

**MELBOURNE WATER AND SEWER
DEPARTMENT**

**(A Proprietary Fund of the
City of Melbourne, Arkansas)**

**Independent Auditor's Report
and Financial Statements**

December 31, 2022 and 2021

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

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**INDEPENDENT
AUDITOR'S
REPORT**



Welch, Couch & Company, PA
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
Melbourne Water and Sewer Department
Melbourne, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Melbourne Water and Sewer Department (a proprietary fund of the City of Melbourne, Arkansas), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise of the Melbourne Water and Sewer 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 financial position of the business-type activities of the Melbourne Water and Sewer Department, as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Melbourne Water and Sewer Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Melbourne Water and Sewer Department are intended to present the financial position, the changes in the financial position, and cash flows of only that portion of the business-type activities of the City of Melbourne, Arkansas that is attributable to the transactions of the Water and Sewer System. They do not purport to, and do not, present fairly the financial position of the City of Melbourne, Arkansas, as of December 31, 2022 and 2021, the changes in 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.

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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 and required supplementary information on pages 34 and 35 be presented to supplement the basic financial statements. Such information is the responsibility of management, and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Management is responsible for the supplementary information on pages 36 – 44. Our opinion on the basic financial statements do not cover the supplementary 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 supplementary information and consider whether a material inconsistency exists between the supplementary information and the basic financial statements, or the supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the supplementary 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 July 14, 2023, on our consideration of the Melbourne Water and Sewer Department's internal control over financial reporting and 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 Melbourne Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Melbourne Water and Sewer Department's internal control over financial reporting and compliance.


Welch, Couch & Company, P.A.
Certified Public Accountants

Batesville, Arkansas
July 14, 2023

Mayor:
Rhonda Halbrook

Recorder/Treasurer:
Alecia K. Bray



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Council Members:
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Shannon Womack
Trey Lamb
Ronnie Treat
Laura Sipe
Mike Cone
Lee Melton

MELBOURNE WATER AND SEWER DEPARTMENT (A Proprietary Fund of the City of Melbourne, Arkansas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Melbourne Water and Sewer Department's financial performance provides an overview of the Water and Sewer Department's financial activities for the fiscal years ended December 31, 2022 and 2021. Please read it in conjunction with the Water and Sewer Department's financial statements, which begin on page 9.

Financial Highlights

- The Water and Sewer Department's net position decreased by \$(180,153) from \$2,886,656 in 2021 to \$2,706,503 in 2022 as a result of this year's operations. In the prior year, the Water and Sewer Department's net position decreased by \$(10,107) from \$2,896,763 in 2020 to \$2,886,656 in 2021 as a result of prior year's operations.
- The Water and Sewer Department's operating income (loss) was \$(42,420) and \$139,495 for the years ended December 31, 2022 and 2021, respectively.
- Cash and cash equivalents increased by \$46 and decreased by \$(197,089) for the years ended December 31, 2022 and 2021, respectively.
- In 2022, the Water and Sewer Department purchased and/or constructed \$-0- in capital assets as compared to \$476,771 in 2021.
- In 2022 and 2021, the Water and Sewer Department issued \$34,911 and \$308,041, respectively, in long-term debt. The Water and Sewer Department decreased long-term debt by \$198,301 in 2022 and increased long-term debt by \$105,538 in 2021.

Using This Annual Report

This annual report consists of three parts – management’s discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements consist of three financial statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. The financial statements focus on the individual parts of the Water and Sewer Department, offering short- and long-term financial information about the activities that the government operates like businesses.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

Our analysis of the Water and Sewer Department finances begins on page 6. One of the most important questions asked about the Water and Sewer Department’s finances is, “is the Water and Sewer Department as a whole better or worse off as a result of the year’s activities?” The statement of net position and the statement of revenues, expenses and changes in net position report information about the Water and Sewer Department’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer Department’s net position and changes in them. You can think of the Water and Sewer Department’s net position – the difference between assets and deferred outflows of resources minus liabilities and deferred inflows of resources – as one way to measure the Water and Sewer Department’s financial health, or financial position. Over time, increases or decreases in the Water and Sewer Department’s net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as:

- Where did cash come from?
- What was cash used for?
- What was the change in cash balance during the reporting period?

