

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2022**

BALLARD & COMPANY, LTD.

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT

Report on Financial Statements 1

FINANCIAL STATEMENTS

Statement of Net Position 4

Statement of Revenues, Expenses and Changes in Fund Net Position 5

Statement of Cash Flows.....6

Notes to the Financial Statements.....7

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Operating Expenses 14

Schedule of Water and Wastewater Usage and Rates..... 15

Schedule of City Officials... 16

OTHER REPORTS

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*..... 17



BALLARD & COMPANY, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

BUSINESS CONSULTANTS

Members of the American Institute of Certified Public Accountants
Member of the Arkansas Society of Certified Public Accountants

668 HIGHWAY 62 EAST
MOUNTAIN HOME, AR 72653
870-425-6256

416 N. E. MAIN STREET
MOUNTAIN VIEW, AR 72560
870-269-2390

980 ASH FLAT DRIVE
ASH FLAT, AR 72513
870-994-2812

352 HIGHWAY 62 EAST
SALEM, AR 72576
870-895-2661

INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Bull Shoals, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the water and wastewater department of the City of Bull Shoals, Arkansas, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the water and wastewater department of the City of Bull Shoals, Arkansas' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the City of Bull Shoals water and wastewater department as of December 31, 2022, and the changes in financial position and cash flows thereof for the year 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Bull Shoals water and wastewater department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, 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 City of Bull Shoals water and wastewater 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the City of Bull Shoals water and wastewater 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 no conditions or events, considered in the aggregate, that raise substantial doubt about the City of Bull Shoals water and wastewater 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the water and wastewater department of the City of Bull Shoals, Arkansas, and do not purport to, and do not present fairly the financial position of the City of Bull Shoals as of December 31, 2022, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion of the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Bull Shoals water and wastewater department's basic financial statements. The Schedule of Operating Expenses and the Schedules of Water and Wastewater Usage 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 Schedule of Operating Expenses and the Schedules of Water and Wastewater Usage Rates are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of City Officials but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2023, on our consideration of the City of Bull Shoals, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Bull Shoals 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 Bull Shoals, Arkansas water and wastewater department's internal control over financial reporting and compliance.

Ballard & Company, Ltd.

Ballard & Company, Ltd.
Mountain Home, Arkansas
February 27, 2023

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 259,586
Accounts receivable, net of allowance for doubtful accounts	77,191
Interfund receivables	18,750
Inventories	43,465
Total current assets	398,992
Restricted assets - cash and cash equivalents	755,017
Capital assets:	
Nondepreciable assets	78,971
Depreciable assets, net of accumulated depreciation	8,707,729
Total capital assets, net of accumulated depreciation	8,786,700
Total assets	9,940,709

LIABILITIES

Current liabilities:	
Accounts payable	24,006
Payroll liabilities	8,814
Sales tax payable	4,032
Sanitation payable	13,623
Total current liabilities	50,475
Liabilities payable from restricted assets:	
Accrued interest	5,151
Refundable meter deposits	69,430
Current maturities of long-term bonds payable	89,226
Total liabilities payable from restricted assets	163,807
Long-term liabilities:	
Bonds payable, net of current maturities	3,630,003
Total liabilities	3,844,285

NET POSITION

Net investment in capital assets	5,062,320
Restricted:	
Debt service requirements	351,337
Other	334,250
Unrestricted	348,517
Total net position	\$ 6,096,424

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022**

OPERATING REVENUES

Water service fees	\$ 376,994
Wastewater service fees	358,777
Maintenance fees	71,356
Penalty charges	10,193
Other	8,100
Total operating revenue	825,420

OPERATING EXPENSES

Water department	380,228
Wastewater department	207,998
Depreciation expense	457,734
Total operating expenses	1,045,960
Operating income (loss)	(220,540)

NONOPERATING REVENUES (EXPENSES)

Interest income	1,356
Sales tax revenues	231,830
Interest expense	(87,231)
Total nonoperating revenues (expenses)	145,955

INCREASE (DECREASE) IN NET POSITION (74,585)

NET POSITION, beginning 6,171,009

NET POSITION, ending \$ 6,096,424

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 794,747
Payments to and/or for employees	(138,376)
Payments to suppliers for goods and services	<u>(411,159)</u>
Net Cash Provided by (Used in) Operating Activities	<u>245,212</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash received from sales and use tax	233,617
Cash received from general fund for a prior year capital asset sale	7,100
Principal paid on notes payable	(105,179)
Interest paid on notes payable	<u>(87,392)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>48,146</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest earned	<u>1,356</u>
NET INCREASE (DECREASE) IN CASH	294,714
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>719,889</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,014,603</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided

(Used In) Operating Activities:	
Operating income (loss)	\$ (220,540)
Depreciation expense	457,734
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:	
Accounts receivable, net	5,093
Inventory	(6,493)
Accounts payable	7,761
Payroll liabilities	607
Meter deposits refundable	<u>1,050</u>
Net Cash Flows from Operating Activities	<u>\$ 245,212</u>

Reconciliation of Total Cash and Cash Equivalents - End of Year

Current assets - cash and cash equivalents	\$ 259,586
Restricted assets - cash and cash equivalents	<u>755,017</u>
	<u>\$ 1,014,603</u>

Reconciliation of Total Cash and Cash Equivalents - Beginning of Year

Current assets - cash and cash equivalents	\$ 136,104
Restricted assets - cash and cash equivalents	<u>583,785</u>
	<u>\$ 719,889</u>

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Bull Shoals, Arkansas, (the City) was established in 1946 and operates under a Mayor - Council form of government. The water and wastewater department (the Department) is responsible for the operation and maintenance of the City's water distribution system as well as its wastewater treatment system.

The financial statements of the Department have been prepared and are presented herewith, separately from the comprehensive financial statements of the City of Bull Shoals, Arkansas. These financial statements are intended to present only the financial position, results of operations and cash flows attributable to the Department and are not intended to, and do not, reflect the financial position, results of operation and cash flows of the City of Bull Shoals, Arkansas as a whole.

Basis of Accounting

The water and wastewater department is used to account for the operations of the City of Bull Shoals, Arkansas' proprietary fund and is an enterprise fund. Enterprise funds are for operations which 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 services to the general public be financed or recovered primarily through user charges.

The financial statements of the Department are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation

The presentation of the Department's financial statements follows the requirement of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34) – applicable to enterprise funds, as amended. In accordance with the requirements of GASB Statement No. 34, the Department's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable. In addition, operating income reported in the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for water, wastewater, and related services. Principal operating expenses include the costs of providing these services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosed in the notes. Actual results could differ from those estimates.

Budget and Budgetary Accounting

Enterprise fund service delivery levels are determined by the extent of consumer demand. Because enterprise fund revenues and expenses fluctuate with the changing service delivery levels, accounting principles generally accepted in the United States of America do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons have not been included.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of bank deposits and a certificate of deposit. It also includes funds invested in the Fidelity Treasury Only Money Market Fund, and are held by Regions Bank, trustee for the Series 2010 Revenue Bonds. The total of the funds held by the trustee as of December 31, 2022, was \$3,945.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Consumer accounts receivable reflects the balances due from the individuals and entities using the water and wastewater services provided by the Department. These consumers are substantially all local residents and businesses. Receivables are shown net of an allowance for uncollectible accounts in the amount of \$8,577.

Inventories

Inventories held by the water and wastewater department are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets which are purchased or constructed are reported at historical cost. Contributed assets are reported at fair market value as of the date received. All capital assets are depreciated by the straight-line method over their estimated useful lives. Maintenance, repairs and minor renewals are charged against earnings when incurred. Additions, betterments and major renewals are capitalized.

Estimated useful lives are as follows:

System and improvements	10 - 40 Years
Vehicles	5 Years
Equipment	10 - 20 Years

Accounts Payable

Accounts payable consists of various trade accounts which are generally payable within thirty (30) days.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities and deferred inflows of resources, and is classified into the following categories:

- * *Net Investment in Capital Assets* - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- * *Restricted Net Position* – net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the City's bonds. Restricted net position is restricted assets reduced by liabilities and deferred inflows of resources related to the restricted assets.
- * *Unrestricted Net Position* - consists of all other net position that does not meet the definition of the above two components and is available for general use of the Department.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The City's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 2: CASH AND INVESTMENTS

State law generally provides that municipal funds be deposited in federally insured banks located in the State of Arkansas. These deposits may be in the form of checking accounts, savings accounts, and/or certificates of deposit. Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America.

The carrying amount of the Department's cash deposits was \$1,014,603 and the respective bank balances totaled \$1,021,397. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the water and wastewater department of the City of Bull Shoals, Arkansas will not be able to recover deposits or will not be able to recover collateral securities. The Department's policy is to place deposits only in collateralized or insured accounts.

