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**Huntsville Water and Waste Water Department**

**Huntsville, Arkansas**

**Independent Auditors' Report**

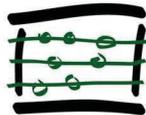
**with**

**Financial Statements**

**and**

**Supplemental Information**

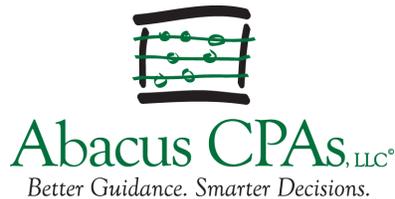
**For the Years Ended December 31, 2022 and 2021**



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**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
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**December 31, 2022 and 2021**

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## INDEPENDENT AUDITORS' REPORT

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

### Opinion

We have audited the accompanying financial statements of the Huntsville Water and Waste Water Department (the Department), an enterprise fund of the City of Huntsville, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Huntsville Water and Waste Water Department, as of December 31, 2022, and the respective 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 Huntsville Water and Waste Water Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

### Prior Period Financial Statements

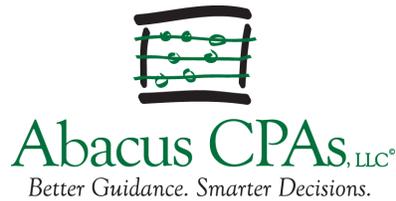
The financial statements of Huntsville Water and Waste Water Department as of December 31, 2021 were audited by other auditors whose report dated July 8, 2022 expressed a unmodified opinion on those statements.

### Management's Responsibility for the Financial Statements

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

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

### **Auditors' Responsibility**

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.

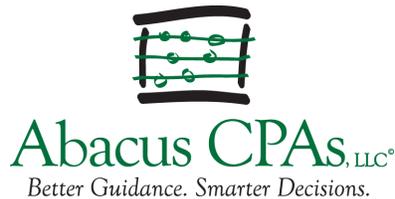
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 Entity'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 Entity'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.

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### 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 4-6 and 29 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do 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 June 15, 2023, on our consideration of Huntsville Water and Waste Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Huntsville Water and Waste Water Department's internal control over financial reporting and compliance.

*Abacus CPAs, LLC*

Springfield, Missouri  
June 15, 2023

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**Huntsville Water and Waste Water Department**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2022 and 2021**

The management of the Huntsville Water and Waste Water Department (the Department) offers readers of the financial statements this overview and analysis of the financial activities of the Department for the years ended December 31, 2022 and 2021. The Department is governed by a Board of Commissioners appointed by the City of Huntsville, Arkansas's City Council. The Department is a separate entity from the City government and is accounted for separately as an enterprise fund.

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

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

**Overview of the Financial Statements**

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

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

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

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

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

**Huntsville Water and Waste Water Department**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2022 and 2021**

**Financial Highlights**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total Assets	\$ 17,767,986	\$ 15,784,400	\$ 15,846,726
Deferred Outflows of Resources	262,645	76,220	172,522
Net Capital Assets	13,122,694	12,975,668	13,334,242
Total Liabilities	10,300,761	8,386,476	8,786,510
Deferred Inflows of Resources	26,006	363,343	26,952
Net Position Invested in Capital Assets	5,921,566	5,525,865	5,619,968
Restricted Net Position	1,191,826	1,515,241	1,327,060
Unrestricted Net Position	616,479	433,039	258,758
Total Net Position	7,729,870	7,474,144	7,205,786
Total Operating Revenues	3,499,002	3,230,519	3,035,811
Total Operation Expenses	2,949,699	2,907,566	2,609,846
Total Other (Expenses) Revenues	(293,577)	(54,595)	41,576
Increase in Net Position	255,725	268,358	467,541

**Total Assets**

Total assets increased approximately \$1,983,000 from December 31, 2021 to 2022. Total assets decreased approximately \$62,000 from December 31, 2020 to 2021. This decrease was due primarily to more purchases of capital assets. The increase was due to bond issued to the City for construction of Tank Project.

**Net Capital Assets**

Net capital assets increased approximately \$147,000 from December 31, 2021 to 2022. This increase is due to an increase in accumulated depreciation of \$575,000, offset by additions of approximately \$761,000. Of the additions, \$500,000 is construction in process. Net capital assets decreased approximately \$359,000 from December 31, 2020 to 2021. This decrease is due to an increase in accumulated depreciation of \$503,000, offset by additions of approximately \$145,000.

**Total Liabilities**

Total liabilities increased approximately \$1,914,000 from December 31, 2021 to 2022. The increase is primarily due to new bond issuance for sewer tank project. Total liabilities decreased approximately \$763,000 from December 31, 2020 to 2021. This decrease is due primarily to a decrease of Long-Term Liabilities, Bonds Payable and Net Pension Liability, of approximately \$809,000, offset by increases in current liabilities of \$46,000.