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Water and Sewer Department's Net Position

The Water and Sewer Department's net position represent the difference between its assets and deferred outflows of resources minus its liabilities and deferred inflow of resources reported in the statements of net position on pages 10 and 11. The Department's net position decreased during fiscal year 2022 by \$(180,153) or (6.24)%.

Table 1 below details the various elements of the statement of net position:

Table 1			
Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position			
	December 31,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total current assets	\$ 112,723	\$ 136,152	\$ 176,643
Noncurrent assets	599,849	565,068	709,692
Capital assets - net	6,669,403	6,997,041	6,787,791
Deferred outflows of resources	<u>83,105</u>	<u>28,071</u>	<u>54,295</u>
Total assets and deferred outflows of resources	<u>\$ 7,465,080</u>	<u>\$ 7,726,332</u>	<u>\$ 7,728,421</u>
Current liabilities	\$ 144,462	\$ 87,958	\$ 129,625
Current liabilities payable from restricted assets	315,409	305,941	262,010
Non-current liabilities	<u>4,292,864</u>	<u>4,317,241</u>	<u>4,433,393</u>
Total liabilities	<u>4,752,735</u>	<u>4,711,140</u>	<u>4,825,028</u>
Deferred inflows of resources	<u>3,035</u>	<u>128,536</u>	<u>6,630</u>
Net position			
Net investment in capital assets	2,388,454	2,517,791	2,414,079
Restricted expendable	599,849	565,068	709,692
Unrestricted	<u>(278,993)</u>	<u>(196,203)</u>	<u>(227,008)</u>
Total net position	<u>2,709,310</u>	<u>2,886,656</u>	<u>2,896,763</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,465,080</u>	<u>\$ 7,726,332</u>	<u>\$ 7,728,421</u>

Operating Results and Changes in the Water and Sewer Department's Net Position

In 2022, the Water and Sewer Department's net position decreased by \$(180,153) or (6.24)%. This decrease is made up of very different components, as shown in table 2 which follows:

	Years Ended December 31,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Water revenue	\$ 709,305	\$ 669,906	\$ 639,719
Sewer revenue	197,134	204,154	193,099
Other revenue	120,818	87,739	90,208
Total operating revenues	<u>1,027,257</u>	<u>961,799</u>	<u>923,026</u>
Operating expenses:			
Salaries and benefits	248,465	210,259	223,421
Tools and supplies	107,619	62,360	69,319
Truck expense	13,283	10,680	7,389
Repairs and maintenance	124,625	74,145	68,367
Utilities	100,798	101,908	94,430
Lab and testing fees	42,417	37,527	26,747
Depreciation expense	327,638	267,523	254,370
Administrative costs	102,375	57,902	59,998
Total operating expenses	<u>1,067,220</u>	<u>822,304</u>	<u>804,041</u>
Operating income (loss)	(39,963)	139,495	118,985
Nonoperating revenues (expenses)	<u>(137,383)</u>	<u>(145,602)</u>	<u>(149,125)</u>
(Decrease) in net position	(177,346)	(10,107)	(30,140)
Net position - beginning of year	<u>2,886,656</u>	<u>2,896,763</u>	<u>2,926,903</u>
Net position - end of Year	<u>\$ 2,709,310</u>	<u>\$ 2,886,656</u>	<u>\$ 2,896,763</u>

Operating Revenues and Expenses

The Water and Sewer Department's total operating revenues increased by \$65,808 from \$961,799 in 2021 to \$1,027,607 in 2022. Total operating expenses increased \$247,723 from \$822,304 in 2021 to \$1,070,027 in 2022 primarily because of the increase in repairs and maintenance, administrative costs, and depreciation.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses primarily consist of interest expense on long-term debt. Interest expense was \$138,560 and \$150,194 in 2022 and 2021, respectively.

The Water and Sewer Department's Cash Flows

Changes in the Water and Sewer Department's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2022 and 2021, the Water and Sewer Department had \$6,666,596 and \$6,997,041, respectively, invested in a broad range of capital assets (net of accumulated depreciation) including land, water tanks and lines, vehicles and maintenance equipment. The Water and Sewer Department's capital asset additions totaled \$-0- in 2022, as compared to \$476,771 in 2021.