NOTE 3: RESTRICTED ASSETS

Restricted assets consist of cash and equivalents restricted by various bond ordinances and the City Council for debt service and other specific uses. Restricted assets as of December 31, 2022 were as follows:

Debt service funds	\$ 351,337
Depreciation funds	274,914
Capital improvement fund	58,388
Meter deposit fund	<u>70,378</u>
Total restricted assets	<u>\$ 755,017</u>

NOTE 4: FUND REQUIREMENTS

The various bond and loan documents established certain funds and the manner in which revenues are to be deposited and transferred between the various funds. Cash funds were deposited and transferred as required.

Meter deposits are customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposit reserves at December 31, 2022 were \$70,378, a surplus in the amount of \$948 from the total customer deposits of \$69,430.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<i>Capital assets, not being depreciated:</i>				
Land and land rights	\$ 78,971	\$ -	\$ -	\$ 78,971
Construction in progress	-	-	-	-
	<u>78,971</u>	<u>-</u>	<u>-</u>	<u>78,971</u>
<i>Capital assets, being depreciated:</i>				
Equipment	611,408	-	-	611,408
Vehicles	72,396	-	-	72,396
System and improvements	14,104,449	-	-	14,104,449
	<u>14,788,253</u>	<u>-</u>	<u>-</u>	<u>14,788,253</u>
<i>Less accumulated depreciation for:</i>				
Equipment	(363,338)	(45,425)	-	(408,763)
Vehicles	(35,019)	(10,679)	-	(45,698)
System and improvements	(5,224,433)	(401,630)	-	(5,626,063)
	<u>(5,622,790)</u>	<u>(457,734)</u>	<u>-</u>	<u>(6,080,524)</u>
Total capital assets, being depreciated, net	<u>9,165,463</u>	<u>(457,734)</u>	<u>-</u>	<u>8,707,729</u>
Capital assets, net	<u>\$ 9,244,434</u>	<u>\$ (457,734)</u>	<u>\$ -</u>	<u>\$ 8,786,700</u>

Depreciation expense was charged to the water and wastewater departments as follows:

Water department	\$ 25,694
Wastewater department	432,040
	<u>\$ 457,734</u>

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 6: INTERFUND RECEIVABLE

The Department has a receivable due from the General Fund in the amount of \$18,750. This amount represents the December 2022 sales and use tax monies collected but not transferred to the Department until January 2023.

NOTE 7: LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2022 are as follows:

	<u>BEGINNING</u> <u>BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING</u> <u>BALANCE</u>	<u>AMOUNTS</u> <u>DUE WITHIN</u> <u>ONE YEAR</u>
USDA – 2020 sales and use tax revenue bond	\$ 3,432,439	\$ 0	\$ (57,656)	\$ 3,374,783	\$ 58,965
USDA - 1988 revenue bond	90,535	0	(12,129)	78,406	12,614
ANRC - 2010 revenue bond	283,296	0	(17,256)	266,040	17,647
ANRC - 2012 revenue bond	<u>18,138</u>	<u>0</u>	<u>(18,138)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 3,824,408</u>	<u>\$ 0</u>	<u>\$ (105,179)</u>	<u>\$ 3,719,229</u>	<u>\$ 89,226</u>

BONDS PAYABLE

1988 Bonds Payable

Under the authority of Ordinance 1988-04 dated April 28, 1988, the City issued water and sewer revenue bonds in the amount of \$280,000 to finance improvements to the water and wastewater system. The United States Department of Agriculture – Rural Development (USDA) purchased the bonds under a loan agreement dated October 24, 1988 subject to a interest rate of 5.00% per annum over a 40-year payment period. The bonds are secured by a pledge of the system revenues and are scheduled to mature in 2028.

2010 Bond Payable

Under the authority of Ordinance 2010-02 dated February 01, 2010, the City issued a water and sewer revenue bond in the amount of \$399,640 to finance improvements to the wastewater facilities. The Arkansas Natural Resources Commission (ANRC) purchased the bond under a memorandum of agreement dated November 01, 2009. The loan had a closing date of June 07, 2010 with an original interest rate of 4.75% per annum over a 35-year payment period. As of October 05, 2016, the loan was refinanced with a new interest rate of 2.25% over a 20-year payment period. The bonds are secured by a pledge of the system revenues and are scheduled to mature in 2036.

