Huntsville Water and Waste Water Department
Huntsville, Arkansas

Independent Auditors' Report
with
Financial Statements
and
Supplemental Information

For the Years Ended December 31, 2024 and 2023

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Huntsville Water and Waste Water Department
Huntsville, Arkansas
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December 31, 2024 and 2023

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Independent Auditors' Report

To the Water and Waste Water Commission of
the Huntsville Water and Waste Water Department
Huntsville, Arkansas

Opinion

We have audited the accompanying financial statements of the Huntsville Water and Waste Water Department (the Department), an enterprise fund of the City of Huntsville, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Huntsville Water and Waste Water Department, as of December 31, 2024 and 2023, and the respective changes in net position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the Huntsville Water and Waste Water Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedules of operating expenses, schedule of revenues and expenses – compared to budget, schedule of principal and interest payments, schedule of commission members, schedule of insurance in force, and schedule of water and sewer rates are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2025 on our consideration of Huntsville Water and Waste Water 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 Huntsville Water and Waste Water Department's internal control over financial reporting and compliance.

Abacus CPAs, LLC

Springfield, Missouri

August 20, 2025

The management of the Huntsville Water and Waste Water Department (the Department) offers readers of the financial statements this overview and analysis of the financial activities of the Department for the years ended December 31, 2024 and 2023. The Department is governed by a Board of Commissioners appointed by the City of Huntsville, Arkansas's City Council. The Department is a separate entity from the City government and is accounted for separately as an enterprise fund.

Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful for sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The Department provides water and waste water services to residential, commercial and industrial customers in and around Huntsville, Arkansas.

Overview of the Financial Statements

This annual report includes this Management's Discussion and Analysis report, the Basic Financial Statements, the Notes to Financial Statements and Supplementary Information.

The financial statements report information of the Department using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Department's activities. The Statements of Net Position includes all the Department's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Department's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Department and assessing the liquidity and financial flexibility of the Department.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Department's operations over each year and can be used to determine whether the Department has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Highlights

	2024	2023	2022
Total Assets	$ 18,168,144	$ 17,894,855	$ 17,767,989
Deferred Outflows of Resources	136,816	226,590	262,645
Net Capital Assets	15,023,672	12,992,880	13,122,694
Total Liabilities	9,573,196	9,944,675	10,274,756
Deferred Inflows of Resources	51,759	55,430	26,006
Net Position Invested in Capital Assets	6,377,986	6,162,441	5,938,016
Restricted Net Position	1,701,847	1,386,493	1,191,826
Unrestricted Net Position	600,172	572,406	600,029
Total Net Position	8,680,005	8,121,340	7,729,871
Total Operating Revenues	4,860,824	3,759,784	3,499,002
Total Operating Expenses	4,046,509	3,111,730	2,949,697
Total Other (Expenses)	(255,650)	(256,585)	(293,578)
Increase in Net Position	558,665	391,469	255,727

Total Assets

Total assets increased approximately $273,000 from December 31, 2023 to 2024. Total assets increased approximately $127,000 from December 31, 2022 to 2023. The increases were due to construction of the water tank bond and related activity.

Net Capital Assets

Net capital assets increased approximately $2,031,000 from December 31, 2023 to 2024. This increase is due to the tank project placed in service and SBITA asset. Net capital assets decreased approximately $130,000 from December 31, 2022 to 2023. This decrease is due to an increase in accumulated depreciation of $577,000, offset by additions of approximately $447,000.

Total Liabilities

Total liabilities decreased approximately $371,000 from December 31, 2023 to 2024. This decrease is due primarily to a decrease of Bonds Payable. Total liabilities decreased approximately $330,000 from December 31, 2022 to 2023. This decrease is due primarily to a decrease of Long-Term Liabilities, Bonds Payable, and Net Pension Liability, of approximately $393,000.

Total Net Position

Total net position increased approximately $559,000 from December 31, 2023 to 2024, primarily due to operating income increase. Total net position increased approximately $391,000 from December 31, 2022 to 2023, primarily due to other revenues (expenses) decreasing by approximately $37,000 and revenues increasing by $260,000.

Total Operating Revenues

Total operating revenues increased approximately $1,101,000 from December 31, 2023 to 2024. This increase was primarily due to increases in water and waste water rates and usage. Total operating revenues increased approximately $261,000 from December 31, 2022 to 2023. This increase was primarily due to increases in water and waste water revenue of approximately $313,000.

Total Operating Expenses

Total operating expenses increased approximately $935,000 from December 31, 2023 to 2024. This was primarily due to increase in purchased water in 2024. Total operating expenses increased approximately $162,000 from December 31, 2022 to 2023. This was primarily due to increase in engineering and consulting fees in 2023.

Total Other Income (Expense)

Total other income (expense) decreased approximately $1,000 from December 31, 2023 to 2024. This change was due primarily interest expense on Tank Bond Project offset by increase in interest income. Total other income (expense) decreased approximately $37,000 from December 31, 2022 to 2023. This decrease was due primarily interest expense on Tank Bond Project.

Contacting the Department's Financial Management

The Department’s financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Department’s finances and to demonstrate the Department’s accountability. If you have questions about the report or need additional financial information, please contact Sean Davis, Director, at 112 W. War Eagle Ave, Huntsville, Arkansas 72740.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Statements of Net Position
As of December 31, 2024 and 2023

Assets

	2024	2023
Current Assets		
Cash and cash equivalents	$ 1,033,214	$ 905,458
Accounts receivable	243,336	368,995
Inventories	126,708	125,885
Prepaid expenses	1,890	2,415
Total Current Assets	**1,405,148**	**1,402,753**
Restricted Assets		
Cash and cash equivalents	1,340,057	1,244,893
Meter deposits	143,194	141,600
Cash held by a fiscal agent	218,596	-
Net Restricted Assets	**1,701,847**	**1,386,493**
Capital Assets		
Property and Equipment		
Land	21,000	21,000
Property and equipment, at cost	24,253,868	21,758,185
Accumulated depreciation	(9,341,700)	(8,786,305)
Net Property and Equipment	**14,933,168**	**12,992,880**
Right-to-Use Assets		
SBITA Right-to-Use Asset	109,588	-
Accumulated amortization	(19,084)	-
Net Right-to-Use Assets	**90,504**	**-**
Total Capital Assets	**15,023,672**	**12,992,880**
Other Assets		
Bond discount, net of amortization of $10,736 and $9,034	36,277	37,979
Deposits	1,200	1,200
Due from City - Construction Revenue Bond	-	2,073,550
Total Other Assets	**37,477**	**2,112,729**
Deferred Outflows of Resources		
Deferred pension outflows	136,816	226,590
Total Deferred Outflows of Resources	**136,816**	**226,590**
Total Assets and Deferred Outflows of Resources	**$ 18,304,960**	**$ 18,121,445**

See Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Statements of Net Position
As of December 31, 2024 and 2023

Liabilities and Net Position

	2024	2023
Current Liabilities		
Accounts payable	$ 56,539	$ 103,566
Accrued liabilities	109,111	83,743
Current portion subscription liability	24,517	-
Total Current Liabilities	**190,167**	**187,309**
Current Liabilities Payable from Restricted Assets		
Accrued interest	28,608	33,171
Current portion of bonds payable	360,661	344,304
Meter deposits	143,194	141,600
Total Current Liabilities Payable from Restricted Assets	**532,463**	**519,075**
Long-Term Liabilities		
Bonds payable, net of current portion	8,202,190	8,564,493
Subscription liability, net of current portion	54,179	-
Net pension liability	594,197	673,798
Total Long-Term Liabilities	**8,850,566**	**9,238,291**
Deferred Inflows of Resources		
Deferred pension inflows	51,759	55,430
Total Deferred Inflows of Resources	**51,759**	**55,430**
Total Liabilities and Deferred Inflows of Resources	**9,624,955**	**10,000,105**
Net Position		
Invested in capital assets, net of related debt	6,377,986	6,162,441
Restricted for:		
Meter deposits	143,194	141,600
Debt service	1,558,653	1,244,893
Unrestricted	600,172	572,406
Total Net Position	**8,680,005**	**8,121,340**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 18,304,960**	**$ 18,121,445**

See Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2024 and 2023

	2024	2023
Operating Revenues		
Water	$ 2,552,014	$ 1,965,806
Waste water	2,270,499	1,776,605
Other income	38,311	17,373
Total Operating Revenues	**4,860,824**	**3,759,784**
Operating Expenses		
Water department	2,054,655	1,406,595
Waste water department	1,238,541	1,135,125
Administrative	753,313	570,010
Total Operating Expenses	**4,046,509**	**3,111,730**
Operating Income	**814,315**	**648,054**
Non-Operating Revenues (Expenses)		
Interest income	84,791	74,034
Gain (loss) on disposal of property and equipment	3,800	-
Interest expense and paying agent's fees	(341,631)	(330,619)
Interest on SBITAs	(2,610)	-
Total Non-Operating (Expenses)	**(255,650)**	**(256,585)**
Increase in Net Position	**558,665**	**391,469**
Net Position, Beginning of Year	**8,121,340**	**7,729,871**
Net Position, End of Year	**$ 8,680,005**	**$ 8,121,340**

See Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Cash Received From:		
Water and waste water services	$ 4,948,172	$ 3,636,768
Other operating activities	38,311	17,373
Cash Paid for:		
Salaries, wages and related benefits	(752,488)	(714,269)
Water	(1,396,883)	(936,670)
Administrative and other expenses	(1,289,873)	(922,191)
Net Cash Provided by Operating Activities	**1,547,239**	**1,081,011**
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(345,946)	(356,203)
Principal payments on subscriptions	(10,258)	-
Due from City - Construction Revenue Bond	2,000,112	-
Bond interest and fees	(339,929)	(328,917)
SBITA Interest	(2,610)	
Purchases of property and equipment	(2,495,683)	(446,905)
Proceeds for asset disposal	3,800	-
Net Cash (Used in) Capital and Related Financing Activities	**(1,190,514)**	**(1,132,025)**
Cash Flows from Investing Activities		
Increase in meter deposits	1,594	12,942
Interest income	84,791	74,034
Net Cash Provided by Investing Activities	**86,385**	**86,976**
Net Increase in Cash and Equivalents	**443,110**	**35,962**
Cash and Cash Equivalents, Beginning of Year	**2,291,951**	**2,255,989**
Cash and Cash Equivalents, End of Year	**$ 2,735,061**	**$ 2,291,951**

	2024	2023
Reconciliation of Increase (Decrease) in Net Position		
to Cash Flows from Operating Activities		
Operating income	$ 814,315	$ 648,054
Depreciation and Amortization	627,281	576,719
Changes in Current Assets and Liabilities:		
Accounts receivable	125,659	(105,643)
Inventory	(823)	(114,362)
Prepaid expenses	525	(2,415)
Deferred pension outflows	89,774	36,055
Accounts payable	(47,027)	55,949
Accrued liabilities	20,807	(16,787)
Net pension liability	(79,601)	(25,983)
Deferred pension inflows	(3,671)	29,424
Net Cash Provided by Operating Activities	**$ 1,547,239**	**$ 1,081,011**
Supplementary Information		
Cash Paid for Interest	**$ 346,194**	**$ 330,357**

See Accompanying Notes to Financial Statements.

1. Summary of Significant Accounting Policies

Nature of Activity

The City of Huntsville, Arkansas (the City) is a municipality governed under an elected Mayor-Council form of government. The Huntsville Water and Waste Water Department (the Department) is governed by a Board of Commissioners appointed by the City Council and provides water and waste water services to the residents of the Huntsville and surrounding communities.

Reporting Entity

The financial statements present only the Water and Waste Water Department and are not intended to present fairly the financial position and results of operations of the City of Huntsville, Arkansas. For financial reporting purposes, 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) of providing goods and services to the general public on a continuing basis 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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues and expenses along with the related assets and liabilities are recorded in the period in which the transactions occur, regardless of when the related cash is received or disbursed.