Debt

At December 31, 2022, the Water and Sewer Department had \$4,280,948 in debt outstanding versus \$4,479,250 at December 31, 2021.

Table 3		
Outstanding Debt at Year End		
	Years Ended	
	December 31,	
	<u>2022</u>	<u>2021</u>
Bonds and notes payable		
Long-term	\$ 4,041,532	\$ 4,246,997
Current	<u>239,416</u>	<u>232,253</u>
Total	<u>\$ 4,280,948</u>	<u>\$ 4,479,250</u>

Contacting the Water and Sewer Department's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Water and Sewer Department's finances and to show the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Melbourne Water and Sewer Department, P.O. Box 800, Melbourne, Arkansas 72556.

FINANCIAL STATEMENTS

Assets and Deferred Outflows of Resources

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents - Notes 1 and 2	\$ 2,086	\$ 36,821
Accounts receivable, net of allowance for doubtful accounts - Notes 1 and 4	96,581	86,407
Prepaid expenses	14,056	12,924
Total current assets	<u>112,723</u>	<u>136,152</u>
Noncurrent assets - Notes 2 and 3		
Cash in bank	517,561	482,994
Certificates of deposit	82,288	82,074
Total noncurrent assets	<u>599,849</u>	<u>565,068</u>
Capital assets - net of accumulated depreciation - Notes 1 and 5	<u>6,669,403</u>	<u>6,997,041</u>
Deferred outflows of resources:		
Deferred pension outflows - Note 8	<u>83,105</u>	<u>28,071</u>
Total assets and deferred outflows of resources	<u>\$ 7,465,080</u>	<u>\$ 7,726,332</u>

The notes to financial statements are an integral part of this statement.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statements of Net Position (Cont.)
December 31, 2022 and 2021

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2022</u>	<u>2021</u>
Current liabilities		
Accounts payable	\$ 125,990	\$ 68,980
Accrued interest payable	12,560	13,586
Accrued expenses	5,912	5,392
Total current liabilities	<u>144,462</u>	<u>87,958</u>
Current liabilities payable from restricted assets		
Bonds and note payable, current portion - Note 7	239,416	232,253
Meter deposits - Note 7	75,993	73,688
Total current liabilities payable from restricted assets	<u>315,409</u>	<u>305,941</u>
Non-current liabilities		
Bonds and notes payable, net of current portion - Note 7	4,041,532	4,246,997
Net pension obligation - Note 8	251,332	70,244
Total non-current liabilities	<u>4,292,864</u>	<u>4,317,241</u>
Total liabilities	<u>4,752,735</u>	<u>4,711,140</u>
Deferred inflows of resources		
Deferred pension inflows - Note 8	<u>3,035</u>	<u>128,536</u>
Net position		
Net investment in capital assets	2,388,454	2,517,791
Restricted expendable:		
Customer deposits	36,649	65,561
Debt service	527,232	463,614
Depreciation reserve	35,961	35,885
Construction fund	7	8
Unrestricted (deficit)	<u>(278,993)</u>	<u>(196,203)</u>
Total net position	<u>2,709,310</u>	<u>2,886,656</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 7,465,080</u></u>	<u><u>\$ 7,726,332</u></u>

The notes to financial statements are an integral part of this statement.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statements of Revenues, Expenses and
Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water revenue	\$ 709,305	\$ 669,906
Sewer revenue	197,134	204,154
Miscellaneous customer fees	75,299	82,802
Other revenue	45,519	4,937
Total operating revenues	<u>1,027,257</u>	<u>961,799</u>
Operating expenses		
Salaries	192,921	187,421
Payroll taxes and benefits	55,544	22,837
Bad debt	6,892	956
Tools and supplies	107,619	62,360
Truck expense	13,283	10,680
Insurance expense	7,364	7,469
Repairs and maintenance	124,625	74,145
Legal and auditing	10,000	7,750
Utilities	100,798	101,908
Telephone	13,188	13,384
Office supplies and postage	32,631	24,679
Lab and testing fees	42,417	37,527
Depreciation expense	327,638	267,523
Contract labor	4,388	1,925
Miscellaneous expense	27,912	1,740
Total expenses	<u>1,067,220</u>	<u>822,304</u>
Operating income (loss)	<u>(39,963)</u>	<u>139,495</u>
Nonoperating revenues (expenses)		
Interest expense	(138,560)	(150,194)
Interest income	827	592
Gain on sale of asset	350	-
Net nonoperating revenues (expenses)	<u>(137,383)</u>	<u>(149,602)</u>
(Decrease) in net position	<u>(177,346)</u>	<u>(10,107)</u>
Net position - beginning of year	<u>2,886,656</u>	<u>2,896,763</u>
Net position - end of year	<u><u>\$ 2,709,310</u></u>	<u><u>\$ 2,886,656</u></u>