2012 Bond Payable

Under the authority of Ordinance 2012-04 dated February 01, 2012, the City issued a water and sewer revenue bond in the amount of \$309,000 to finance improvements to the water facilities. The Arkansas Natural Resources Commission (ANRC) purchased the bond under a memorandum of agreement dated May 07, 2012. The loan had a closing date of December 05, 2012 with an interest rate 2.50% per annum over a 10-year payment period. The bonds were secured by a pledge of the system revenues and matured in 2022.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 7: LONG-TERM LIABILITIES – Continued

BONDS PAYABLE

2018 and 2020 Sales and Use Tax and Water and Sewer Revenue Bonds Payable

Ordinance 2018-05, dated August 20, 2018, authorized the issuance of a sales and use tax and water and sewer revenue bond to finance improvements to the wastewater facilities of the system. On October 18, 2018, a \$3,428,000 bond was issued and was purchased by First Security Bank at an interest rate of 2.98%. The bond was issued to provide interim financing for a portion of the costs of the improvements. The bond was secured by a pledge of the (a) the collections of the City's 1% sales and use tax levied by Ordinance 2017-03, adopted February 23, 2017 and (b) revenues derived from the operation of the water and wastewater system.

Interest only on the interim bond was due on October 18, 2019, and both principal and interest were payable at maturity on October 18, 2020. Final repayment of this bond was made in March 2020 with proceeds from a long-term financing arrangement through the USDA Rural Utilities Service. This new USDA loan was issued in the amount of \$3,530,000, bears interest at 2.25%, and matures in 2060.

Combined maturity requirements of the bonds payable subsequent to December 31, 2022 are as follows:

	Principal	Interest
12-31-2023	\$ 89,225	\$ 84,980
12-31-2024	91 747	82,459
12-31-2025	94 211	79,995
12-31-2026	96 751	77,455
12-31-2027	99,369	74,837
2028 - 2032	456,447	340,753
2033 - 2037	456,781	288,060
2038 - 2042	432,261	239,199
2043 - 2047	483,680	187,780
2048 - 2052	541,216	130,244
2053 - 2057	605,596	65,864
2058 - 2060	271,945	6,654
Total	<u>\$ 3,719,229</u>	<u>\$ 1,658,280</u>

NOTE 8: DEBT SERVICE COVERAGE

Various debt covenants require that the net revenues of the system shall equal not less than a certain percentage of the maximum annual debt service requirements of all outstanding bonds including any additional bonds proposed.

The actual percentage at December 31, 2022 was 269%, computed as follows:

Operating Loss	\$ (220,540)
Plus Depreciation Expense	457,734
Plus Transferred Sales Tax Revenues	231,830
Funds Available for Debt Service	<u>\$ 469,024</u>
Maximum Annual Debt Service Requirement on on the 1988, 2010 and 2020 Bonds	<u>\$ 174,206</u>
Debt Service Coverage Percentage	<u>269%</u>

**CITY OF BULL SHOALS, ARKANSAS
 WATER AND WASTEWATER DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2022**

NOTE 9: RISK MANAGEMENT

The water and wastewater department of the City of Bull Shoals, Arkansas has purchased insurance coverage to cover potential losses due to the various risks related to the damage to and/or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Department participates in the Arkansas Municipal League Program for its building and contents, vehicle, general liability, and workers' compensation coverage. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission. The amount of settlements has not exceeded the insurance coverage in the past three years. Further, there were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

NOTE 10: PENSION PLAN

Plan Description

The City elected to become a participating employer in the Arkansas Diamond Deferred Compensation Plan, a Section 457B defined contribution pension plan. The City adopted this plan on March 21, 2006. Voya Financial is the record keeper and administrator of the plan.

Eligibility

Employees are eligible to participate in the plan after they have completed one year of service and must be scheduled to work a minimum of 40 hours per week in order to be eligible for employer contributions under the plan.

Contributions and Earnings

As a condition for sharing in employer contributions, each participant shall contribute two percent (2%) of his compensation to the plan. Employer contribution percentages are based on each participant's number of years of employment, increasing from one percent (1%) up to 5 percent (5%) of compensation, beginning with the first year through the fifth-plus year of employment.

The percentage of each participant's employer contribution account which shall be non-forfeitable upon termination of his employment for reasons other than death, disability, or normal retirement is based on years of service (1,000 hours worked in a plan year constitutes a year of service) pursuant to the following schedule:

<u>Years of Service</u>	<u>Vesting Percentage</u>
1	20%
2	40%
3	60%
4	80%
5	100%

During the year ended December 31, 2022, employer contributions to the plan totaled \$2,080.

