	185,147
Property, Plant and Equipment, at cost	14,022,911	13,606,522
Accumulated Depreciation	<u>(3,584,363)</u>	<u>(3,267,539)</u>
Net Property, Plant and Equipment	<u>10,623,695</u>	<u>10,524,130</u>
 TOTAL ASSETS	 <u>\$ 11,579,954</u>	 <u>\$ 11,355,421</u>
<u>Deferred Outflows of Resources</u>		
Deferred Outflows of Resources Related to Pension	89,520	88,428
Total Deferred Outflows of Resources	<u>89,520</u>	<u>88,428</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 11,669,474</u>	<u>\$ 11,443,849</u>

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

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Net Position
As of May 31, 2021 and 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
	2021	2020
<u>Current Liabilities</u>		
Accounts Payable - Trade	12,926	47,914
Accounts Payable - Construction	23,576	-
Accrued Sales Tax Payable	4,948	4,727
Payroll Liabilities	46,836	32,385
Total Current Liabilities	88,286	85,026
<u>Current Liabilities Payable from Restricted Assets</u>		
Accrued Interest	5,021	5,021
Current Portion of Long-Term Debt	4,892	4,659
Current Portion of Bonds Payable	41,611	40,584
Meter Deposits	102,725	99,826
Total Current Liabilities Payable from Restricted Assets	154,249	150,090
<u>Noncurrent liabilities</u>		
Net pension liability	286,115	241,779
Total Long-Term Liabilities	286,115	241,779
<u>Long-Term Liabilities</u>		
Notes Payable, Net of Current Portion	64,620	69,512
Bonds Payable, Net of Current Portion	1,780,175	1,821,136
Total Long-Term Liabilities	1,844,795	1,890,648
Total Liabilities	2,373,445	2,367,543
<u>Deferred Inflows of Resources</u>		
Deferred Inflows of Resources Related to Pension	39,436	42,950
Total Deferred Inflows of Resources	39,436	42,950
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2,412,881	2,410,493
<u>Net Position</u>		
Net investment in capital assets	8,732,395	8,588,238
Restricted		
Capital Improvements	369,167	316,240
Debt Service	71,978	67,385
Unrestricted	83,053	61,493
Total Net Position	9,256,593	9,033,356
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 11,669,474	\$ 11,443,849

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

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended May 31, 2021

	WATER	SEWER	TOTAL
<u>Operating Revenue</u>			
Service Revenue	\$ 812,841	\$ 239,035	\$ 1,051,877
Other Operating Income	31,113	6,052	37,165
Total Operating Revenues	<u>843,954</u>	<u>245,087</u>	<u>1,089,042</u>
<u>Operating Expenses</u>			
Salaries, Payroll Taxes and Fringe Benefits	174,016	93,507	267,523
Water Purchased	384,021	-	384,021
Supplies and Equipment	37,106	9,568	46,674
Office and Administration	9,197	3,336	12,533
Depreciation	245,427	73,309	318,736
Professional & Legal Fees	19,868	6,023	25,890
Fees and Dues	12,696	10,396	23,092
Repairs and Maintenance	4,382	798	5,180
Insurance	5,203	7,395	12,598
Sales Tax	49,707	14,848	64,556
Utilities and Telephone	18,205	31,644	49,849
Other Expenses	2,047	317	2,364
Total Operating Expenses	<u>961,875</u>	<u>251,141</u>	<u>1,213,016</u>
Operating Income (Loss)	<u>(117,920)</u>	<u>(6,054)</u>	<u>(123,974)</u>
<u>Non-Operating Revenues (Expenses)</u>			
Contributed to City	(3,465)	(1,035)	(4,500)
Grant Revenue	-	400,263	400,263
Gain on Disposal of Assets	1,096	328	1,424
Interest Income	376	112	488
Interest Expense	(38,857)	(11,607)	(50,464)
Total Non-Operating Revenue (Expenses)	<u>(40,850)</u>	<u>388,061</u>	<u>347,211</u>
Increase / (Decrease) in Net Position	<u>(158,770)</u>	<u>382,007</u>	<u>223,237</u>
Net Position, Beginning of Year			<u>8,990,888</u>
Prior Period Adjustment (Note 15)			<u>42,468</u>
Net Position, End of Year			<u>\$ 9,256,593</u>