The notes to financial statements are an integral part of this statement.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Receipts from customers	\$ 947,328	\$ 933,231
Payments to suppliers	(266,600)	(250,549)
Payments to employees	(248,465)	(210,259)
Other receipts (payments)	(96,532)	(148,675)
Net cash provided by operating activities	<u>335,731</u>	<u>323,748</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(233,213)	(202,503)
Interest paid on long-term debt	(138,560)	(150,194)
Proceeds from issuance of debt	34,911	(168,732)
Proceeds from sales of asset	350	-
Net cash (used in) capital and related financing activities	<u>(336,512)</u>	<u>(521,429)</u>
Cash flows from investing activities:		
Interest received	827	592
Net cash provided by investing activities	<u>827</u>	<u>592</u>
Net increase (decrease) in cash and cash equivalents	46	(197,089)
Cash and cash equivalents - beginning of year	<u>601,889</u>	<u>798,978</u>
Cash and cash equivalents - end of year	<u><u>\$ 601,935</u></u>	<u><u>\$ 601,889</u></u>
<u>Supplemental information</u>		
Interest paid	\$ 138,560	\$ 150,194
Assets acquired with long-term debt	34,911	308,042
<u>Reconciliation of total cash and cash equivalents</u>		
Current assets - cash and cash equivalents	\$ 2,086	\$ 36,821
Noncurrent assets - cash and cash equivalents	599,849	565,068
Total cash and cash equivalents	<u><u>\$ 601,935</u></u>	<u><u>\$ 601,889</u></u>

(Continued)

The notes to financial statements are an integral part of this statement.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statements of Cash Flows (Cont.)
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (39,963)	\$ 139,495
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	327,638	267,523
Provision for bad debts	6,892	956
Net change in:		
Accounts receivable	(17,066)	(982)
Prepaid expenses	(1,132)	(11,948)
Accounts payable	57,010	(41,159)
Accrued expenses	(505)	(508)
Meter deposits	2,305	3,090
Net pension obligation	181,088	(180,849)
Deferred outflows of resources	(55,034)	26,224
Deferred inflows of resources	(125,502)	121,906
Net cash provided by operating activities	<u>\$ 335,731</u>	<u>\$ 323,748</u>

The notes to financial statements are an integral part of this statement.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Melbourne Water and Sewer Department is considered to be a proprietary fund of the City of Melbourne, Arkansas. Proprietary funds are used to account for operations in a manner similar to business enterprises. With a proprietary fund, it is the inherent intent of the governing body to recover all costs of operations through user charges.

Financial Reporting Entity

These financial statements present only the Melbourne Water and Sewer Department funds, accounts and balances, and are not intended to present the financial position, results of operations, and cash flows of the City of Melbourne, Arkansas.

Measurement Focus and Basis of Accounting

The Water and Sewer Department utilizes enterprise fund accounting through which revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include bank checking, savings accounts and certificate of deposits with original maturities of three months or less.

Noncurrent Assets

Restricted assets include amounts restricted for customer deposits, debt service reserve, and depreciation reserve.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Accounts Receivable

The Water and Sewer Department grants credit to its members for water and sewer sales. The collectability of the Department's receivables is dependent upon the residents' ability to honor their obligations for their bills. Accounts receivable are carried on the balance sheet at net realizable value. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance is estimated based on historical collection percentages. The allowance for doubtful accounts totaled \$24,308 and \$17,416 at December 31, 2022 and 2021, respectively. The Water and Sewer Department had bad debt expense totaling \$6,892 for the period ended December 31, 2022 and \$956 for the period ended December 31, 2021.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets costing more than \$2,500 and that have useful lives of more than three years are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to forty 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 are charged against earnings when incurred.