NOTE 11: SALES AND USE TAX

Ordinance 2017-03, adopted on February 23, 2017, called for a special election on the question of issuing improvement bonds of up to \$5,000,000 for the purpose of financing a portion of the cost of wastewater improvements and levying a one percent (1%) sales and use tax for the purpose of retiring such bonds. The citizens of Bull Shoals, Arkansas voted for the bond issuance and for the sales and use tax to retire the bonds. During the year ended December 31, 2018, the City issued a 2.98% sales and use tax and water and sewer revenue bond in the amount of \$3,428,000. Final repayment of this bond was made in March 2020 with proceeds from a long-term financing arrangement through the USDA Rural Utilities Service. This new USDA loan was issued in the amount of \$3,530,000, bears interest at 2.25%, and matures in 2060. See note 7 for further information regarding this bond.

SUPPLEMENTARY AND OTHER INFORMATION

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Water Department</u>	<u>Wastewater Department</u>
Auto and fuel expense	\$ 5,697	\$ 4,297
Bad debts	18,360	18,360
Bank charges and fees	1,549	-
Computer support	2,656	2,653
Dues and licenses	511	511
Educational expense	775	-
Insurance - general	5,949	28,413
Insurance - health and life	16,689	5,633
Legal and professional	7,500	7,500
Miscellaneous	21	260
Postage and freight	1,552	1,552
Pension expense	2,080	-
Repairs and maintenance	21,434	19,347
Salaries	68,450	37,335
Sludge removal	-	4,101
Supplies - office	1,611	234
Supplies - operating	21,481	4,018
Taxes - payroll	5,478	2,711
Telephone and utilities	6,863	63,149
Testing Analysis	-	7,770
Uniforms	446	154
Water purchases	191,126	-
	<u>380,228</u>	<u>207,998</u>
Total Operating Expenses	<u>\$ 380,228</u>	<u>\$ 207,998</u>

See auditor's report on supplementary information.

**CITY OF BULL SHOALS, ARKANSAS
 WATER AND WASTEWATER DEPARTMENT
 SCHEDULE OF WATER AND WASTEWATER USAGE AND RATES
 FOR THE YEAR ENDED DECEMBER 31, 2022**

Rate Schedule

Ordinance 2019-2 specifies that water and wastewater service charges shall increase annually at a rate of two percent, or at a rate equal to the federal consumer price index – whichever is greater.

Rates in effect during 2022 are as follows:

<u>Meter Size</u>	<u>Water Minimum Rates</u>		<u>Wastewater Minimum Rates</u>	
¾ "	\$17.52	2,000 gallons	\$19.67	2,000 gallons
1"	\$25.69	3,000 gallons	\$28.27	3,000 gallons
1 ½ "	\$51.34	7,000 gallons	\$48.21	7,000 gallons
2"	\$92.76	13,000 gallons	\$84.14	13,000 gallons
3"	\$216.03	26,000 gallons	\$231.37	26,000 gallons
4"	\$315.19	40,000 gallons	\$320.48	40,000 gallons
All usage over the minimum:	\$5.82	per 1,000 gallons	\$3.76	per 1,000 gallons

Ordinance 2011-02, effective with its adoption on July 28, 2011, provided for a \$5.00 maintenance fee to be added to each monthly water bill to maintain a water depreciation fund.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF CITY OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<u>Position</u>	<u>Official</u>
Mayor	David Nixon
Council Member	David McBee
Council Member	Chuck Kinler
Council Member	Daryl Lindman
Council Member	Joey Grede
Council Member	Dino Giannini
Council Member	Dr. Kirby Davenport

See auditor's report on other information.

OTHER REQUIRED REPORTS



BALLARD & COMPANY, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

BUSINESS CONSULTANTS

Members of the American Institute of Certified Public Accountants
Member of the Arkansas Society of Certified Public Accountants

668 HIGHWAY 62 EAST
MOUNTAIN HOME, AR 72653
870-425-6256

416 N. E. MAIN STREET
MOUNTAIN VIEW, AR 72560
870-269-2390

980 ASH FLAT DRIVE
ASH FLAT, AR 72513
870-994-2812

352 HIGHWAY 62 EAST
SALEM, AR 72576
870-895-2661

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

To the Members of City Council
City of Bull Shoals, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the water and wastewater department of the City of Bull Shoals, Arkansas, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Bull Shoals, Arkansas water and wastewater department's basic financial statements, and have issued our report thereon dated February 27, 2023.

Report on Internal Control Over Financial Reporting

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

Report on Compliance and Other Matters

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

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.

Ballard & Company, Ltd.

Ballard & Company, Ltd.
Mountain Home, Arkansas
February 27, 2023