

CITY OF HEBER SPRINGS WATER AND
SEWER UTILITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commission
City of Heber Springs, Arkansas, Water and Sewer Utility

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Heber Springs, Arkansas, Water and Sewer Utility as of and for the years ended September 30, 2023 and 2022, and the related notes to the 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 City of Heber Springs, Arkansas, Water and Sewer Utility, as of September 30, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Heber Springs, Arkansas Water and Sewer Utility 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 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 Heber Springs, Arkansas, Water and Sewer Utility'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 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.

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- 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 City of Heber Springs, Arkansas, Water and Sewer Utility'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 City of Heber Springs, Arkansas, Water and Sewer Utility'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 City of Heber Springs, Arkansas, Water and Sewer Utility and do not purport to, and do not present fairly the financial position of the City of Heber Springs, Arkansas, as of September 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 on pages 4-10 and 29-31 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of the City of Heber Springs, Arkansas, Water and Sewer Utility'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 Heber Springs, Arkansas, Water and Sewer Utility'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 Heber Springs, Arkansas, Water and Sewer Utility's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
January 22, 2024

Management's Discussion and Analysis

This section presents management's analysis of the Utility's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

The Utility had an increase in total assets before depreciation of \$914,523 and \$3,091,542 for the years ended September 30, 2023 and 2022.

The Utility had an increase in expenses less depreciation and interest of 2%. Total expenses less depreciation and interest were \$2,663,405 and \$2,608,106 for the years ended September 30, 2023 and 2022.

The Utility Maintenance Crew worked on water and sewer Capital Addition Projects, repaired, tapped and installed various water and sewer services. The cost of Maintenance Crew projects was \$55,952.83 for 1,035 feet of pipe with an average cost of \$54.06 per foot. The cost of Sewer Rehab Crew projects was \$64,778.38 for 1,748 feet of pipe with an average cost of \$37.06 per foot. The Utility Maintenance Crew repaired 25 water leaks in FY2023 at a cost of \$33,298.60.

The Utility made forty-four (44) water taps and three (3) sewer taps in FY2023, which indicates that Heber Springs is still growing at a moderate rate. It should be noted that many lots in new subdivisions are pre-tapped for water and sewer.

In summary, the Utility has a total of twenty-three (23) full time employees. Of these, twelve (12) have Water Operator's licenses (issued by the Arkansas Department of Health), thirteen (13) have Municipal Wastewater Treatment licenses (issued by the Arkansas Department of Environmental Quality), five (5) have Industrial Wastewater Treatment licenses, seven (7) have Plumbing Inspector licenses, five (5) have Certified High Explosives licenses, three (3) have Backflow Assembly Tester licenses, three (3) have Backflow Assembly Repair Technician licenses, fifteen (15) have Commercial Driver's Licenses, and one (1) has a Master Plumber's license. From 2001-2023, utility personnel have undergone 19,293 training hours certified through the Arkansas Department of Health and Arkansas Department of Environmental Quality. This number does not include hours of training that are not documented for licensure purposes such as safety training and first aid, etc, as well as the hours spent studying for these licenses on the employee's own time. This training report demonstrates the level of dedication that our employees have to the water and wastewater treatment industry and customers of Heber Springs.

The Heber Springs Water and Sewer Utility is a public utility that provides water and sewer service 365 days a year, 24 hours a day. The four (4) main goals of the Utility are as follows:

1. To protect the public health by providing safe, high quality treated water.
2. To treat the Community's wastewater to help maintain our clean environment.
3. To provide excellent customer service in both water and wastewater.
4. To plan for the continued growth of Heber Springs and the surrounding area.

Overview of Annual Financial Report

Management's Discussion and Analysis ("MDA") serves as an introduction to, and should be read in conjunction with, the basic financial statements and supplementary information. The MDA represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets; statement of revenues, expenses and changes in net assets; statement of cash flows; notes to the financial statements and other supporting schedules.

The statement of net assets presents the financial position of the Utility on a full accrual historical cost basis. This statement presents information on all of the assets and liabilities with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position is improving or deteriorating.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipt and disbursement information only.

The notes to the financial statements and supplementary information are provided to disclose information that is essential to a full understanding of the material data provided in the statements.

The financial statements were prepared by the Utility's staff from its detailed transactions for the year ended September 30, 2023 and 2022. These financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The financial statements in this audit provide information about the financial activities of the Heber Springs Water and Sewer Utility. This year a comparative analysis is provided to show the progression of the financial data.

Statement of Net Position

This statement indicates that the Utility had an adequate amount of liquid assets as of the end of the year and a reasonable level of unrestricted assets.

	<u>2023</u>	<u>2022</u>
Current Assets	\$13,235,749	\$13,479,609
Property, Plant and Equipment	\$28,184,424	\$28,413,518
Other Assets	\$2,238,991	\$2,187,979
Current Liabilities	\$1,432,765	\$1,094,678
Non-current Liabilities:		
Bonds Payable	\$21,413,291	\$22,953,064
Customer Meter Deposits	\$467,560	\$480,383
Net Position:		
Net investment in capital assets		\$13,335,711
Restricted for debt service		\$1,154,323
Restricted for capital improvements		\$1,258,120
Unrestricted		\$3,794,975

The current obligation ratio is an indication of the Utility's ability to meet its current obligations as they come due and is calculated by dividing current assets by current liabilities. A ratio of greater than 1 is an indication that the Utility has sufficient current assets to meet its current obligations. The Utility's current ratio as of September 30, 2023 was 9.24. As of September 30, 2022, the ratio was 12.31.

The total current assets for year-end September 30, 2023 were \$13,235,749 and at September 30, 2022 were \$13,479,609 that reflects an \$243,860 decrease in total current assets in 2023.