Restricted Resources

When the Water and Sewer Department has both restricted and unrestricted resources available to finance a particular program, it is the Department's policy to use restricted resources before unrestricted assets.

Accounts Payable

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

Accrued Interest Payable

Accrued interest payable represents interest due to the United States Department of Agriculture and Arkansas Natural Resources Commission on bonds and notes payable.

Accrued Expenses

Accrued expenses consist primarily of accrued payroll tax and sales tax.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
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Note 1 – Summary of Significant Accounting Policies (Cont.)

Meter Deposits

Meter deposits are liabilities payable to water and sewer customers as a requirement to obtain services.

Long-term Debt

At December 31, 2022 and 2021, long-term debt consisted of principal amounts due to the United States Department of Agriculture, Arkansas Natural Resources Commission and Arkansas Development Finance Authority. See note 7 for further detail.

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

Net Position

Net position classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted Net Position:

Restricted expendable net position – this component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Restricted nonexpendable net position – this component of net position is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Water and Sewer Department such as permanent endowments.

Unrestricted net position – this component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets," as defined above.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

Operating Revenues and Expenses

The Water and Sewer Department's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water and sewer utility services. Operating expenses are all expenses incurred to provide water and sewer utility services, other than financing costs.

Grants and Contributions

From time to time, the Water and Sewer Department receives grants and contributions from federal and state governments, individuals, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Note 2 – Deposits

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Water and Sewer Department's deposit policy for custodial credit risk requires compliance with the provisions of state law. At December 31, 2022, the Water and Sewer Department's carrying amount of deposits was \$601,935. The bank balance of \$607,436 was fully covered by Federal Depository Insurance and pledged securities held by the pledging financial institution.

Interest rate risk – The Water and Sewer Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 2 – Deposits (Cont.)

Credit risk – The Water and Sewer Department does not have a formal policy that limits exposure to credit risk.

Concentration of credit risk – The Water and Sewer Department places no limit on the amount it may invest in any one issuer.

The carrying amounts of deposits are included in the Water and Sewer Department's balance sheet as follows:

	<u>2022</u>	<u>2021</u>
Deposits	\$ 601,935	\$ 601,889
Total	<u>\$ 601,935</u>	<u>\$ 601,889</u>

	<u>2022</u>	<u>2021</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,086	\$ 36,821
Noncurrent cash and certificates of deposit	<u>599,849</u>	<u>565,068</u>
Total	<u>\$ 601,935</u>	<u>\$ 601,889</u>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest income	<u>\$ 827</u>	<u>\$ 592</u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Note 3 – Noncurrent Assets

Arising from customer deposits held by Melbourne Water and Sewer Department and due to debt requirements imposed by USDA Rural Development and Arkansas Natural Resources Commission, restricted cash accounts at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Customer Deposit Accounts:		
Cadence Bank - Checking # 8304	\$ 31,993	\$ 60,923
FNBC - C.D. # 9963	4,656	4,638
	<u>36,649</u>	<u>65,561</u>
Debt Service Reserve Accounts:		
Cadence Bank - Checking # 1232	7,103	7,094
Cadence Bank - Checking # 5534	463,374	412,436
FNBC - C.D. # 2855	11,987	11,962
FNBC - C.D. # 6124	6,657	6,644
FNBC - C.D. # 6184	23,027	22,947
Regions - Escrow #5723	15,084	2,531
	<u>527,232</u>	<u>463,614</u>
Depreciation Reserve Account:		
FNBC - C.D. # 2853	<u>35,961</u>	<u>35,885</u>
Construction Fund:		
FNBC - #9570	<u>7</u>	<u>8</u>
Total Restricted Cash Accounts	<u><u>\$ 599,849</u></u>	<u><u>\$ 565,068</u></u>

Note 4 – Accounts Receivable

Accounts receivable consists of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 120,889	\$ 103,823
Allowance for doubtful accounts	<u>(24,308)</u>	<u>(17,416)</u>
Accounts receivable, net of allowance for doubtful accounts	<u><u>\$ 96,581</u></u>	<u><u>\$ 86,407</u></u>