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

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended May 31, 2020

	WATER	SEWER	TOTAL
<u>Operating Revenue</u>			
Service Revenue	\$ 806,133	\$ 243,110	\$ 1,049,243
Other Operating Income	17,938	4,775	22,713
Total Operating Revenues	<u>824,069</u>	<u>247,887</u>	<u>1,071,956</u>
<u>Operating Expenses</u>			
Salaries, Payroll Taxes and Fringe Benefits	196,564	122,516	319,080
Water Purchased	397,241	-	397,241
Supplies and Equipment	82,341	28,197	110,538
Office and Administration	11,005	4,812	15,817
Depreciation	162,178	48,443	210,621
Professional & Legal Fees	13,007	3,885	16,892
Fees and Dues	9,625	9,271	18,896
Repairs and Maintenance	10,030	3,549	13,579
Insurance	5,303	2,120	7,423
Sales Tax	57,342	-	57,342
Utilities and Telephone	19,337	35,893	55,230
Other Expenses	359	532	891
Total Operating Expenses	<u>964,331</u>	<u>259,219</u>	<u>1,223,550</u>
Operating Income	<u>(140,260)</u>	<u>(11,333)</u>	<u>(151,594)</u>
<u>Non-Operating Revenues (Expenses)</u>			
Contributed from City	5,500	-	5,500
Contributed from County	3,260,708	-	3,260,708
Gain on Sale of Assets	930	-	930
Grant Revenue	460,783	-	460,783
Interest Income	430	129	559
Interest Expense	(31,332)	(9,359)	(40,691)
Total Non-Operating Revenue (Expenses)	<u>3,697,019</u>	<u>(9,230)</u>	<u>3,687,789</u>
Increase / (Decrease) in Net Position	<u>3,556,759</u>	<u>(20,564)</u>	<u>3,536,195</u>
Net Position, Beginning of Year			<u>5,502,531</u>
Prior Period Adjustment (Note 15)			<u>(5,370)</u>
Net Position, End of Year			<u>\$ 9,033,356</u>

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

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Cash Flows
As of May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from Operating Activities</u>		
Cash Receipts from customers	\$ 1,034,736	\$ 1,006,861
Payment to suppliers	(670,781)	(617,582)
Payment to employees	(213,342)	(228,090)
Other receipts/(payments)	<u>(44,024)</u>	<u>78,198</u>
Net Cash Provided by (Used in) Operating Activities	<u>106,590</u>	<u>239,387</u>
<u>Cash Flows from Investing Activities</u>		
Contributions to the City	(4,500)	-
Proceeds from Sale of Fixed Assets	4,500	-
Grant Proceeds	400,263	517,810
Purchases of Property, Plant and Equipment	(421,378)	(601,148)
Interest Received	<u>488</u>	<u>559</u>
Net Cash Provided by (Used in) Investing Activities	<u>(20,627)</u>	<u>(82,779)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Principal Payments on Long-Term Debt	(44,592)	(83,772)
Interest Paid on Long-Term Debt	<u>(50,464)</u>	<u>(40,691)</u>
Net Cash Provided by (Used In) Financing Activities	<u>(95,056)</u>	<u>(124,463)</u>
Net Increase (Decrease) in Cash Equivalents	(9,093)	32,145
Cash and Cash Equivalents, Beginning of Year	<u>91,243</u>	<u>59,098</u>
Cash and Cash Equivalents, End of Year	<u>\$ 82,150</u>	<u>\$ 91,243</u>

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

City of Marshall, Arkansas
Water and Wastewater Department
Statement of Cash Flows
As of May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from Operating Activities</u>		
Increase (Decrease) in Net Assets-Operating Income	\$ (123,974)	\$ (151,594)
Depreciation & amortization expense	318,736	210,621
Changes in Current Assets and Liabilities		
Accounts Receivable - Trade	(7,085)	(42,382)
Due From Other Funds	(7,982)	-
Other Receivables	(2,073)	-
Short Term Investments	(93)	41,177
Inventories	(32,832)	36,952
Restricted cash and cash equivalents	(83,995)	14,232
Deferred outflow of resources	(1,092)	(20,001)
Accounts Payable - Trade	(34,988)	39,915
Accounts Payable - Construction	23,576	-
Customer meter deposits	2,899	2,430
Payroll Liabilities	14,451	19,378
Accrued Interest	-	(2,354)
Accrued Sales Tax Payable	221	(599)
Net pension liability	44,336	94,481
Deferred inflows of resources	<u>(3,514)</u>	<u>(2,869)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 106,591</u>	<u>\$ 239,387</u>

Noncash Transactions:

The Water and Wastewater Department recorded noncash transfers from Searcy County in the amount of \$3,260,708 for East Searcy County extension project for the year ended May 31, 2020. In addition, the Water and Wastewater Department received \$5,500 in noncash transfers for trade-in value of vehicle in fiscal year 2020.

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

City of Marshall, Arkansas
Water and Wastewater Department
Notes To Financial Statements
May 31, 2021 and 2020

NOTE 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

The City of Marshall, Arkansas (the City) is a municipality governed under an elected Mayor-Council form of government. The City of Marshall, Arkansas Water and Wastewater Department (the Department) is governed by the City Council. The City of Marshall, Arkansas Water and Wastewater Department is a component unit of the City of Marshall, Arkansas which was established as an enterprise fund of the City to provide water and sewer services to the residents of the City.