Statement of Revenues, Expenses and Changes in Net Assets

This statement shows that the Utility's FY2023 total operating revenue was greater than its operating expenses; therefore, the total revenue was more than the total expenses which resulted in an increase in net position by \$794,174.

Operating Revenues	\$5,176,222
Operating Expenses	\$4,075,709
Non-Operating Income, Net of Non-Operating Expenses	(\$306,339)
Increase (decrease) in Net Position	\$794,174

The 2023 water revenue at \$3,760,545 was \$24,084 less than the 2022 water revenue.

The 2023 sewer revenue at \$1,262,228 was \$6,018 more than the 2022 sewer revenue.

The 2023 total operating revenue at \$5,176,222 was \$103,038 less than the 2022 total revenue.

The decrease in revenue in 2023 as compared to 2022 is a result of a decrease in the number of gallons of water sold during the year.

The largest Operation Expenses are as follow:

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Labor	\$1,036,476	\$980,406	\$56,070
Utilities	\$347,210	\$318,997	\$28,213
Benefits	\$364,774	\$334,194	\$30,580
System Maintenance	\$347,588	\$417,993	(\$70,405)
Chemicals and Lab Analysis	\$173,040	\$174,648	(\$1,608)

Other major expenses are as follows:

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Depreciation	\$1,407,531	\$1,252,761	\$154,770
Interest	\$594,175	\$618,366	(\$24,191)

Capital Asset Information

On September 30, 2023, the Utility had an amount before and after depreciation of \$49,474,420 and \$26,857,461. Before depreciation, total fixed assets went from \$49,164,118 in September 2022 to \$49,474,420 in September 2023, which is a \$310,302 increase in 2023. This increase due to several projects being completed and being placed in service during the year. Depreciation expense totaled \$1,407,531 during 2023 as compared to \$1,252,761 in 2022.

Debt Information

On August 20, 2019 the City of Heber Springs issued the Water and Sewer Revenue Bonds Series 2019. Interest on the bonds ranges from 2.25% to 3.00%. The City issued the bonds to provide funds for construction. The outstanding balance at September 30, 2023 was \$15,170,000.

On September 28, 2021, the City of Heber Springs issued Water and Sewer Refunding Revenue Bonds Series 2021. Interest on the bonds ranges from 2% to 3%. The City issued the bonds to refund the current 2016A and 2016B Water and Sewer Refunding Revenue Bonds. The outstanding balance at September 30, 2023 was \$6,900,000.

Budget to Actual Comparison

The schedule on page 29 shows a comparison between what the Utility budgeted and actual amounts for the year.

Total 2023 revenues were budgeted at \$4,876,000; the actual 2023 total revenue was \$5,176,222 which is \$300,222 more than budget.

The total 2023 operating expense budget was \$3,990,100 with the actual total 2023 expense being \$4,075,709 which is \$85,609 over budget. The 2023 depreciation budget \$1,312,500 with the 2023 actual depreciation being \$1,407,531 which is \$95,031 over budget.

The net income budget was \$360,900 with actual being \$794,174 which was \$433,184 more than budget.

Analysis of Planned Activity

The Heber Springs Water and Sewer Master Plan draft document prepared by CWB engineers provides a comprehensive plan for the development and maintenance of the water and sewer infrastructures for the short and long term needs of the city. The following is a partial list of the most needed projects and the engineers estimated cost.

Project	Estimated Cost	Year
WWTP Improvements – Capacity	\$8,500,000	2019-2026
Future Sewer Improvements	\$4,000,000	2018-2024
Future Water Tank Rehab	\$200,000	2018-2024
Additional 2.4 MGD Water Treatment	\$2,000,000	2021-2024
Water Treatment Plant Upgrades	\$3,500,000	2022-2024
Pump Station Rehab – Sewer	\$40,000 / year	2017-2024
Utility Sewer Rehab	\$275,000 / year	2017-2024

Utility Water Rehab

\$225,000 / year

2017-2024

The Utility continues its ongoing efforts toward infrastructure replacement. Since FY2013, the Utility has spent \$1,304,944 on Water Rehabilitation projects and \$633,594 on Sewer Rehabilitation projects.

Planned FY-2024 Water and Sewer Projects

Water and Sewer

The Utility is going to install a 2,700-foot tie-in water main from Fox Run to the Cleburne County Fairgrounds beginning in January/February 2024 and should complete construction in 3 months. The approximate cost of this project is \$270,000. A water main will be extended on Colonial Drive for approximately 300 feet around May 2024. This should cost approximately \$30,000. A sewer main between W. Searcy St and Main Street will be replaced beginning in mid-2024. The cost of this project is estimated to be \$80,000. A new pipe rack is going to be constructed at the shop at an approximate cost of \$35,000. As needed, the maintenance crews will continue to rehab and upgrade any problems in the distribution and collection systems. All hydrants will be flushed once every six months, all water and sewer right of ways are going to be cleared, and a valve maintenance program will be continued to be developed. Both crews will focus on the above projects, yet will continue to repair leaks, clear sewer main stoppages, as well as perform any necessary maintenance on the water or sewer system as the need arises.

Wastewater lift stations are going to be continually monitored and repaired/rehabbed as necessary. Six of the 31 lift stations will be getting SCADA systems installed so that they can be monitored 24/7, with additional SCADA systems being added each year until all stations have SCADA installed.

Water Treatment Plant

The water treatment plant will receive upgrades/repairs as needed. The plant is going to receive a new micro-filtration skid in April 2024 and construction will last approximately 18 months. The approximate cost of the project is \$3,200,000. These funds were secured in the 2019 bond series. The Airport North Tank will be rehabbed in early fall 2024 at an estimated cost of \$285,000. Funds for this will come from the tank maintenance fund as well as depreciation funds as needed/allowed. Heber is still waiting on Mountain Top Water to build a new tank so that they can decommission their pump station and Round Mountain tank can be decommissioned in the future.