MELBOURNE WATER AND SEWER DEPARTMENT
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Notes to Financial Statements

December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation

Capital assets additions, retirements and balances for the years ended December 31, 2022 and 2021 were as follows:

	Balance December 31, 2021	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Balance December 31, 2022
Capital assets not being depreciated:					
Land	\$ 64,737	\$ -	\$ -	\$ -	\$ 64,737
Construction in progress	703,036	-	-	(703,036)	-
Total capital assets not being depreciated	<u>767,773</u>	<u>-</u>	<u>-</u>	<u>(703,036)</u>	<u>64,737</u>
Capital assets being depreciated:					
System, lines, pumps and tanks	11,740,622	703,036	-	-	12,443,658
Maintenance equipment	159,617	-	-	-	159,617
Vehicles	110,025	-	(10,100)	-	99,925
Office equipment	75,674	-	-	-	75,674
Total capital assets being depreciated	<u>12,085,938</u>	<u>703,036</u>	<u>(10,100)</u>	<u>-</u>	<u>12,778,874</u>
Less accumulated depreciation for:					
System, lines, pumps and tanks	(5,589,277)	(306,675)	-	-	(5,895,952)
Maintenance equipment	(112,007)	(12,696)	-	-	(124,703)
Vehicles	(79,712)	(8,267)	10,100	-	(77,879)
Office equipment	(75,674)	-	-	-	(75,674)
Total accumulated depreciation	<u>(5,856,670)</u>	<u>(327,638)</u>	<u>10,100</u>	<u>-</u>	<u>(6,174,208)</u>
Total capital assets being depreciated, net	<u>6,229,268</u>	<u>375,398</u>	<u>-</u>	<u>-</u>	<u>6,604,666</u>
Capital assets, net	<u>\$ 6,997,041</u>	<u>\$ 375,398</u>	<u>\$ -</u>	<u>\$ (703,036)</u>	<u>\$ 6,669,403</u>

MELBOURNE WATER AND SEWER DEPARTMENT
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Notes to Financial Statements
December 31, 2021 and 2020

Note 5 – Capital Assets and Depreciation (Cont.)

	Balance December 31, 2020	Additions	Retirements	Reclass	Balance December 31, 2021
Capital assets not being depreciated:					
Land	\$ 64,737	\$ -	\$ -	\$ -	\$ 64,737
Construction in progress	357,048	345,988	-	-	703,036
Total capital assets not being depreciated	<u>421,785</u>	<u>345,988</u>	<u>-</u>	<u>-</u>	<u>767,773</u>
Capital assets being depreciated:					
System, lines, pumps and tanks	11,609,837	130,785	-	-	11,740,622
Maintenance equipment	159,617	-	-	-	159,617
Vehicles	110,025	-	-	-	110,025
Office equipment	75,674	-	-	-	75,674
Total capital assets being depreciated	<u>11,955,153</u>	<u>130,785</u>	<u>-</u>	<u>-</u>	<u>12,085,938</u>
Less accumulated depreciation for:					
System, lines, pumps and tanks	(5,343,399)	(245,878)	-	-	(5,589,277)
Maintenance equipment	(99,311)	(12,696)	-	-	(112,007)
Vehicles	(71,445)	(8,267)	-	-	(79,712)
Office equipment	(74,992)	(682)	-	-	(75,674)
Total accumulated depreciation	<u>(5,589,147)</u>	<u>(267,523)</u>	<u>-</u>	<u>-</u>	<u>(5,856,670)</u>
Total capital assets being depreciated, net	<u>6,366,006</u>	<u>(136,738)</u>	<u>-</u>	<u>-</u>	<u>6,229,268</u>
Capital assets, net	<u>\$ 6,787,791</u>	<u>\$ 209,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,997,041</u>

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$327,411 and \$267,523, respectively.