Reporting Entity

For Financial reporting purposes, in conformity with GASB No. 14, The Financial Reporting Entity, as amended by GASB No. 39, the Department includes all funds over which the Department's management exercises financial accountability.

Fund Types

The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

The Department's various funds are grouped in the financial statements as a single enterprise fund. Enterprise Funds are used to account for operations that (a) 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) or providing goods and services to the general public on a continuing bases be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus

Measurement focus is a term used to describe "which transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. The fund equity is classified as net assets.

Basis for Presentation and Accounting

The Department's financial statements are presented using the accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenses are recognized when the related liability is incurred.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The Department considers all non-restricted highly liquid investments with maturity of three months or less to be cash equivalents.

Short Term Investments

Investments include certificates of deposits with original maturities greater than three months.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Inventory

Inventory is stated at lower of cost or market and includes basic supplies used for water and wastewater repairs.

Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, by contractual obligations or by ordinance designation to be used for specific purposes, such as servicing bond debt or construction of capital assets.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of assets, which range from 5 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but instead charged to expense as incurred while major replacements and improvements are capitalized. Construction in progress is depreciable upon completion.

Customer Deposits

As security for payment of bills, the Department requires a deposit from customers. No interest is paid on such deposits.

Classification of Revenues

Operating revenues consist of charges for water and wastewater usage and other fees billed to customers. Non-operating revenues consist of interest income, grant funds, and gain on disposal of assets.

Revenue Recognition

Revenues are recognized when earned. Water and wastewater revenues are billed to the residents in monthly cycles.

Allowance for Doubtful Collections

The Department has provided an allowance for doubtful accounts based on management's review of outstanding accounts receivable at year-end, in accordance with the indirect method of accounting for bad debts. The amount of the allowance is based on past history of the Department and on the number of days the accounts are past due.

Net Position Classifications

GASB requires the classification of net position into three classifications 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 reduced by outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted –This component of net position consists of amounts which have external constraints placed on the use imposed by external groups such as creditors, grantors, contributors, or laws or regulations of other governments or by law through constitutional provision or enabling legislation.

Unrestricted—This component consists of all other fund equity balances that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, and then unrestricted resources as they are needed.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Income Taxes

Income of the Department is derived from the exercise of essential governmental functions and accrues to the Department, a department of the City of Marshall, Arkansas. It is, therefore, not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated all tax positions and determined that the Department does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The Department does not file federal income tax returns.

Compensated Absences

The employees of the Department are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. Accrued but unused vacation is \$9,145 and \$3,424 as of May 31, 2021 and 2020. The Departments policy is to recognize the costs of sick and personal days as they are earned.

Reclassification

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

Restricted Resources

Under the terms of grant agreements, the Department funds certain system improvements by a combination of specific improvements-reimbursement grants and general revenues. Thus, when system improvements are incurred, there may be restricted and unrestricted net assets available to finance these improvements. It is the Department's policy to first apply improvement-reimbursement grant resources to such improvements and then general revenue.

Budgets and Budgetary Accounting

State law requires that the City Council, before the end of each fiscal year, make appropriations by ordinance, for the expenditures of City government for the following year. The City Council may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to year-end.

The City prepared the annual budget on the regulatory basis of accounting using the City's calendar year-end. The Water and Wastewater Department is the only fund of the City's that is reported using a fiscal year-end, but it was also budgeted based on calendar year-end.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable – trade consists of current charges due from water customers for water usage. Accounts receivable and revenues reported on the Department's financial statements include an estimate of charges for services provided but unbilled at year-end in the amount of \$45,401 and \$42,468 at May 31, 2021 and 2020, respectively.

Board policy is to pursue collection of past due accounts aggressively for a period of time. Past due accounts are charged a late penalty of 10% of outstanding balance. Accounts 30 days past due are disconnected. Meter deposits are considered adequate to cover uncollectible accounts; no allowance for doubtful accounts has been recorded.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

NOTE 3 – FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

The Department had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial risk is the risk that in the event of bank failure, the Department's deposits may not be returned to the system. The Department's deposit policy for custodial credit risk requires compliance with the provisions of the state law. State law requires collateralization of all deposits with federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas.

As of May 31, 2021 and 2020, cash balances exceed the FDIC coverage and collateral was pledged to the Department. Financial instruments that could potentially subject the Department to a risk of accounting loss consist of restricted and unrestricted Cash and Cash Equivalents and Certificates of Deposit. The table presented below is designed to disclose the level of custody credit risk assumed by the Department based upon how its deposits were insured or secured with collateral. The categories of credit risk are defined as follows:

Category 1- Insured by FDIC or collateralized with securities held by the Department or by its agents in its name.

Category 2- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution's trust or agent in the Department's name.

Category 3- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust or agent but not in the Department's name; or collateralized with no written or approved collateralized agreement.