**Huntsville Water and Waste Water Department**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2022 and 2021**

**Total Net Position**

Total net position increased approximately \$255,000 from December 31, 2021 to 2022, due to net revenue increasing \$549,000. Total net position increased approximately \$269,000 from December 31, 2020 to 2021, due to net operating revenue of approximately \$569,000 offset by net other expenses of \$301,000.

**Total Operating Revenues**

Total operating revenues increased approximately \$268,000 from December 31, 2021 to 2022. This increase was primarily due to increases in water revenue of approximately \$158,000 and waste water of \$70,000. Total operating revenues increased approximately \$195,000 from December 31, 2020 to 2021. This increase was primarily due to increases in waste water revenue of approximately \$203,000.

**Total Operating Expenses**

Total operating expenses increased approximately \$42,000 from December 31, 2021 to 2022. Total operating expenses increased approximately \$298,000 from December 31, 2020 to 2021. This increase was primarily due to increases in legal and audit fees of approximately \$113,000, repairs and maintenance of approximately \$295,000, offset by a decrease in total salaries and wages, retirement, and payroll taxes of approximately \$141,000. A large portion of the increase was repairs done towards an insurance claim.

**Total Other Income (Expense)**

Total other income (expense) decreased approximately \$239,000 from December 31, 2021 to 2022. Total other income (expense) decreased approximately \$96,000 from December 31, 2020 to 2021. This decrease in both periods was due primarily to a casualty gain received from the insurance settlements. The settlement received in 2020 was \$375,000 and \$246,000 in 2021. No settlement was received in 2022.

**Contacting the Department's Financial Management**

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

Huntsville Water and Waste Water Department  
Huntsville, Arkansas  
Statements of Net Position  
As of December 31, 2022 and 2021

Assets

	2022	2021
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,064,161	\$ 983,654
Accounts receivable	263,352	240,117
Inventories	11,522	43,999
<b>Total Current Assets</b>	<b>1,339,035</b>	<b>1,267,770</b>
<b>Restricted Assets</b>		
Cash and cash equivalents	1,063,168	1,406,701
Meter deposits	128,658	108,540
<b>Net Restricted Assets</b>	<b>1,191,826</b>	<b>1,515,241</b>
<b>Property and Equipment</b>		
Land	21,000	21,000
Property and equipment, at cost	21,311,280	20,589,055
Accumulated depreciation	(8,209,586)	(7,634,387)
<b>Net Property and Equipment</b>	<b>13,122,694</b>	<b>12,975,668</b>
<b>Other Assets</b>		
Bond discount, net of amortization of \$9,034 and \$7,744	39,681	24,521
Deposits	1,200	1,200
Due from City - Construction Revenue Bond	2,073,550	-
<b>Total Other Assets</b>	<b>2,114,431</b>	<b>25,721</b>
<b>Deferred Outflows of Resources</b>		
Deferred pension outflows	262,645	76,220
<b>Total Deferred Outflows of Resources</b>	<b>262,645</b>	<b>76,220</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 18,030,631</b>	<b>\$ 15,860,620</b>

See Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department  
Huntsville, Arkansas  
Statements of Net Position  
As of December 31, 2022 and 2021  
Liabilities and Net Position

	2022	2021
<b>Current Liabilities</b>		
Accounts payable	\$ 47,617	\$ 96,364
Accrued liabilities	100,790	161,953
<b>Total Current Liabilities</b>	<b>148,407</b>	<b>258,317</b>
<b>Current Liabilities Payable from Restricted Assets</b>		
Accrued interest	32,909	24,324
Current portion of bonds payable	333,209	275,000
Meter deposits	128,658	108,540
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>494,776</b>	<b>407,864</b>
<b>Long-Term Liabilities</b>		
Bonds payable, net of current portion	8,931,791	7,175,000
Net pension liability	699,781	181,952
<b>Total Long-Term Liabilities</b>	<b>9,631,572</b>	<b>7,356,952</b>
<b>Deferred Inflows of Resources</b>		
Deferred pension inflows	26,006	363,343
<b>Total Deferred Inflows of Resources</b>	<b>26,006</b>	<b>363,343</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>10,300,761</b>	<b>8,386,476</b>
<b>Net Position</b>		
Invested in capital assets, net of related debt	5,938,016	5,525,865
Restricted for:		
Capital projects	35,228	35,190
Meter deposits	128,658	108,540
Debt service	1,027,940	1,371,511
Unrestricted	600,028	433,038
<b>Total Net Position</b>	<b>7,729,870</b>	<b>7,474,144</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 18,030,631</b>	<b>\$ 15,860,620</b>

See Accompanying Notes to Financial Statements.