Wastewater Treatment Plant

The wastewater treatment plant will receive a major upgrade to the lagoon system, using the 2019 Bond money as well as ARPA grant funds through ANRC. The cost of the upgrade is \$8.54 million. Van Horn Construction is the main contractor and Hawkins-Weir is the engineer of the project. It will start around February 2024 and will be complete in approximately 18 months.

HSWD staff has replaced all lift station electrical panels and are replacing pumps as needed.

Contacting the Management

The financial report is designed to provide our customers, citizens and creditors with a general overview of the Utility's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact Manager Paul Graham and or C.F.O. Nikki Early at the Utility office at 1108 W. Front Street, Heber Springs, AR or call 501-362-3422.

Basic Financial Statements

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

ASSETS	2023	2022
<u>Current assets</u>		
Cash - non-restricted	\$ 3,327,610	\$ 2,617,801
Accounts receivables, net of allowance for uncollectible accounts of \$11,000 in 2023 and 2022	582,848	587,721
Inventory	311,375	314,556
Other receivable	5,500	6,508
Lease receivable	14,755	14,290
Cash - restricted	8,877,460	9,824,512
Prepaid insurance	116,201	114,221
Total current assets	<u>13,235,749</u>	<u>13,479,609</u>
<u>Long-term assets</u>		
Property, buildings and equipment, net of depreciation - note 5	<u>28,184,424</u>	<u>28,413,518</u>
Total long-term assets	<u>28,184,424</u>	<u>28,413,518</u>
<u>Other assets</u>		
Cash - restricted	1,282,697	1,218,109
Lease receivable, non-current	748,629	763,384
Investments - restricted	203,907	199,534
Miscellaneous assets	-	3,194
Corps of engineers - right-of-way easement	3,758	3,758
Total other assets	<u>2,238,991</u>	<u>2,187,979</u>
 TOTAL ASSETS	 <u>\$ 43,659,164</u>	 <u>\$ 44,081,106</u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
	2023	2022
<u>Current liabilities</u>		
Accounts payable	\$ 183,235	\$ 147,567
Accounts payable - restricted	19,895	435,259
Accrued payroll	108,864	94,791
Accrued pension plan	34,047	35,149
Accrued interest payable	246,724	256,912
Current portion of bonds payable	840,000	125,000
Total current liabilities	<u>1,432,765</u>	<u>1,094,678</u>
<u>Long-term liabilities</u>		
Bonds payable	21,230,000	22,760,000
Unamortized premium	183,291	193,064
Customer meter deposits	467,560	480,383
Total long- term liabilities	<u>21,880,851</u>	<u>23,433,447</u>
Total liabilities	<u>23,313,616</u>	<u>24,528,125</u>
<u>Deferred inflows of resources</u>		
Leases	763,385	777,675
Deferred amount on refunding, net of amortization	39,034	41,204
Total deferred inflows of resources	<u>802,419</u>	<u>818,879</u>
<u>Net position</u>		
Net investment in capital assets	13,335,711	13,331,906
Restricted net position:		
Restricted for debt service	1,154,323	1,130,689
Restricted for capital improvements	1,258,120	1,171,987
Unrestricted net position	3,794,975	3,099,520
Total net position	<u>19,543,129</u>	<u>18,734,102</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 43,659,164</u>	<u>\$ 44,081,106</u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
<u>Operating revenues and fees</u>		
Water revenue	\$ 3,760,545	\$ 3,784,629
Sewer revenue	1,262,228	1,256,210
Connection and service installation fees	73,179	66,850
Service charge - special handling	4,422	4,418
Plumbing inspection fees	2,020	910
Grant revenue	-	99,375
Miscellaneous revenues	73,828	66,868
Total operating revenues and fees	<u>5,176,222</u>	<u>5,279,260</u>
<u>Operating expenses</u>		
Depreciation		
Funded	125,402	133,257
Excess of actual over funded	1,282,129	1,119,504
Total depreciation	<u>1,407,531</u>	<u>1,252,761</u>
Other operating expenses	<u>2,668,178</u>	<u>2,614,128</u>
Total operating expenses	<u>4,075,709</u>	<u>3,866,889</u>
Operating income	1,100,513	1,412,371
<u>Nonoperating income and (expense)</u>		
Interest income	255,372	74,377
Rental income	14,290	23,894
Interest expense	(584,402)	(608,593)
Paying fees	(5,000)	(3,750)
Gain (loss) on sale of fixed assets	13,401	20,460
Nonoperating expense, net	<u>(306,339)</u>	<u>(493,612)</u>
Increase in net position	794,174	918,759
Net position, beginning of year	<u>18,734,102</u>	<u>17,793,953</u>
Prior period adjustment - see note 15	<u>14,853</u>	<u>21,390</u>
Net position, end of year	<u><u>\$ 19,543,129</u></u>	<u><u>\$ 18,734,102</u></u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 5,187,327	\$ 5,242,993
Cash received from grants	-	99,375
Cash paid to suppliers for goods and services	(2,011,299)	(1,426,166)
Cash paid to employees for services	(1,022,403)	(964,190)
Net cash provided by operating activities	<u>2,153,625</u>	<u>2,952,012</u>
<u>Cash flows from capital and related financing activities</u>		
Rents collected	14,290	23,894
Capital expenditures	(1,178,437)	(3,766,526)
Principal payments under debt obligations	(815,000)	(125,000)
Interest paid on revenue bonds	(606,533)	(548,827)
Trustee debt service paying fee	(5,000)	(3,750)
Net cash required by capital and related financing activities	<u>(2,590,680)</u>	<u>(4,420,209)</u>
<u>Cash flows from investing activities</u>		
Interest on savings accounts	250,999	71,181
Proceeds from sale of fixed assets	13,401	31,933
Net cash flows from investing activities	<u>264,400</u>	<u>103,114</u>
Net decrease/increase in cash and cash equivalents	(172,655)	(1,365,083)
Cash and cash equivalents, beginning of year	13,660,422	15,025,505
Cash and cash equivalents, end of year	<u>\$ 13,487,767</u>	<u>\$ 13,660,422</u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Reconciliation of increase in net assets to net cash provided by operating activities</u>		
Operating income	\$ 1,100,513	\$ 1,412,371
<u>Adjustments to reconcile operating income to cash provided by operating activities</u>		
Depreciation	1,407,531	1,252,761
Accounts receivable	20,734	17,223
Inventory	3,181	(65,729)
Other assets	3,194	36,188
Prepaid insurance	(1,980)	(4,193)
Accounts payable	(379,696)	276,796
Accrued payroll	14,073	16,216
Accrued pension plan expense	(1,102)	682
Customer meter deposits	(12,823)	9,697
Total adjustments	<u>1,053,112</u>	<u>1,539,641</u>
Net cash provided by operating activities	<u>\$ 2,153,625</u>	<u>\$ 2,952,012</u>
<u>Reconciliation of cash and cash equivalents</u>		
Cash - non-restricted	3,327,610	2,617,801
Cash - restricted	<u>10,160,157</u>	<u>11,042,621</u>
Total cash and cash equivalents	<u>\$ 13,487,767</u>	<u>\$ 13,660,422</u>