	2021	2020
Category 1	\$ 250,000	\$ 250,000
Category 2	464,640	353,919
	<u>\$ 714,640</u>	<u>\$ 603,919</u>

Note 4 – CASH AND CERTIFICATES OF DEPOSIT

The Department's cash and investments consist of deposits with financial institutions and certificates of deposit. The Department's investment policies are governed by state statutes. The following is the detail of cash and certificates of deposit:

	2021	2020
Operating funds and demand deposits	\$ 82,150	\$ 88,943
Certificates of deposit	28,620	28,527
Total unrestricted cash and certificates of deposit	<u>110,770</u>	<u>117,470</u>
Depreciation reserves	\$ 368,777	\$ 316,232
Meter deposits fund	100,425	99,826
Debt service reserve	71,978	67,385
DRA project construction account	23,957	-
Water line rehab construction account	8	8
Total restricted cash and certificates of deposit	<u>565,145</u>	<u>483,451</u>
Total cash and certificates of deposit	<u>\$ 675,915</u>	<u>\$ 600,921</u>

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

NOTE 5 – INTERFUND TRANSFERS

The Department contributed \$4,500 in funds from sale of assets for the purchase of a truck for Street Department for the year ended May 31, 2021, and the City contributed \$5,500 in trade in assets for the purchase of a truck for the year ended May 31, 2020.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Major classifications of property, plant and equipment at May 31, 2021 are as follows:

	Balance 5/31/2020	Additions/ Transfers	Retirements/ Transfers	Balance 5/31/2021
Land	\$ 185,147	\$ -	-	\$ 185,147
Property, Plant & Equipment	<u>13,606,522</u>	<u>421,378</u>	<u>(4,989)</u>	<u>14,022,911</u>
Total Property, Plant & Equipment				
In service	13,791,669	421,378	(4,989)	14,208,058
Accumulated Depreciation	<u>(3,267,539)</u>	<u>(318,736)</u>	<u>1,912</u>	<u>(3,584,363)</u>
Total Property, Plant and Equipment, net	<u>\$10,524,130</u>	<u>102,642</u>	<u>\$ (3,077)</u>	<u>\$10,623,695</u>

Major classifications of property, plant and equipment at May 31, 2020 are as follows:

	Balance 5/31/2019	Additions/ Transfers	Retirements/ Transfers	Balance 5/31/2020
Land	\$ 185,147	\$ -	\$ -	\$ 185,147
Construction in Progress	3,583,134	-	(3,583,134)	-
Property, Plant & Equipment	<u>6,311,474</u>	<u>7,325,599</u>	<u>(30,551)</u>	<u>13,606,522</u>
Total Property, Plant & Equipment				
In service	10,079,755	7,325,599	(3,613,685)	13,791,669
Accumulated Depreciation	<u>(3,085,399)</u>	<u>(210,621)</u>	<u>28,481</u>	<u>(3,267,539)</u>
Total Property, Plant and Equipment, net	<u>\$ 6,994,356</u>	<u>\$ 7,114,978</u>	<u>\$ (3,585,204)</u>	<u>\$10,524,130</u>

Depreciation expense for the year ended May 31, 2021 and 2020 is \$318,736 and \$210,621, respectively. The Department had capitalized interest as of May 31, 2020 of \$10,300.

NOTE 7 – RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters. The Department is covered by property and casualty insurance policies on real and personal property, including vehicles, and liability under the Arkansas Municipal League Program and commercial insurance purchased from independent third parties. There were no material reductions in insurance coverage from the coverage in the prior fiscal year, nor did settlements exceed coverage for any of the past three fiscal years.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

NOTE 8 – RESTRICTED NET ASSETS

Restricted net assets have been reserved by bond covenants or capital projects. Restrictions in the amount of related restricted assets less the current amount payable from restricted.

Restricted assets at May 31, are as follows:

	2021	2020
Water line rehab construction account	\$ 8	\$ 8
Customer meter deposits	100,425	99,826
Debt service reserves - USDA	71,978	67,385
Depreciation reserves	368,777	316,232
DRA project construction	23,958	-
Total restricted assets	565,146	483,451
Meter deposit liability	(100,425)	(99,826)
Accounts payable - construction	(23,576)	-
Total restricted net assets	<u>\$ 441,145</u>	<u>\$ 383,625</u>

The loan agreements with the USDA-Rural Development requires the Department to fund a reserve account through payments to the accounts at a total rate equal to the annual payment for the loans. Monthly deposits of \$582.30 and \$140.10 are required until the amount in the reserve accounts reach a maximum sum of \$69,876 and \$16,812, respectively. The Department has ten years to accumulate these payments in the reserve. Disbursement from the reserve account may only be made with proper consent of USDA-Rural Development. Payments to the USDA Loan 92-03 reserve account began one year from the closing of the loan on October 8, 2010, with the accumulated balance required of \$69,876. Payments to USDA Loan 92-13 reserve account began March 14, 2020, with the accumulated balance required of \$2,102. The Department has fully funded both reserves as of May 31, 2021. Debt reserve requirements are met.