Huntsville Water and Waste Water Department  
Huntsville, Arkansas  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>Operating Revenues</b>		
Water	\$ 1,743,611	\$ 1,594,994
Waste water	1,686,105	1,608,837
Other income	69,286	26,689
<b>Total Operating Revenues</b>	<b>3,499,002</b>	<b>3,230,520</b>
<b>Operating Expenses</b>		
Water department	1,209,824	1,185,026
Waste water department	1,118,754	974,777
Administrative	621,121	747,763
<b>Total Operating Expenses</b>	<b>2,949,699</b>	<b>2,907,566</b>
<b>Operating Income</b>	<b>549,303</b>	<b>322,954</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	6,484	4,131
Casualty gain	-	246,197
Interest expense and paying agent's fees	(300,061)	(304,924)
<b>Total Non-Operating (Expenses)</b>	<b>(293,577)</b>	<b>(54,596)</b>
<b>Increase in Net Position</b>	<b>255,726</b>	<b>268,358</b>
<b>Net Position, Beginning of Year</b>	<b>7,474,144</b>	<b>7,205,786</b>
<b>Net Position, End of Year</b>	<b>\$ 7,729,870</b>	<b>\$ 7,474,144</b>

See Accompanying Notes to Financial Statements.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2022 and 2021**

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Cash Received From:		
Water and waste water services	\$ 3,406,481	\$ 3,187,570
Other operating activities	69,286	26,689
Cash Paid for:		
Salaries, wages and related benefits	(748,066)	(679,590)
Water	(746,779)	(717,434)
Administrative and other expenses	(954,437)	(1,056,442)
<b>Net Cash Provided by Operating Activities</b>	<b>1,026,485</b>	<b>760,793</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Issuance of long-term debt	2,090,000	-
Principal payments on long-term debt	(275,000)	(265,000)
Due from City - Construction Revenue Bond	(2,073,550)	-
Bond interest and fees	(315,221)	(303,632)
Purchases of property and equipment	(722,224)	(144,759)
Insurance proceeds for casualty gain	-	246,197
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>(1,295,995)</b>	<b>(467,194)</b>
<b>Cash Flows from Investing Activities</b>		
Increase in meter deposits	20,118	9,200
Interest income	6,484	4,131
<b>Net Cash Provided by Investing Activities</b>	<b>26,602</b>	<b>13,331</b>
<b>Net (Decrease) Increase in Cash and Equivalents</b>	<b>(242,908)</b>	<b>306,930</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>2,498,895</b>	<b>2,191,965</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,255,987</b>	<b>\$ 2,498,895</b>
	<b>2022</b>	<b>2021</b>
<b>Reconciliation of Increase (Decrease) in Net Position to Cash Flows from Operating Activities</b>		
Operating income	\$ 549,303	\$ 322,954
Depreciation	575,198	503,333
Changes in Current Assets and Liabilities:		
Accounts receivable	(23,235)	(16,261)
Inventory	32,477	25,652
Deferred pension outflows	(186,425)	96,302
Accounts payable	(48,747)	1
Accrued liabilities	(52,578)	26,720
Net pension liability	517,829	(534,298)
Deferred pension inflows	(337,337)	336,391
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,026,485</b>	<b>\$ 760,794</b>
<b>Supplementary Information</b>		
<b>Cash Paid for Interest</b>	<b>\$ 287,790</b>	<b>\$ 299,329</b>

See Accompanying Notes to Financial Statements.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

1. **Summary of Significant Accounting Policies**

**Nature of Activity**

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

**Reporting Entity**

The financial statements present only the Water and Waste Water Department and are not intended to present fairly the financial position and results of operations of the City of Huntsville, Arkansas. For financial reporting purposes, the Department includes all funds over which the Department's management exercises financial accountability.

**Fund Types**

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

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

**Basis of Accounting**

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

**Budgets and Budgetary Accounting**

State law requires that the Board of Commissioners, before the end of each fiscal year, make appropriations, by ordinance, for the expenditures of City government for the following year. The Board of Commissioners may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to year-end. The Department prepared an annual budget on the regulatory basis of accounting for the Water and Waste Water Department.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

1. Summary of Significant Accounting Policies - (continued)

Fair Value

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

Cash Equivalents

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

Accounts Receivable

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

Inventory

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

Restricted Assets

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to expense as incurred; while major replacements and improvements are capitalized.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

1. Summary of Significant Accounting Policies - (continued)

Long-Lived Assets

Impairment of capital assets is a significant and unexpected decline, which is based on triggering events or changes in circumstances that were not anticipated when the capital assets were placed in service. Based on management's assessment, no triggering events or changes in circumstances occurred during the years ended December 31, 2022 and 2021.

Net Position Classifications

Net Position is classified and presented as follows:

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

Restricted Net Position consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provision or enabling legislation.

Unrestricted Net Position consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Revenue Recognition

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

Classification of Revenues

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

Advertising

The Department follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2022 and 2021 were \$6,567 and \$1,835, respectively.