Budgets and Budgetary Accounting

State law requires that the Board of Commissioners, before the end of each fiscal year, make appropriations, by ordinance, for the expenditures of City government for the following year. The Board of Commissioners 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 Department prepared an annual budget on the regulatory basis of accounting for the Water and Waste Water Department.

1. Summary of Significant Accounting Policies - (continued)

Fair Value

The Department categorizes the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Department's cash and cash equivalents are measured at Level 1.

Cash Equivalents

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

Accounts Receivable

The accounts receivable are stated in the balance sheet at their estimated realizable value. The Department accounts for bad debts using the direct charge-off method, directly expensing receivables which management deems uncollectible. The direct charge-off method provides results similar to the reserve method in all material respects. Based on management's assessment of the credit history with customers having outstanding balances, current relationships with them, and forecasts, it has concluded that realization losses on balances outstanding at year end will be immaterial.

Inventory

Inventory consists of various materials held for use to repair and maintain existing operations. Inventory is valued at average cost, which approximates the first-in, first-out method. Inventory will be valued at the lower of cost or net realizable value.

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 specified purposes, such as servicing bond debt or construction of capital assets.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 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 charged to expense as incurred; while major replacements and improvements are capitalized.

1. **Summary of Significant Accounting Policies - (continued)**

Long-Lived Assets

Impairment of capital assets is a significant and unexpected decline, which is based on triggering events or changes in circumstances that were not anticipated when the capital assets were placed in service. Based on management's assessment, no triggering events or changes in circumstances occurred during the years ended December 31, 2024 and 2023.

Net Position Classifications

Net Position is classified and presented as follows:

Net Position Invested in Capital Assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with constraints placed on the use either 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 Net Position consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Revenue Recognition

Revenues are recognized when earned, based upon customer usage or when the service is provided. Water and waste water revenues are billed to the residents in monthly cycles.

Classification of Revenues

Operating revenues consist of water and waste water sales and other services to customers. Non-operating revenues consist of state reimbursements, interest income and miscellaneous income.

Advertising

The Department follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2024 and 2023 were $350 and $739, respectively.

Restricted Resources

Under the terms of grant agreements, the Department funds certain infrastructure improvements by a combination of specific improvement-reimbursement grants and general revenues. Thus, when infrastructure improvements are incurred, there may be both 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 revenues.

1. **Summary of Significant Accounting Policies - (continued)**

Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System ("APERS") and additions to or deductions from the APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Therefore, these items will not be recognized as an expense or expenditure until a future period.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. Therefore, these items will not be recognized as revenue until a future period.

Compensated Absences

The Department has a policy whereby employees can accumulate unused sick and vacation leave. Upon termination or retirement, the Department will pay all accrued vacation. The Department has accrued the separation portion of this liability as accrued compensated absences, which totaled $61,110 and $59,734 at December 31, 2024 and 2023, respectively.

Income Taxes

Income of the Department is derived from the exercise of essential governmental functions and accrues to the Department, a component unit of the Huntsville. It is, therefore, not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

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.

Reclassification

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

1. Summary of Significant Accounting Policies - (continued)

Leases

GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Department leases certain equipment. The determination of whether an arrangement is a lease is made at the lease's inception. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating lease right-of-use "ROU" assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Department uses the implicit rate when it is readily determinable, or the risk free rate. Since most of the Department's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the Department's incremental borrowing rate based on the information available at lease commencement. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Department's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option, generally not longer than 5 years.

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets, as of December 31, 2024 and 2023 the Department did not have any finance leases.

Subscription-Based Information Technology Arrangements (SBITAs)

The Governmental Accounting Standards Board (GASB) issued Statement No. 96, Subscription Based Information Technology Arrangements (SBITAs) (GASB 96) to establish uniform accounting and financial reporting requirements for SBITAs, to improve comparability offinancial statements among entities under GASB that have entered into SBITAs, and to enhanceunderstandability, relatability, relevance and consistency of information about SBITAs.

1. **Summary of Significant Accounting Policies - (continued)**

Subscription-Based Information Technology Arrangements (SBITAs) - (continued)

The Department has entered into contracts that convey control of the right to use information technology software. The Department has recognized an IT subscription liability and an intangible right-to-use IT subscription asset in the government-wide financial statements. At the commencement of the IT subscription term, the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the IT subscription liability is reduced by the principal portion of payments made. The right-to-use an IT subscription asset is initially measured as the sum of the initial IT subscription liability, adjusted for payments made at or before the commencement date, plus capitalization implementation costs less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subsequently, the right-to-use IT subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to IT subscription arrangements include how the Department determines the discount rate it uses to discount the expected payments to present value, term, and payments. The Department uses the interest rate charged by the IT subscription vendor as the discount rate. When the interest rate charged by the vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate, or risk free rate.

The IT subscription term includes the noncancellable period of the subscription. Payments included in the measurement of the liability are composed of fixed payments.

The Department monitors changes in circumstances that would require a remeasurement of its IT subscription and will remeasure the right-to-use IT subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Adoption of New Accounting Standards

GASB 96 - Subscription-Based Information Technology Arrangements

In 2020, the Governmental Accounting Standards Board (GASB), released GASB 96. The Department implemented Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), as of January 1, 2023. The objectives of this GASB 96 are to define a subscription-based information technology arrangement (SBITA); establish that a SBITA results in a right-of-use subscription asset – an intangible asset – and a corresponding subscription liability; provide the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and require note disclosures regarding a SBITA. The implementation of GASB 96 had no effect on the financial statements as of January 1, 2023 for the adoption of GASB 96.

1. Summary of Significant Accounting Policies - (continued)

Adoption of New Accounting Standards

ASC 326 - Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Codification (FASB ASC) 326, Financial Instruments - Credit Losses which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provided users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Department that are subject to the guidance in FASB ASC 326 were trade accounts receivable.

The Department adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statement and primarily resulted in new/enhanced disclosures only.

GASB 100 - Accounting Changes and Error Corrections

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62) (“GASB 100”), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general. The requirements of GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and for all reporting periods thereafter. The Department adopted the standard effective January 1, 2024. Adoption of the provisions of this statement did not have a material effect on the Department's financial statements.