Depreciation reserve was funded by a portion of water revenue derived from the rate increase related to Ordinance 121121. Each customer's account was charged a \$1 fee monthly that was deposited in a separate Marshall Water Depreciation reserve. Ordinance 4121139 increased that monthly deposit to a \$2 charge on each customer's account.

Customer meter deposits are maintained in separate accounts for service deposits for East Searcy County and the City of Marshall. The amount in the East Searcy County accounts as of May 31, 2021 and 2020 is \$11,500 and \$13,800, respectively.

City of Marshall, Arkansas
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Notes to Financial Statements
May 31, 2021 and 2020

NOTE 9 – LONG-TERM DEBT

Long-Term debt for the year ended May 31, 2021 consists of the following:

	<u>05/31/2020</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>05/31/2021</u>	<u>Due within 1 year</u>
Arkansas Natural Resource Commission Original loan \$104,287; interest 5% Annual Payments of \$8,368 beginning 12/1/2012.	74,172	-	4,659	69,513	4,892
USDA Rural Development; Original Bond \$412,000; interest 2.5%; Monthly payments of \$1,401 beginning 3/06/2020	409,640	-	5,976	403,664	6,790
USDA Rural Development; Original Bond \$1,738,000; interest 2.5%; Monthly payments of \$5,823 beginning 10/08/2010	<u>1,452,079</u>	<u>-</u>	<u>33,957</u>	<u>1,418,123</u>	34,821
Total Debt	1,935,891	-	44,592	1,891,300	
Less: Current Portion	<u>45,243</u>	<u>-</u>		<u>46,503</u>	
Net Long-Term Debt	<u>\$1,890,648</u>	<u>\$ -</u>	<u>\$ 44,592</u>	<u>\$1,844,797</u>	

Long-Term debt for the year ended May 31, 2020 consists of the following:

	<u>05/31/2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>05/31/2020</u>	<u>Due within 1 year</u>
Arkansas Natural Resource Commission Original loan \$104,287; interest 5% Annual Payments of \$8,368 beginning 12/1/2012.	78,610	-	4,438	74,172	4,659
Arkansas Natural Resource Commission Original loan \$128,956; Interest 3% Annual payments of \$10,802 Beginning 12/1/05	10,492	-	10,492	-	-
Arkansas Natural Resource Commission Original loan \$154,500; Interest 2%; annual payments of \$17,200 beginning 6/1/12	33,394	-	33,394	-	-
USDA Rural Development; Original Bond \$412,000; interest 2.50%, monthly payments of \$1,401 beginning 3/06/2020	412,000	-	2,360	409,640	6,622
USDA Rural Development; Original Bond \$1,738,000; interest 2.50% Monthly payments of \$5,823 beginning 10/08/2010	<u>1,485,167</u>	<u>-</u>	<u>33,088</u>	<u>1,452,079</u>	33,962
Total Debt	2,019,663	-	83,772	1,935,891	
Less: Current Portion	<u>65,985</u>	<u>-</u>		<u>45,243</u>	
Net Long-Term Debt	<u>\$1,953,678</u>	<u>\$ -</u>	<u>\$ 83,772</u>	<u>\$1,890,648</u>	

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Maturities of long-term debt for the year ending May 31, 2021 are as follows:

For the years ending:	Principal	Interest
2022	46,503	48,552
2023	47,801	47,256
2024	49,136	45,920
2025	50,512	44,544
2026	51,930	43,127
2027-2031	282,458	192,822
2032-2036	288,912	152,905
2037-2041	318,299	115,141
2042-2046	360,633	72,807
2047-2051	290,924	27,133
2052-2056	75,541	8,519
2057-2061	28,651	673
	<u>\$1,891,300</u>	<u>\$ 799,399</u>

Interest expense during the years ended May 31, 2021 and 2020 totaled \$50,464, and \$40,691, respectively.

NOTE 10 – BOND PAYABLE

In 2018, the Department contracted construction for the East Searcy County Water Extension Project. The total estimated cost of the construction, including bond issuance costs and interest payments during construction, is \$5,319,300. The City of Marshall, Arkansas Water and Wastewater Department received loan and grant funds for the project of \$2,110,000, with an additional \$9,300 of funding from the Department. East Searcy County received CDBG Grant funds of \$3,200,000 for related construction for the project funds.

To finance the costs of construction of the extension, the City issued the City of Marshall, Arkansas Water and Sewer Revenue Bond, dated December 12, 2017, in the aggregate principal amount of \$412,000. The Bond is not a general obligation of the City, but a special obligation payable solely from collections of revenues derived from the operation of the Department.

The United States Department of Agriculture Rural Development (USDA) simultaneously purchased the bond and issued a 40 year note to the Department. The bond secured the note and the two debt instruments were eventually treated as one long-term note. Payment terms resemble that of a note, but bond covenants were placed in the terms of the agreement.