Restricted Resources

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

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

1. Summary of Significant Accounting Policies - (continued)

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

The Department has a policy whereby employees can accumulate unused sick and vacation leave. Upon termination or retirement, the Department will pay all accrued vacation. The Department has accrued the separation portion of this liability as accrued compensated absences, which totaled \$58,900 and \$92,471 at December 31, 2022 and 2021, respectively.

Income Taxes

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

Use of Estimates

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

Reclassification

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

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

1. Summary of Significant Accounting Policies - (continued)

Adoption of New Accounting Standards

In 2017, the Governmental Accounting Standards Board (GASB), released GASB 87. For 2022, the Department implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Department adopted GASB No. 87, *Leases*, using the modified retrospective approach with January 1, 2021 as the date of initial adoption. The Department elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Department to carry forward the historical lease classification. In addition, the Department elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases and the useful lives of corresponding leasehold improvements as certain options to renew were not reasonably certain. Adoption of the standard did not require the Department to restate amounts as of January 1, 2021.

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

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our balance sheets, as of December 31, 2022 the Department did not have any finance leases.

Leases

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

Huntsville Water and Waste Water Department

Huntsville, Arkansas

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

2. Financial Instruments with Risk of Accounting Loss

As of December 31, 2022, financial instruments that could potentially subject the Department to a risk of accounting loss consists of restricted and unrestricted Cash and Cash Equivalents and Certificates of Deposit, exclusive of petty cash, carried at fair market value, as follows:

	Bank Balance	Carrying Balance
Insured (FDIC)	\$ 500,000	\$ 500,000
Collateralized by pledged securities	1,053,620	1,121,579
Other assets held in trust	627,040	634,408
<b>Total</b>	<b>\$ 2,180,660</b>	<b>\$ 2,255,987</b>

3. Cash, Cash Equivalents and Certificate of Deposit

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

	2022	2021
<b>Unrestricted</b>		
Cash on hand	\$ 300	\$ 300
Revenue funds	859,522	723,235
Operating funds	204,339	260,119
<b>Total Unrestricted</b>	<b>1,064,161</b>	<b>983,654</b>
<b>Restricted</b>		
Bonds funds	669,636	662,230
Depreciation funds	361,433	723,242
Vehicle funds	32,099	21,228
Meter deposit funds	128,658	108,540
<b>Total Restricted</b>	<b>1,191,826</b>	<b>1,515,241</b>
<b>Total Cash, Cash Equivalents</b>	<b>\$ 2,255,987</b>	<b>\$ 2,498,894</b>

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**4. Restricted Assets**

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

**Bond Fund**

The Series 2016 Bonds requires the Department to make monthly transfers into a Bond Fund Account an amount equal to 1/6th of interest and 1/12th of principal due of the next installment. The deposits are to be used to make the required bond payments. The required minimum balance at December 31, 2022 and 2021 was \$55,819 and \$47,242, respectively.

**Debt Service Reserve**

The Department is required to maintain an amount equal to the maximum annual principal and interest requirements of the Series 2016 Bonds. The deposits are to be held in reserve in the event that the Department fails to make the required bond payments. The required minimum balance at December 31, 2021 and 2020 was \$567,869 and \$563,800, respectively.

**Depreciation**

Under the bond agreements, the Department is required to set aside amounts for the cost of necessary repairs or replacements made necessary by the depreciation of the system or to prevent a default on system bonds. The agreement requires a monthly transfer of 3% of the net revenues for the preceding month.

All debt covenant requirements were met as of December 31, 2022 and 2021.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**5. Property and Equipment**

Major classifications of property and equipment are as follows:

	<u>12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2022</u>
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Equipment	1,286,444	170,170	-	1,456,614
Water and sewer system	19,302,612	52,054	-	19,354,666
Construction in process	-	500,000	-	500,000
Total property and equipment	<u>20,610,056</u>	<u>722,224</u>	<u>-</u>	<u>21,332,280</u>
Accumulated depreciation	(7,634,387)	(575,199)	-	(8,209,586)
<b>Net property and equipment</b>	<b><u><u>\$ 12,975,669</u></u></b>	<b><u><u>\$ 147,025</u></u></b>	<b><u><u>\$ -</u></u></b>	<b><u><u>\$ 13,122,694</u></u></b>

	<u>12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2021</u>
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Equipment	1,235,813	50,631	-	1,286,444
Water and sewer system	19,208,484	94,128	-	19,302,612
Total property and equipment	<u>20,465,297</u>	<u>144,759</u>	<u>-</u>	<u>20,610,056</u>
Accumulated depreciation	(7,131,055)	(503,333)	-	(7,634,387)
<b>Net property and equipment</b>	<b><u><u>\$ 13,334,242</u></u></b>	<b><u><u>\$ (358,574)</u></u></b>	<b><u><u>\$ -</u></u></b>	<b><u><u>\$ 12,975,668</u></u></b>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$575,198 and \$503,333, respectively.