GASB 101 - Compensated Absences

In June 2022, the GASB issued Statement No. 101, Compensated Absences (“GASB 101”), which supersedes the guidance in Statement No. 16, Accounting for Compensated Absences, issued in 1992. This statement updates the recognition and measurement guidance for compensated absences. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means should generally be recognized at the employee’s pay rate as of the financial statement date. The standard also includes guidance for types of leave other than vacation, requires accrual of salary related payments, and changes the disclosure requirements. The Department adopted the standard effective January 1, 2023. Adoption of the provisions of this statement did not have a material effect on the Department's financial statements.

2. Financial Instruments with Risk of Accounting Loss

As of December 31, 2024, financial instruments that could potentially subject the Department to a risk of accounting loss consists of restricted and unrestricted Cash and Cash Equivalents and Certificates of Deposit, exclusive of petty cash, carried at fair market value, as follows:

	Bank Balance	Carrying Balance
Insured (FDIC)	$ 718,596	$ 718,596
Collateralized by pledged securities	1,477,571	1,560,502
Other assets held in trust	631,463	455,963
Total	**$ 2,827,630**	**$ 2,735,061**

3. Cash, Cash Equivalents and Certificate of Deposit

Cash, cash equivalents and certificates of deposit consisted of the following:

	2024	2023
Unrestricted		
Cash on hand	$ 925	$ 925
Revenue funds	5,229	9,860
Operating funds	1,027,060	894,673
Total Unrestricted	**1,033,214**	**905,458**
Restricted		
Bonds funds	707,984	668,849
Depreciation funds	545,331	544,765
Vehicle funds	86,742	31,279
Meter deposit funds	143,194	141,600
Cash held by a fiscal agent	218,596	-
Total Restricted	**1,701,847**	**1,386,493**
Total Cash, Cash Equivalents, and Certificates of Deposit	**$ 2,735,061**	**$ 2,291,951**

4. Restricted Assets

Restricted assets include cash reserves restricted by the Series 2016 Bond covenants and Series 2022 Bond covenants. These covenants establish the bond funds, reserve funds, the manner of accumulation and the allowable expenditures as follows.

Bond Fund

The Series 2016 Bonds requires the Department to make monthly transfers into a Bond Fund Account an amount equal to 1/6th of interest and 1/12th of principal due of the next installment. The deposits are to be used to make the required bond payments. The required minimum balance at December 31, 2024 and 2023 was $47,284 and $47,299, respectively.

The Series 2022 Bonds require the department to make monthly transfers into a Bond Fund Account a sum equal to the interest and principal due on the next monthly installment of the bond payment in addition to $388 or 10% of the monthly interest payment for the following month. The required minimum balance at December 31, 2024 and 2023 was $72,038 and $46,512, respectively. The City maintained minimum balance during construction and continues to maintain minimum balance in a separate account that is recorded in cash held by fiscal agent on the Department's restricted cash for the year ended December 31, 2024.

Debt Service Reserve

The Department is required to maintain an amount equal to the maximum annual principal and interest requirements of the Series 2016 Bonds. The deposits are to be held in reserve in the event that the Department fails to make the required bond payments. The required minimum balance at December 31, 2024 and 2023 was $567,869 and $567,869, respectively.

The Department is required to maintain an amount equal to the maximum annual principal and interest requirements of the Series 2022 Bonds. The deposits are to be held in reserve in the event that the Department fails to make the required bond payments. The required minimum balance at December 31, 2024 and 2023 was $69,832 and $69,832, respectively. The City maintains minimum balance in a separate account that is recorded in cash held by fiscal agent on the Department's restricted cash for the year ended December 31, 2024.

Depreciation

Under the bond agreements, the Department is required to set aside amounts for the cost of necessary repairs or replacements made necessary by the depreciation of the system or to prevent a default on system bonds. The agreement requires a monthly transfer of 5% and 5% of the net revenues for the preceding month, for the year ended December 31, 2024 and 2023, respectively.

All debt covenant requirements were met as of December 31, 2024 and 2023.

5. <u>Property and Equipment</u>

Major classifications of property and equipment are as follows:

	12/31/2023	Additions	Retirements	12/31/2024
Land	$ 21,000	$ -	$ -	$ 21,000
Equipment	1,521,670	96,930	(52,802)	1,565,798
Water and sewer system	19,444,807	2,409,770	-	21,854,577
Construction in process	791,708	541,785	(500,000)	833,493
Total property and equipment	21,779,185	3,048,485	(552,802)	24,274,868
Accumulated depreciation	(8,786,305)	(608,197)	52,802	(9,341,700)
Net property and equipment	**$ 12,992,880**	**$ 2,440,288**	**$ (500,000)**	**$ 14,933,168**

	12/31/2022	Additions	Retirements	12/31/2023
Land	$ 21,000	$ -	$ -	$ 21,000
Equipment	1,456,614	65,056	-	1,521,670
Water and sewer system	19,354,666	90,141	-	19,444,807
Construction in process	500,000	291,708	-	791,708
Total property and equipment	21,332,280	446,905	-	21,779,185
Accumulated depreciation	(8,209,586)	(576,719)	-	(8,786,305)
Net property and equipment	**$ 13,122,694**	**$ (129,814)**	**$ -**	**$ 12,992,880**

Depreciation expense for the years ended December 31, 2024 and 2023 was $608,197 and $576,719, respectively.