The proceeds of the note are held by USDA. The Department requested draws as the contractors submitted applications for payment. As of May 31, 2019, the Department had drawn \$412,000. The City also has received grants from Rural Development to fund the remainder of the construction of the extension, in the amount of \$1,698,000 as of May 31, 2020 which totals the entire amount to be received for this project.

In 2010, the Department contracted construction of new sewer facilities. The total estimated cost of the construction, including bond issuance costs and interest payments during construction, is \$2,503,000.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

To finance the costs of construction of the new sewer facilities, the City issued the City of Marshall, Arkansas Water and Sewer Revenue Bond, dated October 8, 2009, in the aggregate principal amount of \$1,738,000. The Bond is not a general obligation of the City, but a special obligation payable solely from collections of revenues derived from the operation of the Department.

The United States Department of Agriculture Rural Development (USDA) simultaneously purchased the bond and issued a 40 year note to the Department. The bond secured the note and the two debt instruments were eventually treated as one long-term note. Payment terms resemble that of a note, but bond covenants were placed in the terms of the agreement.

The proceeds of the note were held by USDA. The Department requested draws as the contractors submitted applications for payment. As of May 31, 2011, the Department had drawn \$1,738,000. The Department began making monthly payments to Rural Development on October 8, 2010.

The City also received a grant from Rural Development to fund the remainder of the construction of the new sewer facilities. The grant agreement entitles the City to the lesser of \$765,000 or 30.56% of development costs. Grant proceeds began to be received after all bond proceeds had been expended. As of May 31, 2011, \$631,400 of the grant proceeds had been received by the Department. The remainder was disbursed by September 13, 2011, for total of grant funds of \$765,000 were fully disbursed.

NOTE 11 – WATER LINE REHABILITATION

The Department began construction in 2019 to replace the old water lines inside the city. The total estimated cost of the construction, including bond issuance costs and interest payments during construction is expected to be \$2,000,000.

To finance the costs of construction of the project, the City issued the City of Marshall, Arkansas Water and Sewer Revenue Bond, dated December 12, 2017, in the aggregate principal amount of \$1,200,000 and amended the amount to \$2,000,000 on April 10, 2018. In 2020, the bond was amended to add an additional \$95,675, which was disbursed in December 2020. This bond is a special obligation payable solely from the revenues derived from the operation of the Department.

The Arkansas Natural Resources Commission (ANRC) simultaneously purchased the bond and issued a revolving loan to the Department. The bond secures the note and the two debt instruments will be treated as one long-term note. This note; however, is forgivable. ANRC will forgive the principal amounts simultaneously as advances are made as long as the Department complies with the program requirements. In the event of non-compliance, ANRC may rescind the principal forgiveness provision and the amounts disbursed will become due and payable in accordance with payment schedule set forth in the agreement. As of May 31, 2019, \$2,095,675 of the revolving loan had been advanced and had been reported as grant revenues in 2019 and 2018.

NOTE 12 - PRINCIPAL OFFICERS

The following officials of the City of Marshall, Arkansas served as the principal officers of the Department during the year ended May 31, 2021. The Mayor and Recorder each serves a four year term, while each City Council Member serves a two year term.

Kevin Elliot	Mayor	Sonny Woods	Council Member
Misty England	Recorder	Jason Bradford	Council Member
Francie Busbee	Council Member	Nellie Castleman	Council Member
Scott Barnett	Council Member	Geraldine Littleton	Council Member

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

NOTE 13 – WATER AND SEWER RATES

Ordinance No. 4121139, which passed December 13, 2016 established new water and sewer. The water rate also increased the amount charged per customer monthly from \$1.00 to \$2.00 to fund a depreciation reserve. In February 2021 water rates were increased as a result of an increase from Ozark Mountain Regional PWA from \$6.45 per 1,000 gal to \$6.60 per 1,000 gal.

The new rates are as follows:

	<u>Water Rates</u>
	<u>Inside and Outside City Limits</u>
Minimum	\$37.20 minimum
For any amount	\$ 6.60 per 1,000 gal

Sewer Rates were as follows:

	<u>Sewer Rates</u>
First 2,000 gallons	\$21.25 minimum
Usage over 2,000 gallons	\$ 4.00 per 1,000 gallons

NOTE 14 – RETIREMENT PLAN

Plan Description

The Department participates in the Arkansas Public Employees Retirement Systems (APERS). APERS is a cost-sharing, multiple employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the Department is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The state of Arkansas issues an annual 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 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The Department contributes an actuarially determined amount to the plan, which was 15.32% through June 30, 2020 and 15.32% of annual covered payroll through May 31, 2021.

Contributions made by the Department were \$27,158 and \$30,200 for the years ended May 31, 2021 and 2020, respectively.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service,
- At any age with 28 years actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005),
- At age 55 with 35 years of credited service for elected or public safety officials.