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**6. Long-Term Debt**

Long-term debt consisted of the following:

	<u>12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2022</u>
2016A Water and Sewer Revenue Bonds. Payable to Bank of Ozarks, Trustee, in semi-annual principal payments of \$115,000 to \$215,000 with variable interest through 2036.	\$ 5,200,000	\$ -	\$ (275,000)	\$ 4,925,000
2016B Water and Sewer Revenue Bonds. Payable to Bank of Ozarks, Trustee, in semi-annual payments of interest at 5.0% until 2036, then semi-annual payments of interest and payments of \$85,000 to \$265,000 of interest and principal through 2041.	2,250,000	-	-	2,250,000
2022A Water and Sewer Revenue Bonds. Payable to Simmons Bank, Trustee, bearing interest of 4.45%, with semi-annual payments of \$69,000 to \$274,000 of interest and principal through 2041.	-	890,000	-	890,000
2022B Water and Sewer Revenue Bonds. Payable to USDA, bearing interest of 2.375%, with monthly payments of \$3,876 through 2062.	-	1,200,000	-	1,200,000
<b>Total debt</b>	<b>7,450,000</b>	<b>2,090,000</b>	<b>(275,000)</b>	<b>9,265,000</b>
Less: current portion	(275,000)			(333,209)
<b>Long-term portion</b>	<b><u>\$ 7,175,000</u></b>			<b><u>\$ 8,931,791</u></b>

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**6. Long-Term Debt - (continued)**

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

	Principal
2023	\$ 333,209
2024	343,647
2025	359,094
2026	369,553
2027	380,022
2028-2032	2,122,557
2033-2037	2,516,105
2038-2042	2,101,359
2043-2047	153,534
2048-2052	172,872
2053-2057	194,647
2058-2062	218,401
 <b>Total long-term debt</b>	 <b>\$ 9,265,000</b>

Interest expense, net of amortization of bond discount, for the years ended December 31, 2022 and 2021 totaled \$296,375, and \$299,329, respectively.

**7. Restricted Net Position**

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

**8. Water and Sewer Rates**

The Department's water sales statistics during the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Number of customers - end of year	1,385	1,334
Number of customers - beginning of year	1,334	1,239
<b>Increase</b>	<b>51</b>	<b>95</b>
 <b>Gallons of water sold</b>	 <b>509,205,460</b>	 <b>473,945,090</b>

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**9. Defined Benefit Pension Plan**

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

**Plan Description**

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

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

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

Huntsville Water and Waste Water Department

Huntsville, Arkansas

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

9. Defined Benefit Pension Plan - (continued)

Benefits Provided

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

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-Contributory	1.72%

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

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

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

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

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

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

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

**Contributions**

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)).

Members who began service prior to July 1, 2005 are not required to make contributions to APERS.

Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)).

The Department contributed 15.32% of compensation for the years ended December 31, 2022 and 2021.

**APERS Fiduciary Net Position**

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

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

The collective Net Pension Liability of \$2,696,383,462 was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

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

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 16,797	\$ (8,449)
Changes in proportion and differences between contributions and proportionate share of contribution	50,421	(17,557)
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	147,620	-
<b>Total</b>	<b>\$ 214,838</b>	<b>\$ (26,006)</b>

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

9. Defined Benefit Pension Plan - (continued)

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

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

2023	\$	47,413
2024		26,845
2025		11,626
2026		102,948

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Close (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 year (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 - 9.85% including inflation (3.25% - 6.96% including inflation for District Judge)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.7989

Huntsville Water and Waste Water Department

Huntsville, Arkansas

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

9. Defined Benefit Pension Plan - (continued)

Actuarial Assumptions

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
<b>Total</b>	<b>100%</b>	
Total Real Rate of Return		4.93%
Plus: Price Inflation-Actuary Assumption		2.50%
<b>Net Expected Return</b>		<b>7.43%</b>

Discount Rate

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

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

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

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

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
\$ 1,112,525	\$ 699,781	\$ 359,025

**Funding Policy**

APERS has contributory and noncontributory plans. Contributory members are required to contribute 5% of their salary. Each participating employer is required to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% from July 1, 2021 and 15.32% from July 1, 2020 of annual covered payroll. The amounts contributed by the Department for the years ended December 31, 2021 and 2020 were \$122,785 and \$120,504, respectively.

**10. Risk Management**

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

**11. Commitments and Contingencies**

The Department has entered into an agreement for the purchase of all water from the Madison County Regional Water District.

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

**Huntsville Water and Waste Water Department**  
**Huntsville, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

**12. Concentrations and Economic Dependency**

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

One customer accounted for approximately 61% of the water revenues, 41% of the waste water revenues and 53% of the total water and waste water revenues for the years ended December 31, 2022. One customer accounted for approximately 67% of the water revenues, 77% of the waste water revenues and 73% of the total water and waste water revenues for the years ended December 31, 2021.