6. Long-Term Debt

Long-term debt consisted of the following:

	12/31/2023	Additions	Retirements	12/31/2024
2016A Water and Sewer Revenue Bonds. Payable to Bank of Ozarks, Trustee, in semi-annual principal payments of $115,000 to $215,000 with variable interest through 2036.	$ 4,640,000	$ -	$ (295,000)	$ 4,345,000
2016B Water and Sewer Revenue Bonds. Payable to Bank of Ozarks, Trustee, in semi-annual payments of interest at 5.0% until 2036, then semi-annual payments of interest and payments of $85,000 to $265,000 of interest and principal through 2041.	2,250,000	-	-	2,250,000
2022A Water and Sewer Revenue Bonds. Payable to Simmons Bank, Trustee, bearing interest of 4.45%, with semi-annual payments of $69,000 to $274,000 of interest and principal through 2041.	860,000	-	(30,000)	830,000
2022B Water and Sewer Revenue Bonds. Payable to USDA, bearing interest of 2.375%, with monthly payments of $3,720 through 2062.	1,158,797	-	(20,946)	1,137,851
Total debt	**8,908,797**	**-**	**(345,946)**	**8,562,851**
Less: current portion	(344,304)			(360,661)
Long-term portion	**$ 8,564,493**			**$ 8,202,190**

6. Long-Term Debt - (continued)

Maturities of long-term debt for the years ending December 31 are as follows:

	Principal
2025	$ 360,661
2026	370,599
2027	381,041
2028	396,492
2029	406,953
2030-2034	2,222,038
2035-2039	2,780,146
2040-2044	1,004,722
2045-2049	160,930
2050-2054	178,952
2055-2059	198,995
2060-2062	101,322
Total	**$ 8,562,851**

Interest expense, net of amortization of bond discount, for the years ended December 31, 2024 and 2023 totaled $335,531, and $319,195, respectively.

7. Subscription Based Information Technology Arrangements (SBITAs)

The Department has entered into subscription based-information technology arrangements (SBITAs) for accounting, billing, and cloud communications. The SBITA arrangements expire at various dates through 2029.

As of December 31, 2024 and 2023, SBITA assets totaled $109,588 and $0 respectively and the related accumulated amortization totaled $19,084 and $0, respectively. Amortization expense was $19,084 and $0 for the year ended December 31, 2024 and 2023, respectively. Interest expense was $2,610 and $0 for the year ended December 31, 2024 and 2023, respectively.

	12/31/2023	Additions	Subtractions	12/31/2024
SBITA Right-to-Use Asset	$ -	$ 109,588	$ -	$ 109,588
Accumulated amortization	-	(19,084)	-	(19,084)
Total SBITA Assets, net	**$ -**	**$ 90,504**	**$ -**	**$ 90,504**
Subscription Liabilities	**$ -**	**$ 88,954**	**$ (10,258)**	**$ 78,696**

7. **Subscription Based Information Technology Arrangements (SBITAs) - (continued)**

	12/31/2022	Additions	Retirements	12/31/2023
SBITA Right-to-Use Asset	$ -	$ -	$ -	$ -
Accumulated amortization	-	-	-	-
Total SBITA Assets, net	$ -	$ -	$ -	$ -
Subscription Liabilities	$ -	$ -	$ -	$ -

The future subscription payments under SBITA agreements are as follows:

	Principal	Interest	Total Payments
2025	$ 24,517	$ 3,061	$ 27,578
2026	25,587	1,991	27,578
2027	13,319	910	14,229
2028	13,046	382	13,428
2029	2,227	11	2,238
Total Payments	**$ 78,696**	**$ 6,355**	**$ 85,051**

8. **Restricted Net Position**

Restricted Net Position has been reserved by bond covenants or capital projects restrictions in the amount of related restricted assets.

9. **Water and Sewer Rates**

The Department's water sales statistics during the years ended December 31, 2024 and 2023 were as follows:

	2024	2023
Number of customers - end of year	1,422	1,422
Number of customers - beginning of year	1,422	1,385
Increase	-	**37**
Gallons of Water Sold	**504,289,800**	**500,977,570**

10. Defined Benefit Pension Plan

The employees of the Department are members of the Arkansas Public Employees Retirement System (APERS). The Governmental Accounting Standards Board established a new standard, GASB Statement No. 68, for measuring and recognizing pension liabilities, deferred inflows and outflows of resources and expenses for fiscal years beginning after June 15, 2014. The Department adopted GASB Statement No. 68 on January 1, 2018.

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

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 the 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 System is vested in the thirteen 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. and four additional board positions that were added in Act 686 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other by the Senate.

10. Defined Benefit Pension Plan - (continued)

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 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but 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), or
- at age 55 with 35 years of credited service for elected or public safety officials

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.

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

10. **Defined Benefit Pension Plan - (continued)**

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. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. 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, 2024. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

The Department contributed 15.32% of compensation for the years ended December 31, 2024 and 2023.

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.

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

The collective Net Pension Liability of $2,488,121,912 was measured as of June 30, 2024, 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.

Deferred outflows of resources and deferred inflows of resources related to pensions for your employer are as follows:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 23,060	$ (24,294)
Changes in proportion and differences between contributions and proportionate share of contribution	22,840	(27,465)
Changes of assumptions	20,707	-
Net difference between projected and actual earnings on pension plan investments	17,237	-
Contributions made subsequent to the measurement date	52,972	-
Total	**$ 136,816**	**$ (51,759)**

10. **Defined Benefit Pension Plan - (continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions - (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

2025	$	(6,041)
2026		75,238
2027		(22,891)
2028		(14,221)

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Close (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	16 years (5.6 years for District Judges New Plan/Paid Off Old Plan and 12 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Investment Rate of Return	7.00%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 - 9.85% including inflation (3.25% - 6.96% including inflation for District Judge)
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 rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017. Based on the PubG-2010 Amount-Weighted Below-Median Income General Retiree mortality tables for males and females. Mortality rates are multiplied by 114% for males and 132% for females and are adjusted for fully generational mortality improvements using Scale MP-2021.
Avg Service Life of All Members	3.6281

10. Defined Benefit Pension Plan - (continued)

Actuarial Assumptions

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 (expected returns, net of pension plan investment expense and inflation) 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 target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2024 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
Total	**100%**	
Total Real Rate of Return		4.94%
Plus: Price Inflation-Actuary Assumption		2.50%
Net Expected Return		**7.44%**

Discount Rate

A single discount rate of 7% 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%. 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.

10. Defined Benefit Pension Plan - (continued)

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

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate:

Sensitivity of Discount Rate		
1% Lower 6%	Discount Rate 7%	1% Higher 8%
$ 1,013,914	$ 594,197	$ 248,171

Funding Policy

APERS has contributory and noncontributory plans. Contributory members are required to contribute 5% of their salary. Each participating employer is required 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% from July 1, 2024 and 15.32% from July 1, 2023 of annual covered payroll.

11. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Department is covered by property and casualty insurance policies on real and personal property, including vehicles, and liability under the Arkansas's insurance policies with the Arkansas Municipal League Program. 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.

12. Commitments and Contingencies

In the normal course of operations, the Department receives grant funds from various federal and state agencies. The grant programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The Department believes any liability for reimbursement, which may arise as a result of audits of grant funds, would not be material.

13. Concentrations and Economic Dependency

The Department's business activities are concentrated with customers located in and near the City of Huntsville, Arkansas. The local economy is highly dependent on the poultry industry. All of the future revenue is associated within the above-mentioned geographic region.

One customer accounted for approximately 55% of the water revenues, 76% of the waste water revenues and 67% of the total water and waste water revenues for the year ended December 31, 2024. One customer accounted for approximately 60% of the water revenues, 75% of the waste water revenues and 70% of the total water and waste water revenues for the year ended December 31, 2023

The Department purchases water from the Madison County Regional Water District. This is the Department's only contracted source of water.

Financial instruments which potentially subject the Department to concentrations of credit risk consist primarily of trade receivables with a variety of customers and cash and cash investments deposited with financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the Department's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Department performs ongoing credit evaluations of its customers. Customer meter deposits are available to the Department to apply to any amounts due upon termination of service.

The Department maintains cash and cash equivalents with local financial institutions, in which the Department's deposits are insured by the FDIC up to $250,000 per financial institution. At times during the years ended December 31, 2024 and 2023, the Department's balances did exceed the amount insured. When this occurs, the uninsured balances are collateralized by securities pledged to the Department by the financial institutions.

14. Conduit Debt & Restricted Cash

During 2022, the Department had entered into two separate conduit debt agreements involving the City and the external lenders, USDA and Simmons Bank for the purpose of financing the construction of a new water tank, as described in Note 6. This disclosure statement provides detailed information about the nature of the agreements, the responsibilities of the Water District, and the financial implications.

Simmons Bank and the USDA have issued debt to the City. The City, acting as a conduit issuer, used the proceeds from the debt to finance the design, construction, and installation of a water tank. Upon completion of the construction, the water tank will be recognized as an asset on the financial statements of the Department. This was reflected in the financials as Due from City until completion of the water tank for the years ended December 31, 2023 and 2022 in the amount of $2,073,550.

14. Conduit Debt & Restricted Cash - (continued)

Although issued to the City, the Department is solely responsible for repaying the debt. The repayment of the debt will be funded from the Department's operating revenues. The debt is reflected as a liability on the financial statements.

During the year ended December 31, 2024, construction of the water tank was completed. At year-end, the City continued to hold unspent bond proceeds of $218,596 on behalf of the Department. These amounts are reported in the accompanying financial statements as Restricted Cash with Fiscal Agent, as their use is externally restricted by the bond agreement for debt service and bond payments. See Note 4 for covenants.

15. Restatement due to Error Correction

During 2024, the Government identified that certain construction-related expenditures incurred during 2023 were incorrectly recorded as expenses in the governmental activities rather than capitalized as construction in progress. The correction of this error resulted in an increase to capital assets of $291,708 and an increase to beginning net position for governmental activities of $235,351 as of January 1, 2024.

Accordingly, the 2023 comparative financial statements have been restated to reflect this correction.

	12/31/2024
Beginning net position, as previously reported	$ 7,885,989
Correction of an error	235,351
Beginning net position, as restated	**$ 8,121,340**

16. Subsequent Events

Management has evaluated subsequent events through August 20, 2025, the date on which the financial statements were available to be issued.

Supplemental Information

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedules of Operating Expenses
December 31, 2024 and 2023

	2024	2023
Water Department Operating Expenses		
Purchased water	$ 1,396,883	$ 936,670
Salaries and wages	192,083	132,659
Depreciation	191,354	159,876
Repairs and maintenance	237,670	154,238
Utilities	11,939	10,963
Other	24,726	12,189
Total Water Department Operating Expenses	**2,054,655**	**1,406,595**
Waste Water Department Operating Expenses		
Salaries and wages	194,151	178,572
Depreciation	416,843	416,843
Repairs and maintenance	131,370	117,982
Utilities	237,993	233,717
Chemicals and samples	120,097	116,143
Other	138,087	71,868
Total Waste Water Department Operating Expenses	**1,238,541**	**1,135,125**
Administrative Operating Expenses		
Salaries and wages	205,703	221,085
Amortization	19,084	-
Office and administration	14,175	22,620
Uniforms	12,678	10,669
Professional fees	61,304	71,893
Insurance	26,768	(938)
Licenses and fees	10,005	21,278
Repairs and maintenance	57,503	34,051
Retirement	92,908	117,873
Vehicle	25,105	13,773
Maintenance shop	9,920	36,733
Payroll taxes and benefits	99,513	86,790
Other	118,647	(65,817)
Total Administrative Operating Expenses	**753,313**	**570,010**
Total Operating Expenses	**$ 4,046,509**	**$ 3,111,730**

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Revenues and Expenses - Compared to Budget
December 31, 2024

	Actual	Budget	Over (Under) Budget
Total Operating Revenues	$ 4,860,824	$ 4,955,470	$ (94,646)
Water Department Operating Expenses			
Purchased water	1,396,883	1,376,988	19,895
Salaries and wages	192,083	203,531	(11,448)
Depreciation	191,354	378,000	(186,646)
Repairs and maintenance	237,670	130,000	107,670
Utilities	11,939	12,500	(561)
Other	24,726	10,000	14,726
Total Water Department Operating Expenses	2,054,655	2,111,019	(56,364)
Waste Water Department Operating Expenses			
Salaries and wages	194,151	185,000	9,151
Depreciation	416,843	702,000	(285,157)
Repairs and maintenance	131,370	155,000	(23,630)
Utilities	237,993	287,500	(49,507)
Chemicals and samples	120,097	150,000	(29,903)
Other	138,087	13,000	125,087
Total Waste Water Department Operating Expenses	1,238,541	1,492,500	(253,959)
Administrative Operating Expenses			
Salaries and wages	205,703	178,783	26,920
Amortization	19,084	-	19,084
Office and administration	14,175	30,000	(15,825)
Uniforms	12,678	13,500	(822)
Professional fees	61,304	380,000	(318,696)
Insurance	26,768	27,500	(732)
Licenses and fees	10,005	6,000	4,005
Repairs and maintenance	57,503	50,000	7,503
Retirement	92,908	75,517	17,391
Vehicle	25,105	-	25,105
Maintenance shop	9,920	-	9,920
Payroll taxes and benefits	99,513	86,842	12,671
Other	118,647	68,000	50,647
Total Administrative Operating Expenses	753,313	916,142	(162,829)
Total Operating Expenses	4,046,509	4,519,661	(473,152)
Operating Income	814,315	435,809	378,506
Total Non-Operating (Expenses) Revenues	(255,650)	52,000	(307,650)
Increase in Net Position	$ 558,665	$ 487,809	$ 70,856