The normal retirement benefit amount, paid on a monthly basis is determined by the member's final average salary and years of service. Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The Department's proportion of the Net Pension Liability was .009991482% (77% of the City's proportion of .01297595%) at June 30, 2020 which is an decrease of .0000303% since the prior measurement date.

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018 (excluding District Judges) June 30, 2019 (District Judges)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of percent of Payroll, Closed (Level Dollar, Closed For District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	26 years (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Actuarial Assumptions: Investment Rate of Return	7.15%
Inflation	3.25 wage inflation and 2.5% price inflation
Salary Increases	3.25%-9.85% including inflation (3.25%-6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017
Average Service Life of All Members	4.0486
Notes	None

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Long-Term Expected Return on Plan Assets

The System's policy in regard to allocation of its invested assets was established by the Board and is reviewed at least annually to determine if the asset allocation is consistent with an acceptable level of risk and volatility.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for 10-year period from 2020 to 2029 were based upon capital market assumptions provided by the System's investment consultants.

For each major asset class included in the pension plan's current asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	
Total Real Rate of Return		4.93%
Plus: Price Inflation – Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		0.00%
Net Expected Return		7.43%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's net pension liability, calculated using the current discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

	<u>1% Lower than Current rate (6.15%)</u>	<u>Current Rate (7.15%)</u>	<u>1% Higher than Current Rate (8.15%)</u>
Net Pension Liability	\$435,774	\$286,115	\$162,612

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

Pension Expense, and Deferred Inflow/Outflows of Resources related to Pensions

The Department's proportionate share of pension expense was \$29,867 as of the measurement date of June 30, 2020. At May 31, 2021, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,798	\$ 189
Changes due to proportion	11,724	19,375
Changes in assumptions	3,585	4,902
Net difference between projected and actual earnings on pension plan investments	45,244	14,970
System contributions subsequent to the measurement date	<u>25,169</u>	<u>-</u>
Total	<u>\$ 89,520</u>	<u>\$ 39,436</u>

\$25,169 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2022, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Net Increase (Decrease) in Pension Expense</u>
2022	\$ 1,934
2023	6,674
2024	9,449
2025	6,858
2026	<u>-</u>
Total	<u>\$ 24,915</u>

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The Department's accounts receivable in the prior year was understated by \$42,468 due to unbilled receivables; therefore, an adjustment to increase was net position and accounts receivable was posted as of May 31, 2020.

City of Marshall, Arkansas
Water and Wastewater Department
Notes to Financial Statements
May 31, 2021 and 2020

NOTE 16 – CONCENTRATIONS

The Department's business activities are concentrated with customers located in and near the City of Marshall, Arkansas. All of the future revenue is associated within the above-mentioned geographic region.

The Department extends credit to its customers in the normal course of business. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers and the relatively small individual accounts balances. Further, the Department requires the customers to pay a deposit for their water meter, which may be used to offset any outstanding account balance when the customer leaves the water system.

The Department purchases all of its water from one single supplier, Ozark Mountain Regional Public Water Authority. Purchases from this supplier were \$384,021 and \$397,241 for the years ended May 31, 2021 and 2020, respectively.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2022, the date at which the financial statements were available to be issued.

NOTE 18—CHANGES IN NET POSITION

The changes in net assets are as follows:

	Net Investment In Capital <u>Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Net position at May 31, 2019	4,974,692	329,423	193,046	5,497,161
Profit/(Loss)	3,266,208	-	227,519	3,493,727
Transfers	347,338	54,202	(401,540)	-
Net position at May 31, 2020	<u>\$ 8,588,238</u>	<u>\$ 383,625</u>	<u>\$ 19,025</u>	<u>\$ 8,990,888</u>
Prior period adjustment	-	-	42,468	42,468
Profit/(Loss)	-	-	227,737	227,737
Contributed Capital to Other Funds	-	-	(4,500)	(4,500)
Transfers	144,157	57,520	(201,677)	-
Net position at May 31, 2021	<u>\$ 8,732,395</u>	<u>\$ 441,145</u>	<u>\$ 83,053</u>	<u>\$ 9,256,593</u>

NOTE 19 – SINGLE AUDIT

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. The Office of Management and Budget (OMB) issued Circular A-128 and later Circular A-133 to provide guidance on the requirement. 2 CFR part 200, subpart F, which is the current guidance, requires single audits for entities expending more than \$750,000 of federal awards in a single fiscal year.

The Department is a component unit of the City of Marshall, Arkansas which operates on a calendar year end. Federal funds received by the Department are included in the city wide audit on a calendar year basis. At the most recent calendar year-end of December 31, 2019, the City of Marshall, including component units such as the City of Marshall, Arkansas Water and Wastewater Department had expended more than \$750,000 in federal awards; therefore, a single audit was required. A single audit is being performed by another auditor as of December 31, 2019.