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

Financial instruments which potentially subject the Department to concentrations of credit risk consist

Concentrations of credit risk with respect to accounts receivable are limited due to the Department's

The Department maintains cash and cash equivalents with local financial institutions, in which the

**15. Risks and Uncertainties**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Department's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Department's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may permanently impact the Department's financial condition or results of operations is uncertain.

**16. Subsequent Events**

Management has evaluated subsequent events through June 15, 2023, the date on which the financial statements were available to be issued.

## Supplemental Information

Huntsville Water and Waste Water Department  
Huntsville, Arkansas  
Schedule of Operating Expenses  
For the Years Ended December 31, 2022 and 2021

	2022	2021
<b>Water Department Operating Expenses</b>		
Purchased water	\$ 746,779	\$ 717,434
Salaries and wages	200,687	223,908
Depreciation	147,769	129,322
Repairs and maintenance	106,727	81,706
Utilities	9,750	9,117
Other	(1,888)	23,539
<b>Total Water Department Operating Expenses</b>	<b>1,209,824</b>	<b>1,185,026</b>
<b>Waste Water Department Operating Expenses</b>		
Salaries and wages	167,677	145,276
Depreciation	427,429	374,011
Repairs and maintenance	150,462	160,729
Utilities	254,673	162,331
Chemicals and samples	98,656	111,728
Other	19,857	20,702
<b>Total Waste Water Department Operating Expenses</b>	<b>1,118,754</b>	<b>974,777</b>
<b>Administrative Operating Expenses</b>		
Salaries and wages	152,574	169,301
Office and administration	29,395	22,373
Uniforms	8,309	6,486
Legal and audit	49,857	127,483
Insurance	45,037	15,809
Licenses and fees	6,948	6,405
Repairs and maintenance	37,441	225,058
Retirement	74,899	(21,649)
Vehicle	17,421	21,784
Maintenance shop	17,338	12,303
Payroll taxes and benefits	93,718	87,869
Other	88,184	74,541
<b>Total Administrative Operating Expenses</b>	<b>621,121</b>	<b>747,763</b>
<b>Total Operating Expenses</b>	<b>\$ 2,949,699</b>	<b>\$ 2,907,566</b>

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

Huntsville Water and Waste Department  
Huntsville, Arkansas  
Schedule of Revenue and Expenses - Compared with Budget  
For the Year Ended December 31, 2022

	Actual	Budget	Over (Under) Budget
<b>Total Operating Revenues</b>	<b>\$ 3,499,002</b>	<b>\$ 3,188,552</b>	<b>\$ 310,450</b>
<b>Water Department Operating Expenses</b>			
Purchased water	746,779	700,000	46,779
Salaries and wages	200,687	185,000	15,687
Depreciation	147,769	300,000	(152,231)
Repairs and maintenance	106,727	90,000	16,727
Utilities	9,750	-	9,750
Other	(1,888)	-	(1,888)
<b>Total Water Department Operating Expenses</b>	<b>1,209,824</b>	<b>1,275,000</b>	<b>(65,176)</b>
<b>Waste Water Department Operating Expenses</b>			
Salaries and wages	167,677	150,000	17,677
Depreciation	427,429	525,000	(97,571)
Repairs and maintenance	150,462	125,000	25,462
Utilities	254,673	170,000	84,673
Chemicals and samples	98,656	105,000	(6,344)
Other	19,857	-	19,857
<b>Total Waste Water Department Operating Expenses</b>	<b>1,118,754</b>	<b>1,075,000</b>	<b>43,754</b>
<b>Administrative Operating Expenses</b>			
Salaries and wages	152,574	165,000	(12,426)
Office and administration	29,395	-	29,395
Uniforms	8,309	-	8,309
Legal and audit	49,857	60,000	(10,143)
Insurance	45,037	85,000	(39,963)
Licenses and fees	6,948	-	6,948
Repairs and maintenance	37,441	-	37,441
Retirement	74,899	100,000	(25,101)
Vehicle	17,421	75,000	(57,579)
Maintenance shop	17,338	-	17,338
Payroll taxes and benefits	93,718	-	93,718
Other	88,184	60,000	28,184
<b>Total Administrative Operating Expenses</b>	<b>621,121</b>	<b>545,000</b>	<b>76,121</b>
<b>Total Operating Expenses</b>	<b>2,949,699</b>	<b>2,895,000</b>	<b>54,699</b>
<b>Operating Income</b>	<b>549,303</b>	<b>293,552</b>	<b>255,751</b>
<b>Total Non-Operating (Expenses) Revenues</b>	<b>(293,577)</b>	<b>3,000</b>	<b>(296,577)</b>
<b>Increase in Net Position</b>	<b>\$ 255,726</b>	<b>\$ 296,552</b>	<b>\$ (40,826)</b>