The accompanying notes are an integral
part of this financial statement.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The City of Heber Springs Water and Sewer Utility (the Utility) provides water and sewer services for the City of Heber Springs, Arkansas. The Utilities report to the Mayor/City Council. The Utilities are operated in a manner similar to private business enterprises so that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

Basis of Accounting

The financial statements of the Utility are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. 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 US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Measurement Focus

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

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

Basis of Presentation

The presentation of the Utility's financial statements follows the requirements of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – applicable to enterprise funds, as amended (GASB No. 34). In accordance with the requirements of this standard, the Utility's net position is categorized into net investment in capital assets; amounts restricted, yet expendable for the purposes of funding future capital expenditures, fulfilling bond requirements and refunding consumer deposits; and amounts unrestricted, as applicable. Net investment in capital assets represents the balance of capital assets, net of accumulated depreciation, reduced by outstanding bonds or other debt attributable to the acquisition, construction, or improvement of those assets. The restricted component consists of net position, the use of which is restricted to purposes or time periods specified by individuals or entities external to the Utility, such as creditors, grantors, contributors, or by laws or regulations. Unrestricted net position includes all other net position available for operating purposes.

In addition, operating revenues and expenses derived from or related directly to providing water supply, treatment and distribution services are distinguished from non-operating revenues and expenses for purposes of presentation on the Utility's statements of revenues, expenses and changes in net position. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the water supply, treatment and distribution

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
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systems, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Utility's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

Adoption of New Accounting Standard

On October 1, 2021, the Authority adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Authority had one lease subject to the new standards and the impact to net position and revenues as a result of applying GASB 87 for the year ended September 30, 2023 is described in footnote 14.

Cash and Investments

Cash accounts are displayed on the Statement of Net Position as "restricted" and "non-restricted". Restricted assets consist of amounts set aside under various debt agreements and by the City Council to fulfill the requirements of the debt agreements and for other specific uses.

For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand accounts, savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Receivables

The Utility utilizes the allowance method of accounting for uncollectible accounts receivable. At September 30, 2023 and 2022, an \$11,000 allowance was deemed necessary by management. Sales of water and sewer services are made on an open account to customers located in Heber Springs, Arkansas, and the surrounding area and are collateralized to the extent of each customer's meter deposit.

Revenues for water and sewer services are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Utility's financial statements include an estimate of charges for services provided but unbilled at year end. This unbilled receivable is included in Accounts Receivable in the amount of \$66,099 and \$69,737 at September 30, 2023 and 2022, respectively.

Investments

Investments include all certificates of deposit with an original maturity date of more than three months.

Inventories

Materials and supplies inventories are reported at the lower of cost or market, determined by using the first-in, first-out method.

Property and Equipment

Acquisitions of property and equipment are capitalized. Costs of maintenance and repairs that do not improve or extend the asset lives are expensed as incurred, whereas significant replacements and improvements are capitalized in the property accounts. Property and equipment are carried at historical cost, or estimated historical cost if actual is unavailable, unless otherwise noted. Donated fixed assets are valued at their estimated fair market value on the date of donation. Interest costs

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SEPTEMBER 30, 2023 AND 2022

are expensed when incurred on debt where proceeds were used to finance the construction of assets. Land and construction in process are not depreciated. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets ranging as follows:

Plant and equipment	5-40 years
Equipment and vehicles	3-10 years

The cost and accumulated depreciation of items sold or retired are removed from the property accounts and any resultant gain or loss is reflected in income.

Deferred Inflows and Outflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Utility has two items that qualify for reporting in this category. A deferred inflow on bond refunding costs results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See footnote 8 for additional information on deferred inflow related to bond funding costs. A deferred inflow of resources on leases is also presented on the statement of net position and represents the value of the lease receivable, to reflect that the receivable relates to future periods. See footnote 14 for additional information on leases.

Sales Taxes

Sales taxes charged to the Utility's customers are recorded as accounts receivable and sales tax payable when charged to the customer. When these amounts are remitted to the appropriate taxing authority, the sales tax payable is reduced. When the customer pays their bill the accounts receivable is reduced.

Long-Term Debt

All long-term debt to be repaid from business-type resources are reported as liabilities in the financial statements. The long-term debt consists primarily of bonds payable.