Required Supplemental Information for Cost-Sharing Employer Plans

City of Marshall, Arkansas
Water and Wastewater Department
Required Supplemental Information for Cost-Sharing Employer Plans
Arkansas Public Employee Retirement System

Schedule of System's Proportionate Share of the Net Pension Liability

	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Department's proportion of the net pension liability	0.00999148%	0.01002179%	0.00667734%	0.00618962%	0.68150200%
Department's proportionate share of the net pension liability	\$ 286,115	\$ 241,779	\$ 147,298	\$ 159,948	\$ 162,971
Department's covered-employee payroll*	\$ 179,607	\$ 191,285	\$ 121,471	\$ 109,687	\$ 122,006
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	159.30%	126.40%	121.26%	145.82%	133.58%
Plan fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%	75.65%	75.50%
APERS discount rate	7.15%	7.15%	7.15%	7.15%	7.50%

Schedule of Required Contributions

	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Contractually required contribution	\$ 29,924	\$ 29,384	\$ 18,454	\$ 16,190	\$ 17,596
Contributions in relation to the contractually required contribution	(29,924)	(29,384)	(18,454)	(16,190)	(17,596)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered-employee payroll*	\$ 179,607	\$ 191,285	\$ 121,471	\$ 109,687	\$ 122,006
Contributions as a percentage of covered-employee payroll	16.66%	15.36%	15.19%	14.76%	14.42%

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10 -year trend is compiled, the Department will present information for only years in which information is available. Information has been determined as of the measurement date.

* Department's covered-employee payroll is as of Department's fiscal year end.

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

To the City Council
City of Marshall, Arkansas Water and Wastewater Department

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 the City of Marshall, Arkansas Water and Wastewater Department (the Department), as of and for the years ended May 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City of Marshall, Arkansas Water and Wastewater Department's basic financial statements and have issued our report thereon dated February 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Marshall, Arkansas Water and Wastewater Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Marshall, Arkansas Water and Wastewater Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Marshall, Arkansas Water and Wastewater 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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marshall, Arkansas Water and Wastewater 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas

February 25, 2022

City of Marshall, Arkansas
Water and Wastewater Department
Schedule of Audit Findings and Responses
May 31, 2021

FINDING 2021-1

Criteria : The Department is responsible for preparing its financial statements, and designing and implementing internal control over financial reporting to prevent, correct, and detect errors on a timely basis.

Condition : Certain transactions were not recorded in the Department's books and records in the period in which the underlying transaction occurred or consistent with the financial elements of the underlying transactions.

Cause : During the past several years there has been significant turnover in the recorder/treasurer position as well as new accounting software implemented by the Department and a lack of training for the new personnel and software.

Effect : Significant audit adjustments were required to record transactions, adjust previously recorded transactions to proper accounts, or reclassify the manner in which previously recorded amounts were presented.

Recommendation : We recommend management design and implement processes which include a review of transactions on a regular basis to determine whether all transactions are recorded in the proper period, are properly classified, and adjust previously recorded transactions based on the most recent information available. We also recommend training is provided to new staff participating in accounting functions and training be utilized when any new accounting software is implemented.

Response: The City of Marshall will comply with the criteria and follow the recommendation to the best of its ability.

City of Marshall, Arkansas
Water and Wastewater Department
Schedule of Insurance
May 31, 2021 and 2020

<u>Name of Insurer</u>	<u>Nature of Risk Covered</u>	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Arkansas Municipal Property Program	Property Insurance	07/14/2021	\$2,884,585
Arkansas Municipal Vehicle Program	Vehicle Liability	10/17/2021	25/50/25
Arkansas Municipal League	Workers' Compensation	12/31/2021	N/A

NOTE A – PROPERTY INSURANCE

The insurance through Arkansas Municipal Program Includes coverage of property owned by the Water and Wastewater Department, as well as properties belonging to other funds of the City of Marshall, Arkansas; however, the coverage listed covers only properties of the Water and Wastewater Department.

NOTE B – VEHICLE LIABILITY INSURANCE

The insurance coverage provided by Arkansas Municipal Vehicle Program is the minimum liability required in the State of Arkansas, \$25,000 per person for bodily injury, \$50,000 for each accident and \$25,000 for property damage. The Department is subject to a \$1,000 deductible. The City provides additional protection to the Department through governmental tort immunity for any damages over those limits.

City of Marshall, Arkansas
Water and Wastewater Department
Schedule of Service Users
May 31, 2021 and 2020

	Unaudited 2021		
	<u>Connected</u>	<u>Unconnected</u>	<u>Total</u>
Number of Users – Water	1,021	208	1,229
Number of Users – Sewer	645	201	846

	Unaudited 2020		
	<u>Connected</u>	<u>Unconnected</u>	<u>Total</u>
Number of Users – Water	978	326	1,304
Number of Users – Sewer	632	186	818