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Principal and Interest Payments
Water and Sewer Revenue Bonds, Series 2016A
As of December 31, 2024

	Principal June 1	Principal December 1	Interest June 1	Interest December 1	Total Payment
2025	$ 150,000	$ 155,000	$ 74,951	$ 72,364	$ 452,315
2026	155,000	160,000	69,690	67,016	451,706
2027	160,000	165,000	64,256	61,496	450,752
2028	165,000	170,000	58,650	55,718	449,368
2029	170,000	175,000	52,785	49,766	447,551
2030	175,000	180,000	46,748	43,642	445,390
2031	180,000	185,000	40,538	37,346	442,884
2032	185,000	190,000	34,155	30,878	440,033
2033	190,000	195,000	27,514	24,064	436,578
2034	195,000	200,000	20,614	17,078	432,692
2035	200,000	205,000	13,455	9,833	428,288
2036	205,000	235,000	6,124	2,415	448,539
Total	**$ 2,130,000**	**$ 2,215,000**	**$ 509,480**	**$ 471,616**	**$ 5,326,096**

Dated January 20, 2016

Interest Rate: 3.45%

Semiannual interest with bonds maturing June 1 and December 1

Trustee: Bank OZK

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Principal and Interest Payments
Water and Sewer Revenue Bonds, Series 2016B
As of December 31, 2024

	Principal June 1	Principal December 1	Interest June 1	Interest December 1	Total Payment
2025	$ -	$ -	$ 56,250	$ 56,250	$ 112,500
2026	-	-	56,250	56,250	112,500
2027	-	-	56,250	56,250	112,500
2028	-	-	56,250	56,250	112,500
2029	-	-	56,250	56,250	112,500
2030	-	-	56,250	56,250	112,500
2031	-	-	56,250	56,250	112,500
2032	-	-	56,250	56,250	112,500
2033	-	-	56,250	56,250	112,500
2034	-	-	56,250	56,250	112,500
2035	-	-	56,250	56,250	112,500
2036	-	85,000	56,250	56,250	197,500
2037	225,000	230,000	54,125	48,500	557,625
2038	240,000	240,000	42,750	36,750	559,500
2039	250,000	255,000	30,750	24,500	560,250
2040	265,000	265,000	18,125	11,500	559,625
2041	95,000	100,000	4,875	2,500	202,375
Total	**$ 1,075,000**	**$ 1,175,000**	**$ 825,625**	**$ 798,750**	**$ 3,874,375**

Dated January 20, 2016

Interest Rate: 5.0%

Semiannual interest with bonds maturing June 1 and December 1

Trustee: Bank OZK

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Principal and Interest Payments
Water and Sewer Revenue Bonds, Series 2022A
As of December 31, 2024

	Principal	Interest	Total
2025	$ 35,000	$ 36,935	$ 71,935
2026	35,000	35,378	70,378
2027	35,000	33,820	68,820
2028	40,000	32,263	72,263
2029	40,000	30,483	70,483
2030	40,000	28,703	68,703
2031	45,000	26,923	71,923
2032	45,000	24,920	69,920
2033	50,000	22,918	72,918
2034	50,000	20,693	70,693
2035	50,000	18,468	68,468
2036	55,000	16,243	71,243
2037	55,000	13,795	68,795
2038	60,000	11,348	71,348
2039	60,000	8,678	68,678
2040	65,000	6,008	71,008
2041	70,000	3,115	73,115
Total	**$ 830,000**	**$ 370,691**	**$ 1,200,691**

Dated November 29, 2022

Interest Rate: 4.45%

Semiannual interest with bonds maturing June 1 and December 1.

Trustee: Simmons Bank

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Principal and Interest Payments
Water and Sewer Revenue Bonds, Series 2022B
As of December 31, 2024

	Principal	Interest	Total
2025	$ 20,166	$ 24,454	$ 44,620
2026	20,599	24,021	44,620
2027	21,041	23,579	44,620
2028	21,492	23,128	44,620
2029	21,953	22,667	44,620
2030	22,424	22,196	44,620
2031	22,906	21,714	44,620
2032	23,397	21,223	44,620
2033	23,899	20,721	44,620
2034	24,412	20,208	44,620
2035	24,936	19,684	44,620
2036	25,471	19,149	44,620
2037	26,071	18,549	44,620
2038	26,576	18,044	44,620
2039	27,146	17,474	44,620
2040	27,729	16,891	44,620
2041	28,324	16,296	44,620
2042	28,931	15,689	44,620
2043	29,552	15,068	44,620
2044	30,186	14,434	44,620
2045	30,834	13,786	44,620
2046	31,496	13,124	44,620
2047	32,171	12,449	44,620
2048	32,862	11,758	44,620
2049	33,567	11,053	44,620
2050	34,287	10,333	44,620
2051	35,023	9,597	44,620
2052	35,775	8,845	44,620
2053	36,542	8,078	44,620
2054	37,326	7,294	44,620
2055	38,127	6,493	44,620
2056	38,945	5,675	44,620
2057	39,781	4,839	44,620
2058	40,635	3,985	44,620
2059	41,507	3,113	44,620
2060	42,397	2,223	44,620
2061	43,307	1,313	44,620
2062	16,058	28,562	44,620
Total	**$ 1,137,851**	**$ 557,709**	**$ 1,695,560**