Advertising

Advertising costs are charged directly to expense when incurred. There were no significant advertising expenses incurred for the years ended September 30, 2023 and 2022.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Equity is classified as net position and displayed in the following three components:

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

Restricted - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
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Unrestricted - All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

2) CUSTODIAL RISK

Deposits

The Utility entered into an agreement with First Arkansas Bank & Trust during the fiscal year ending September 30, 2023 and enrolled in the IntraFi Cash Service (ICS) and Certificate of Deposit Account Registry Service (CDARS) programs. The ICS and CDARS services divide deposits into amounts under the standard FDIC insurance maximum (\$250,000) and allocates among other banks that are members of IntraFi's network of banks, making the deposit eligible for FDIC insurance.

The table presented below is designed to disclose the level of custody credit risk assumed by the Utility based upon how its deposits were insured or secured with collateral at September 30, 2023 and September 30, 2022. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Utility (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust Utility or agent in the Utility's name.

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

	2023	2022
Category 1	\$ 5,602,860	\$ 699,534
Category 2	8,334,180	13,373,340
	<u>\$13,937,040</u>	<u>\$14,072,874</u>

3) INVESTMENTS

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.

Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
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The Authority has the following fair value measurements as of September 30, 2023:

	Fair Value Measurement			
	Total	Level 1	Level 2	Level 3
Certificates of Deposit	\$ 2,225,718	\$ 2,225,718	\$ -	\$ -
Total Investments	\$ 2,225,718	\$ 2,225,718	\$ -	\$ -

The Authority has the following fair value measurements as of September 30, 2022:

	Fair Value Measurement			
	Total	Level 1	Level 2	Level 3
Certificates of Deposit	\$ 199,534	\$ 199,534	\$ -	\$ -
Total Investments	\$ 199,534	\$ 199,534	\$ -	\$ -

4) LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

Arkansas statute (AR Code § 19-1-501) authorizes the Utility to invest in eligible investment securities such as (1) direct or guaranteed obligations of the United States that are backed by the full faith and credit of the U.S. Government; (2) A direct obligation of an agency, instrumentality, or government-sponsored enterprise created by act of the United States Congress and authorized to issue securities or evidences of indebtedness are guaranteed for repayment by the U.S. Government; and (3) A bond or other debt of the state, a school district, a county government, a municipal government, or an authority of a governmental entity that: (A) Is issued for an essential government purpose or is guaranteed by a state agency; and (B) Has a debt rating from a nationally recognized credit rating agency of "A" or better at the time of purchase.

Arkansas statute (AR Code § 19-1-504) limits the eligible investment securities to having a maturity of no longer than five (5) years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity.

5) PROPERTY AND EQUIPMENT

Capital asset activity for the year ended September 30, 2023, was as follows:

	2022	Additions	Transfers	Disposals	2023
Land	\$ 584,163	\$ -	\$ -	\$ -	\$ 584,163
Plant and equipment	46,218,954	183,302	62,042	-	46,464,298
Equipment and vehicles	2,361,001	136,023	-	(71,066)	2,425,958
Construction in process	529,893	859,112	(62,042)	-	1,326,963
	49,694,011	1,178,437	-	(71,066)	50,801,382
Less accumulated depreciation	(21,280,493)	(1,407,531)	-	71,066	(22,616,958)
	\$ 28,413,518	\$ (229,094)	-	-	\$ 28,184,424

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
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SEPTEMBER 30, 2023 AND 2022

Capital asset activity for the year ended September 30, 2022, was as follows:

	2021	Additions	Transfers	Disposals	2022
Land	\$ 584,163	\$ -	\$ -	\$ -	\$ 584,163
Plant and equipment	41,228,889	136,866	4,927,424	(74,225)	46,218,954
Equipment and vehicles	2,376,396	39,053	-	(54,448)	2,361,001
Construction in process	1,866,710	3,735,346	(5,072,163)	-	529,893
	46,056,158	3,911,265	(144,739)	(128,673)	49,694,011
Less accumulated depreciation	(20,144,932)	(1,252,761)	-	117,200	(21,280,493)
			\$		
	\$ 25,911,226	\$ 2,658,504	(144,739)	\$ (11,473)	\$ 28,413,518

6) COMPENSATED ABSENCES

The employees of the Utility are entitled to paid vacation and sick days depending on length of service. The Utility's policy is to recognize the costs of vacation and sick days as they are earned. Accrued but unused vacation was \$31,472 and \$28,464 at September 30, 2023 and 2022, respectively. Accrued but unused sick time was \$27,506 and \$23,442 at September 30, 2023 and 2022, respectively.

7) LONG-TERM DEBT

2021 Bond Refunding

On September 28, 2021, the City of Heber Springs, Arkansas issued \$7,620,000 of Water and Sewer Refunding Revenue Bonds, Series 2021 with fixed interest rates ranging from 2% to 3% payable on May 1 and November 1 of each year and maturing November 2021 through November 2041. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for the refunding of \$8,215,000 of the City of Heber Springs, Arkansas Water and Sewer Refunding and Construction Revenue Bonds, Series 2016A and 2016B, which were called in November 2021. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the Utility's liabilities.

The refunding of the Series 2016A and 2016B bonds resulted in a defeasance of debt with the deferred loss being amortized over the remaining life of the old debt. This advance refunding was undertaken to reduce the total debt service payments over the next 20 years by \$643,543 and resulted in an economic gain of \$537,733 (difference between the present value of the debt service on the old and the new bonds).