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

Huntsville Water and Waste Department  
Huntsville, Arkansas  
Schedule of Principal and Interest Payments  
Water and Sewer Revenue Bonds, Series 2016A  
As of December 31, 2022

	<u>Principal June 1</u>	<u>Principal December 1</u>	<u>Interest June 1</u>	<u>Interest December 1</u>	<u>Total Payment</u>
2023	140,000	145,000	141,206	138,791	564,997
2024	145,000	150,000	146,160	141,593	582,753
2025	150,000	155,000	136,868	132,143	574,011
2026	155,000	160,000	127,260	122,378	564,638
2027	160,000	165,000	117,338	112,298	554,636
2028	165,000	170,000	107,100	101,903	544,003
2029	170,000	175,000	96,548	91,193	532,741
2030	175,000	180,000	85,680	80,168	520,848
2031	180,000	185,000	74,498	68,828	508,326
2032	185,000	190,000	63,000	57,173	495,173
2033	190,000	195,000	51,188	45,203	481,391
2034	195,000	200,000	39,060	32,918	466,978
2035	200,000	205,000	26,618	20,318	451,936
2036	205,000	235,000	13,860	7,403	461,263
<b>Total</b>	<u><u>\$ 2,415,000</u></u>	<u><u>\$ 2,510,000</u></u>	<u><u>\$ 1,226,384</u></u>	<u><u>\$ 1,152,310</u></u>	<u><u>\$ 7,303,694</u></u>

Dated January 20, 2016

Interest Rate: Variable

Semiannual interest with bonds maturing June 1 and December 1

Trustee: Bank OZK

Huntsville Water and Waste Department  
Huntsville, Arkansas  
Schedule of Principal and Interest Payments  
Water and Sewer Revenue Bonds, Series 2016B  
As of December 31, 2022

	<u>Principal June 1</u>	<u>Principal December 1</u>	<u>Interest June 1</u>	<u>Interest December 1</u>	<u>Total Payment</u>
2023	-	-	56,250	56,250	112,500
2024	-	-	56,250	56,250	112,500
2025	-	-	56,250	56,250	112,500
2026	-	-	56,250	56,250	112,500
2027	-	-	56,250	56,250	112,500
2028	-	-	56,250	56,250	112,500
2029	-	-	56,250	56,250	112,500
2030	-	-	56,250	56,250	112,500
2031	-	-	56,250	56,250	112,500
2032	-	-	56,250	56,250	112,500
2033	-	-	56,250	56,250	112,500
2034	-	-	56,250	56,250	112,500
2035	-	-	56,250	56,250	112,500
2036	-	85,000	56,250	56,250	197,500
2037	225,000	230,000	54,125	48,500	557,625
2038	240,000	240,000	42,750	36,750	559,500
2039	250,000	255,000	30,750	24,500	560,250
2040	265,000	265,000	18,125	11,500	559,625
2041	95,000	100,000	4,875	2,500	202,375
<b>Total</b>	<u><u>\$ 1,075,000</u></u>	<u><u>\$ 1,175,000</u></u>	<u><u>\$ 938,125</u></u>	<u><u>\$ 911,250</u></u>	<u><u>\$ 4,099,375</u></u>

Dated January 20, 2016

Interest Rate: 5.0%

Semiannual interest with bonds maturing June 1 and December 1

Trustee: Bank OZK

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

	Principal	Interest	Total
2023	30,000	39,832	69,832
2024	30,000	38,270	68,270
2025	35,000	36,935	71,935
2026	35,000	35,378	70,378
2027	35,000	33,820	68,820
2028	40,000	32,263	72,263
2029	40,000	30,483	70,483
2030	40,000	28,703	68,703
2031	45,000	26,923	71,923
2032	45,000	24,920	69,920
2033	50,000	22,918	72,918
2034	50,000	20,693	70,693
2035	50,000	18,468	68,468
2036	55,000	16,243	71,243
2037	55,000	13,795	68,795
2038	60,000	11,348	71,348
2039	60,000	8,678	68,678
2040	65,000	6,008	71,008
2041	70,000	3,115	73,115
Total	\$ 890,000	\$ 448,793	\$ 1,338,793

Dated November 29, 2022

Interest Rate: 4.45%

Semiannual interest with bonds maturing June 1 and December 1.