Dated December 22, 2022 Interest Rate: 2.125% Monthly Payments of $3,720 Trustee: USDA

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Commission Members
December 31, 2024

Commissioner's Name	Title	Term Expires January 1
Preston Scott	Commissioner	2030
Jarred Rogers	Commissioner	2031
Sumner Brashers	Commissioner	2032
Guy Roden	Chairman	2028
Stephen Ford	Commissioner	2029

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Insurance in Force
December 31, 2024

		Amount
Arkansas Municipal League		
Fire and extended coverage		
Main office	$	311,465
Waste water plant office		86,504
Waste water plant sludge pressroom		579,345
Shop building and offices		201,667
Shop/warehouse		241,917
Dryer		2,410,978
Water storage tank		2,652,250
Total	**$**	**6,484,126**
CNA Insurance Co.		
Fidelity Bond		
Sean Davis	$	50,000
Sonja Rodden	$	50,000
Highway Permit	$	1,000
Arkansas Municipal League		
Auto/Tractor Policies		
Bodily Injury, Maximum per accident		25/50M
Property Damage, Maximum per accident	$	25,000
Arkansas Municipal League		
Worker's Compensation		10/100M

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Schedule of Water and Sewer Rates
December 31, 2024 and 2023

2024

Water Rates

Monthly Usage	Inside City	Outside City
Minimum	$18.50 minimum	$27.75 minimum
First 1,000 gallons	$1.50 per 1,000 GA	$2.25 per 1,000 GA
Next 94,000 gallons	$5.35 per 1,000 GA	$8.03 per 1,000 GA
Next 200,000 gallons	$5.00 per 1,000 GA	$7.50 per 1,000 GA
Over 295,000 gallons	$4.25 per 1,000 GA	$6.38 per 1,000 GA

Sewer Rates

Monthly Usage	Inside City	Outside City
Minimum	$16.75 minimum	$25.13 minimum
First 2,000 gallons	$3.00 per 1,000 GA	$4.50 per 1,000 GA
Next 2,000 gallons	$6.46 per 1,000 GA	$9.69 per 1,000 GA
Next 96,000 gallons	$5.26 per 1,000 GA	$7.89 per 1,000 GA
Over 100,000 gallons	$4.34 per 1,000 GA	$6.51 per 1,000 GA

2023

Water Rates

Monthly Usage	Inside City	Outside City
First 1,000 gallons	$15.58 minimum	$23.37
Next 4,000 gallons	$4.00 per 1,000 GA	$6.00 per 1,000 GA
Next 90,000 gallons	$3.97 per 1,000 GA	$5.96 per 1,000 GA
Next 200,000 gallons	$3.66 per 1,000 GA	$5.49 per 1,000 GA
Over 295,000 gallons	$3.26 per 1,000 GA	$4.89 per 1,000 GA

Sewer Rates

Monthly Usage	Inside City	Outside City
First 2,000 gallons	$13.33 minimum	$20.00 minimum
Next 2,000 gallons	$5.11 per 1,000 GA	$7.67 per 1,000 GA
Next 96,000 gallons	$4.32 per 1,000 GA	$6.48 per 1,000 GA
Over 100,000 gallons	$3.15 per 1,000 GA	$4.73 per 1,000 GA

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Independent Auditors' 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 Water and Waste Water Commission of
the Huntsville Water and Waste Water Department
Huntsville, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water and Waste Water Department of the Huntsville, Arkansas (the Department), an enterprise fund of the City of Huntsville, Arkansas, which comprise the statements of financial position as December 31, 2024 and 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to financial statements, and have issued our report thereon dated August 20, 2025.

Independent Auditors' Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items to be material weaknesses. A *significant deficiency* is a deficiency, or 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. 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 certain deficiencies in internal control, described in the accompanying report on findings as items 2024-1 that we consider to be significant deficiencies.

Independent Auditors' Report on Compliance and Other Matters

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

Response to Findings

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

Purpose of this Report

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

Abacus CPAs, LLC

Springfield, Missouri
August 20, 2025

Huntsville Water and Waste Water Department
Huntsville, Arkansas
Report on Findings
December 31, 2024 and 2023

Current Year Findings

Finding Number 2024-1 Construction in Progress and Fixed Assets

Condition: During our audit, we noted that the Department does not maintain complete and accurate records for construction in progress (CIP) and fixed assets. Specifically, project expenditures were not consistently tracked by project and CIP was not always closed out in a timely manner when assets were placed in service

Criteria: Generally accepted accounting principles (GAAP) require that governments maintain accurate capital asset records in order to properly report assets, accumulated depreciation, and related activity in the financial statements. Effective internal controls also require that capital expenditures be recorded in the correct period and properly classified as construction in progress or as depreciable assets once placed in service.

Cause: The Department's current recordkeeping process does not include a standardized method to reconcile CIP expenditures to project approvals and to update the fixed asset listing once projects are completed. Reliance on manual processes also contributed to incomplete and inaccurate records.

Effect: Inaccurate or incomplete capital asset records increase the risk of material misstatement in the financial statements. In this case, adjustments were necessary during the audit to properly state CIP, fixed assets, and related depreciation. In addition, incomplete records limit management's ability to monitor project costs, evaluate asset values, and plan for future capital replacement needs.

Recommendation: We recommend the Department implement improved procedures over capital asset accounting, including establishing a standardized CIP tracking process by project that reconciles to the general ledger and requiring timely review and closeout of CIP projects when assets are placed in service.

Management Responses: Management acknowledges the auditors' finding regarding the need for improved recordkeeping of construction in progress (CIP) and fixed assets. The Department agrees that timely tracking, reconciliation, and capitalization of projects is necessary to ensure accurate financial reporting. To address this finding, the Department will implement a standardized CIP tracking process beginning in which will ensure project expenditures are accumulated by project and reconciled monthly to the general ledger. Management believes these steps will improve accountability and ensure that construction and capital assets are properly recorded in accordance with GAAP and GASB requirements.

Prior Year Findings

None.