2019 Bonds

On August 29, 2019, the City of Heber Springs, Arkansas issued \$15,495,000 Water and Sewer Revenue Bonds, Series 2019. Interest on the bonds is payable on May 1 and November 1 of each year and the bonds mature November 1, 2019 through 2044 and bear interest ranging from 2.25% to 3%. The bonds are secured by pledge of a payable from revenues derived from operation of the City's water and sewer systems. The City issued the 2019 bonds to provide funds for construction.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
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Aggregate payments required by the bond indenture are as follows:

For the years ending:	Principal	Interest	Total
2024	\$ 840,000	\$ 579,538	\$ 1,419,538
2025	860,000	554,038	1,414,038
2026	885,000	527,863	1,412,863
2027	915,000	500,863	1,415,863
2028	940,000	474,888	1,414,888
2029-2033	4,945,000	2,044,316	6,989,316
2034-2038	5,260,000	1,407,875	6,667,875
2039-2043	5,610,000	651,800	6,261,800
2044-2048	1,815,000	54,825	1,869,825
	<u>\$22,070,000</u>	<u>\$ 6,796,006</u>	<u>\$22,866,006</u>

The following is a summary of the bonds payable activity for the year ended September 30, 2023:

Series 2019 refunding revenue bonds	
principal balance as of September 30, 2022	\$ 15,285,000
Additions	-
Principal payment paid	(115,000)
Series 2019 refunding revenue bonds	
principal balance as of September 30, 2023	<u>\$ 15,170,000</u>
Portion due within one year	<u>\$ 505,000</u>
Series 2021 refunding revenue bonds	
principal balance as of September 30, 2022	\$ 7,600,000
Additions	-
Principal payment paid	(700,000)
Series 2021 refunding revenue bonds	
principal balance as of September 30, 2023	<u>\$ 6,900,000</u>
Portion due within one year	<u>\$ 335,000</u>

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

The following is a summary of the bonds payable activity for the year ended September 30, 2022:

Series 2019 refunding revenue bonds	
principal balance as of September 30, 2021	\$ 15,390,000
Additions	-
Principal payment paid	(105,000)
Series 2019 refunding revenue bonds	
principal balance as of September 30, 2022	<u>\$ 15,285,000</u>
Portion due within one year	<u>\$ 1,115,000</u>
Series 2021 refunding revenue bonds	
principal balance as of September 30, 2021	\$ 7,620,000
Additions	-
Principal payment paid	(20,000)
Series 2021 refunding revenue bonds	
principal balance as of September 30, 2022	<u>\$ 7,600,000</u>
Portion due within one year	<u>\$ 700,000</u>

8) BOND ISSUE PREMIUM AND DEFERRED REFUNDING ON DEBT

The bond issue premium incurred in connection with the 2016 and 2021 bond issuances are being amortized over 25 and 20 years, respectively. Amortization for those premiums as well as the 2016 Series premiums was \$9,773 for the years ended September 30, 2023, and 2022 and is included in interest expense on the statement of revenues, expenses and changes in net position.

The deferred refunding of debt results from the difference between carrying value of refunded debt and its reacquisition price. The balance of \$39,034 and \$41,204 for the years ended September 30, 2023 and 2022 is shown as deferred inflows on the statement of net position and will be amortized over the life of the old bonds which is 20 years. Amortization of the deferred refunding loss will begin in the following year and will be included in interest expense on the statement of revenues, expenses, and changes in net position.

9) PENSION PLAN

On November 26, 1991, the Board of Commissioners of the City of Heber Springs Water and Sewer Utility voted to establish a simplified employee pension plan. Employees who have worked during at least two of the past five years and are at least 21 years of age are eligible to participate. Contributions for the years ended September 30, 2023 and 2022 totaled \$43,943 and \$44,522 respectively.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

10) LEGAL COMPLIANCE

The Water and Sewer Refunding and Construction Revenue Bonds, Series 2016A and 2016B, Water and Sewer Revenue Bonds Series 2019, Water and Sewer Refunding Revenue Bonds Series 2021, and City Ordinances 2016-5, 2016-6, 2019-07, 2019-09, 2021-08, and 2021-10 provide directions for the Utility to accumulate cash in special funds in order to provide cash debt service reserves and for making necessary repairs and replacements to the system. The funds, which have been accumulated pursuant to the bond indenture, are presented on the balance sheet as "Cash – restricted." Three such funds were created by the bond indenture and are as follows:

"Waterworks and Sewer Depreciation Fund", which require the utility to deposit an amount equal to 5% of revenues of the system less the reasonable and necessary monthly expenses of the operation and repair and maintenance of the system. The funds are to be used for paying the costs of repairs or replacements made necessary by the depreciation of the system.

"Bond Fund", which require the Utility to deposit on a monthly basis, one-sixth of the next installment of the interest and one-twelfth of the next installment of principal on all outstanding bonds. These funds are restricted to payment of the principal and interest on the bonds. The balance in the "Bond Funds" at September 30, 2023 and 2022 was \$1,016,724 and \$1,004,011, respectively. The balance in these funds is sufficient to cover the requirements of this bond indenture provision.

"Debt Service Reserve", requires an amount equal to one half of the maximum annual debt service requirements on the Bonds. The Utility, established a municipal bond debt service reserve insurance policy, in lieu of maintaining the funds in a debt service account for both Water and Sewer Revenue Bonds Series 2019, and Water and Sewer Refunding Revenue Bonds Series 2021. The policies combined amount of the debt service reserve insurance policy limit was \$906,463 at September 30, 2023 and 2022, respectively.

In order to maintain compliance with the bond indenture, the City officials must determine when rate increases are necessary. Accordingly, City Ordinance #2016-4 dated July 6, 2016 established the current water and sewer rates. City Ordinance #2019-07 and 2019-09 establish new water and sewer rates effective October 1, 2019 with increases on October 1, 2020 and October 1, 2021.