Trustee: Simmons Bank

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	18,209	28,303	46,512
2024	18,647	27,865	46,512
2025	19,094	27,418	46,512
2026	19,553	26,959	46,512
2027	20,022	26,490	46,512
2028	20,503	26,009	46,512
2029	20,995	25,517	46,512
2030	21,499	25,013	46,512
2031	22,016	24,496	46,512
2032	22,544	23,968	46,512
2033	23,085	23,427	46,512
2034	23,640	22,872	46,512
2035	24,207	22,305	46,512
2036	24,789	21,723	46,512
2037	25,384	21,128	46,512
2038	25,993	20,519	46,512
2039	26,617	19,895	46,512
2040	27,256	19,256	46,512
2041	27,911	18,601	46,512
2042	28,581	17,931	46,512
2043	29,267	17,245	46,512
2044	29,970	16,542	46,512
2045	30,689	15,823	46,512
2046	31,426	15,086	46,512
2047	32,181	14,331	46,512
2048	32,954	13,558	46,512
2049	33,745	12,767	46,512
2050	34,555	11,957	46,512
2051	35,385	11,127	46,512
2052	36,234	10,278	46,512
2053	37,104	9,408	46,512
2054	37,995	8,517	46,512
2055	38,907	7,605	46,512
2056	39,842	6,670	46,512
2057	40,798	5,714	46,512
2058	41,778	4,734	46,512
2059	42,781	3,731	46,512
2060	43,808	2,704	46,512
2061	44,860	1,652	46,512
2062	45,176	1,336	46,512
Total	<u>\$ 1,200,000</u>	<u>\$ 660,480</u>	<u>\$ 1,860,480</u>

Dated December 22, 2022

Interest Rate: 2.375%

Monthly Payments

Trustee: USDA

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

Huntsville Water and Waster Water Department  
Huntsville, Arkansas  
Schedule of Commission Members  
December 31, 2022

<u>Commissioner's Name</u>	<u>Title</u>	<u>Term Expires January 1</u>
Shawn Ellis	Commissioner	2030
Jarred Rogers	Commissioner	2031
Sumner Brashers	Commissioner	2024
Stephen Ford	Commissioner	2029
Guy Roden	Chairman	2028

Huntsville Waste and Water Department  
Huntsville, Arkansas  
Schedule of Insurance in Force  
December 31, 2022

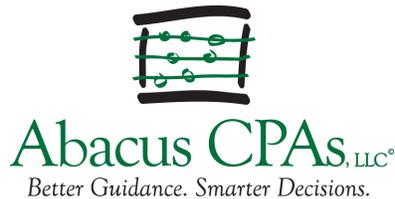
	<b>Amount</b>
<b>Arkansas Municipal League</b>	
Fire and extended coverage	
Main office	\$ 285,000
Waste water plant office	79,000
Waste water plant sludge pressroom	530,000
Shop building and offices	221,000
Shop/warehouse	185,000
Dryer	2,207,000
Total	\$ 3,507,000
 <b>CNA Insurance Co.</b>	
Fidelity Bond	
Sean Davis	\$ 50,000
Brenda Fancher	\$ 50,000
Sonja Rodden	\$ 50,000
 <b>Arkansas Municipal League</b>	
Auto/Tractor Policies	
Bodily Injury, Maximum per accident	25/50M
Property Damage, Maximum per accident	\$ 45,000
 <b>Arkansas Municipal League</b>	
Worker's Compensation	10/100M

**Huntsville Waste and Water Department**  
**Huntsville, Arkansas**  
**Schedule of Water and Sewer Rates**  
**December 31, 2022 and 2021**  
**Water Rates**

<u>Monthly Usage</u>	<u>2022</u>	<u>2021</u>
First 1,000 gallons	\$15.58 minimum	\$15.55 minimum
Next 4,000 gallons	\$3.50 per 1,000 GA	\$3.47 per 1,000 GA
Next 90,000 gallons	\$3.47 per 1,000 GA	\$3.44 per 1,000 GA
Next 200,000 gallons	\$3.16 per 1,000 GA	\$3.13 per 1,000 GA
Over 295,000 gallons	\$3.01 per 1,000 GA	\$2.98 per 1,000 GA

**Sewer Rates**

<u>Monthly Usage</u>	<u>2022</u>	<u>2021</u>
First 2,000 gallons	\$13.33 minimum	\$13.33 minimum
Next 2,000 gallons	\$4.61 per 1,000 GA	\$4.61 per 1,000 GA
Next 96,000 gallons	\$3.82 per 1,000 GA	\$3.82 per 1,000 GA
Over 100,000 gallons	\$2.90 per 1,000 GA	\$2.90 per 1,000 GA



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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

To the Water and Waste Water Commission Honorable Mayor and Members of the  
Huntsville Water and Waste Water Department  
Huntsville, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water and Waste Water Department of the Huntsville, Arkansas (the Department), a component unit of the Huntsville, Arkansas, which comprise the statement of financial position as December 31, 2022, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and the related notes to financial statements, and have issued our report thereon dated June 15, 2023.

**Internal Control Over Financial Reporting**

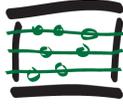
In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements,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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Abacus CPAs, LLC*

Springfield, Missouri  
June 15, 2023

Huntsville Water and Waste Water Department  
Huntsville, Arkansas  
Report on Findings  
December 31, 2022 and 2021

Current Year Findings

None.

Prior Year Findings

None.