As provided by the 2016A, 2016B, Series 2019, and Series 2021 bond indentures, the City of Heber Springs is required to maintain water and sewer rates sufficient to produce net revenue (as defined in the indenture) at least sufficient to provide the required deposits into the depreciation fund and the debt service reserves, and to leave a balance equal to 110% of the amount necessary for paying principal, premium, if any, and interest when due on all system bonds outstanding. The Utility complied with the requirement as follows:

	2023	2022
Gross Revenues	\$ 5,176,984	\$ 5,279,260
Less all expenses of operation and maintenance of the system, excluding depreciation, interest and bond amortization	(2,668,178)	(2,614,128)
	2,508,806	2,665,132
Required deposits:		
Depreciation fund	(125,440)	(133,257)
Debt service reserve	-	-
	2,383,366	2,531,875
110% of next bond interest and principal payments	(2,369,293)	(2,369,101)
Excess net revenues	<u>\$ 14,073</u>	<u>\$ 162,774</u>

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

11) CONCENTRATIONS

The Utility has obtained its water since its inception from the Little Red River. The water supply source became a part of the Greers Ferry Lake Reservoir which is owned by the Federal Government of the United States of America. The Little Red River-Greers Ferry Lake Reservoir is the Utility's sole source of water.

The Utility has two customers to which sales exceeded 10% of the Utility's water revenue for the years ended September 30, 2023 and 2022. Water sales to Mountain Top Water System were \$866,970 and \$920,784 for the years ended September 30, 2023 and 2022, respectively. Water sales to Tumbling Shoals Water System were \$908,762 and \$963,197 for the years ended September 30, 2023 and 2022, respectively.

12) RISK MANAGEMENT

The City of Heber Springs Water and Sewer Utility is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Utility considers it to be more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for workers' compensation and vehicle liability and physical damage insurance. As such, the Utility participates in the Arkansas Municipal League Risk Management Pool (AML), which is a public entity risk pool consisting of member political subdivisions for the State of Arkansas. The Utility pays an annual premium to the AML Pool for its workers compensation and vehicle liability and physical damage insurance. The AML Risk Management Pool for workers' compensation and vehicle liability and physical damage insurance is totally self-insured and each political subdivision that has participated in the AML Pool is not subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the AML pool.

The City of Heber Springs Water and Sewer Utility continues to carry commercial insurance for all other risks of loss, including property and casualty insurance, and employee health, life and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in the amount of coverage provided. The Utility, upon advice from the Arkansas Municipal League, does not carry general liability insurance due to the State of Arkansas' tort statutes.

13) RECLASSIFICATIONS

Certain reclassifications of previous years' amounts have been made to conform with the current year's classifications.

CITY OF HEBER SPRINGS WATER AND SEWER UTILITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022

14) LEASE

November 25, 2008, the Utility, as lessor, entered into an agreement with New Cingular Wireless PCS, LLC (the "tenant"), the lessee, to rent ground space, equipment space, and antenna space on and below a water tank. The current lease modification which commenced January 1, 2022 calls for an initial term of five years expiring November 30, 2023. The lease will be automatically renewed upon the same terms for five additional five year terms. The tenant may terminate the lease with thirty days prior written notice to the other party. The Utility is reasonably certain that the lessee will renew this lease for all extension terms. In accordance with GASBS No. 87, the lease was retroactively measured as of January 1, 2022 with a lease term of twenty-six years and one month and an interest rate of 3.25%, the Department's incremental borrowing rate. The prior period financial statement balances have not been restated for this implementation because the lease agreement in effect at that time has subsequently been modified.

Rent is payable monthly at \$3,250 with rent increases by 7.5% at the beginning of each extension term. The Department collected \$39,000 from the tenant for the year ended September 30, 2023, which includes \$14,290 in lease revenue and \$24,710 in lease interest revenue.

15) PRIOR PERIOD ADJUSTMENT

The Utility's revenue was understated in the prior year by \$14,853, due to differences in financial statement amounts for meter deposits compared to billing software amounts; therefore, an adjustment was needed to adjust meter deposit liability in fiscal year 2023 and an increase in net position was recorded as of September 30, 2023.

16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2024, the date which the financial statements were available to be issued. The Utility was selected by Arkansas Natural Resources Commission for their application submission for American Rescue Plan Act (ARPA) Drinking Water WWTP Improvements project in the amount of \$5,000,000 on December 2, 2022. The Utility's funding is still contingent on meeting all program deadlines and requirements and the Utility does not expect to receive any funds until fiscal year 2024.

Supplemental Information

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

To the Board of Commissioners
City of Heber Springs, Arkansas, Water and Sewer Utility

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 City of Heber Springs, Arkansas, Water and Sewer Utility, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Heber Springs, Arkansas, Water and Sewer Utility's basic financial statements and have issued our report thereon dated January 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Heber Springs, Arkansas, Water and Sewer Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Heber Springs, Arkansas, Water and Sewer Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Heber Springs, Arkansas, Water and Sewer Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Heber Springs, Arkansas, Water and Sewer Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas

January 22, 2024

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023		
	Budget	Actual	Favorable/ (Unfavorable) Variance
<u>Operating revenues and fees</u>			
Water and sewer revenue	\$ 4,750,000	\$ 5,022,773	\$ 272,773
Connection, service installation, and miscellaneous fees	126,000	153,449	27,449
Total operating revenues and fees	<u>4,876,000</u>	<u>5,176,222</u>	<u>300,222</u>
<u>Operating expenses</u>			
System maintenance, parts and service	310,000	347,588	(37,588)
Chemicals and lab analysis	240,000	173,040	66,960
Labor	1,065,000	1,036,476	28,524
Employment expense	97,000	90,935	6,065
Benefits expense	260,000	273,839	(13,839)
Insurance	65,000	70,088	(5,088)
Professional services	38,000	46,084	(8,084)
Supplies	3,000	3,545	(545)
Dues and subscriptions	5,000	2,941	2,059
Postage	12,000	12,594	(594)
Education and training	25,000	27,072	(2,072)
Taxes, licenses and fees	8,000	8,119	(119)
Bad debt expense	5,000	5,371	(371)
Office	16,000	13,121	2,879
Other	80,000	73,452	6,548
Truck gas, oil and repairs	145,000	136,703	8,297
Utilities	288,000	331,092	(43,092)
Telephone	15,600	16,118	(518)
Depreciation	1,312,500	1,407,531	(95,031)
Total operating expenses	<u>3,990,100</u>	<u>4,075,709</u>	<u>(85,609)</u>
Operating income	885,900	1,100,513	214,613
<u>Other income and (expense)</u>			
Interest income	46,000	255,372	209,372
Rental income	39,000	14,290	(24,710)
Interest expenses	(605,000)	(584,402)	20,598
Paying fees	(5,000)	(5,000)	-
Loss on sale of fixed assets	-	13,401	13,401
Other expense, net	<u>(525,000)</u>	<u>(306,339)</u>	<u>218,661</u>
Increase in net position	360,900	794,174	433,274
Prior period adjustment -see note 15	-	14,853	14,853
Net position, beginning of year	18,734,102	18,734,102	-
Net position, end of year	<u>\$ 19,095,002</u>	<u>\$ 19,543,129</u>	<u>\$ 448,127</u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2022		
	Budget	Actual	Favorable/ (Unfavorable) Variance
<u>Operating revenues and fees</u>			
Water and sewer revenue	\$ 4,500,000	\$ 5,040,839	\$ 540,839
Connection, service installation, and miscellaneous fees	108,300	238,421	130,121
Total operating revenues and fees	<u>4,608,300</u>	<u>5,279,260</u>	<u>670,960</u>
<u>Operating expenses</u>			
System maintenance, parts and service	306,000	417,993	(111,993)
Materials	140,500	174,648	(34,148)
Labor	1,000,000	980,406	19,594
Employment expense	91,200	86,878	4,322
Benefits expense	284,000	247,316	36,684
Insurance	65,000	64,575	425
Professional services	42,780	47,280	(4,500)
Supplies	4,000	2,616	1,384
Dues and subscriptions	4,500	4,089	411
Postage	18,000	16,358	1,642
Education and training	28,000	20,848	7,152
Taxes, licenses and fees	8,800	7,663	1,137
Bad debt expense	4,400	5,078	(678)
Office	16,000	14,581	1,419
Other	66,800	69,122	(2,322)
Truck gas, oil and repairs	95,000	135,680	(40,680)
Utilities	288,000	303,126	(15,126)
Telephone	14,400	15,871	(1,471)
Depreciation	1,220,000	1,252,761	(32,761)
Total operating expenses	<u>3,697,380</u>	<u>3,866,889</u>	<u>(169,509)</u>
Operating income	910,920	1,412,371	501,451
<u>Other income and (expense)</u>			
Interest income	71,200	74,377	3,177
Rental income	39,000	23,894	(15,106)
Interest expenses	(660,000)	(608,593)	51,407
Paying fees	(4,000)	(3,750)	250
Gain on sale of fixed assets	-	20,460	20,460
Other expense, net	<u>(553,800)</u>	<u>(493,612)</u>	<u>60,188</u>
Increase in net position	357,120	918,759	561,639
Prior period adjustment-see note 15	-	21,390	21,390
Net position, beginning of year	<u>17,793,953</u>	<u>17,793,953</u>	<u>-</u>
Net position, end of year	<u>\$ 18,151,073</u>	<u>18,734,102</u>	<u>583,029</u>

The accompanying notes are an integral
part of this financial statement.

HEBER SPRINGS WATER AND SEWER DEPARTMENT
SCHEDULE OF RATES AND USAGE

WATER AND SEWER RATES:

Water and sewer rates in effect as of September 30, 2023 are as follows:

Gallons	Inside City Limits	<u>Water Rates</u>	
			Outside City Limits
		<u>Residential</u>	
First 1,000	Minimum for meter		Minimum for meter
Next 15,000	\$3.03 per thousand		\$4.12 per thousand
Next 34,000	\$3.40 per thousand		\$4.83 per thousand
Remainder	\$3.82 per thousand		\$5.42 per thousand
		<u>Commercial</u>	
First 1,000	Minimum for meter		Minimum for meter
Next 15,000	\$3.16 per thousand		\$4.33 per thousand
Remainder	\$2.92 per thousand		\$4.06 per thousand
		<u>Industrial</u>	
First 1,000	Minimum for meter		Minimum for meter
Over 1,000	\$1.90 per thousand		\$2.51 per thousand

	<u>Minimum meters</u>
3/4" meter inside city limits	\$10.47 Residential, Commercial, Industrial
3/4" meter outside city limits	\$14.44 Residential, Industrial, Commercial

	Inside City Limits	Outside City Limits
1" Meter	\$ 16.45	\$ 23.37
1 1/2" Meter	\$ 43.26	\$ 63.58
2" Meter	\$ 70.05	\$ 103.76
3" Meter	\$ 104.23	\$ 155.04
4" Meter	\$ 205.88	\$ 307.50
6" Meter	\$ 557.06	\$ 834.27

Gallons	Inside City Limits	<u>Sewer Rates</u>	
			Outside City Limits
		<u>Residential and Commercial</u>	
First 2,000	\$11.36 minimum		\$17.02 minimum
Over 2,000	\$5.60 per thousand		\$8.34 per thousand
		<u>Industrial</u>	
First 2,000	\$11.36 minimum		\$11.36 minimum
Over 2,000	\$5.60 per thousand		\$5.60 per thousand

VOLUME OF WATER SOLD:

The volume of water sold was 930,346,900 gallons and 946,793,500 gallons for the years ended September 30, 2023 and 2022, respectively.