Note 6 – Accrued Compensated Absences

No provision was made for accrued vacation leave because the amount is minimal and would not have a material effect on the financial statements. Sick leave is not payable to an employee upon termination; therefore, it is not subject to accrual.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Water and Sewer Department's noncurrent liabilities for 2022 and 2021 follows:

	Balance at December 31, <u>2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2022</u>	Amount Due Within <u>One Year</u>
Long-term debt:					
USDA - 91-08	\$ 338,990	\$ -	\$ (18,161)	\$ 320,829	\$ 19,032
USDA - 92-04	121,642	-	(23,995)	97,647	25,222
USDA - 92-09	227,364	-	(6,458)	220,906	6,738
USDA - 92-11	683,822	-	(18,847)	664,975	19,661
USDA - 91-16	1,255,016	-	(24,426)	1,230,590	25,105
USDA - 91-17	135,877	-	(2,424)	133,453	2,504
USDA - 91-18	587,487	-	(10,280)	577,207	10,618
ANRC - 1996B	60,335	-	(4,774)	55,561	3,965
ANRC - 2002	128,708	-	(24,385)	104,323	25,520
ANRC - 289-WDF-D	29,301	-	(1,841)	27,460	1,933
ANRC - 376-WSSW-D	239,723	-	(12,233)	227,490	12,843
ANRC - 01082-WDF-L	40,071	-	(16,780)	23,291	17,241
ADFA - 01223-DWSRF-L	630,914	34,911	(68,609)	597,216	69,034
Total long-term debt	<u>4,479,250</u>	<u>34,911</u>	<u>(233,213)</u>	<u>4,280,948</u>	<u>239,416</u>
Other liabilities:					
Meter deposits	73,688	9,814	(7,569)	75,933	-
Total noncurrent liabilities	<u><u>\$ 4,552,938</u></u>	<u><u>\$ 44,725</u></u>	<u><u>\$ (240,782)</u></u>	<u><u>\$ 4,356,881</u></u>	<u><u>\$ 239,416</u></u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

	Balance at December 31, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2021</u>	Amount Due Within <u>One Year</u>
Long-term debt:					
USDA - 91-08	\$ 356,289	\$ -	\$ (17,299)	\$ 338,990	\$ 18,127
USDA - 92-04	144,470	-	(22,828)	121,642	23,994
USDA - 92-09	233,554	-	(6,190)	227,364	6,458
USDA - 92-11	701,886	-	(18,064)	683,822	18,845
USDA - 91-16	1,278,780	-	(23,764)	1,255,016	24,425
USDA - 91-17	138,224	-	(2,347)	135,877	2,424
USDA - 91-18	597,438	-	(9,951)	587,487	10,279
ANRC - 1996B	63,927	-	(3,592)	60,335	3,774
ANRC - 2002	163,268	-	(34,560)	128,708	24,385
ANRC - 289-WDF-D	31,054	-	(1,753)	29,301	1,841
ANRC - 376-WSSW-D	251,372	-	(11,649)	239,723	12,232
ANRC - 01082-WDF-L	56,402	-	(16,331)	40,071	16,780
ADFA - 01223-DWSRF-L	357,048	308,042	(34,176)	630,914	68,689
Total long-term debt	<u>4,373,712</u>	<u>308,042</u>	<u>(202,504)</u>	<u>4,479,250</u>	<u>232,253</u>
Other liabilities:					
Meter deposits	<u>70,598</u>	<u>12,600</u>	<u>(9,510)</u>	<u>73,688</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 4,444,310</u>	<u>\$ 320,642</u>	<u>\$ (212,014)</u>	<u>\$ 4,552,938</u>	<u>\$ 232,253</u>

The Water and Sewer Department has bonds and notes payable to USDA Rural Development and to Arkansas Natural Resources Commission. The funding is for the original construction of the water and sewer system and subsequent improvements. The debt is secured by Department assets and pledges of revenue. Current maturities of bonds total \$239,416.

The terms and due dates of the Water and Sewer Department's long-term debt at December 31, 2022 follows:

USDA Rural Development:

	<u>91-08</u>	<u>92-04</u>
Original date	6/27/1996	10/3/1986
Interest rate	4.88%	5.0%
Monthly payment	\$ 2,857	\$ 2,461
Original amount	\$ 597,500	\$ 505,200
Maturity date	06/27/2036	10/31/2036

USDA Reserves:

Maximum required	\$ 34,284	\$ 29,532
12/31/22 balance	\$ 34,284	\$ 29,532

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Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

USDA Rural Development (cont.):

	<u>92-09</u>	<u>92-11</u>
Original date	6/7/2005	5/10/2005
Interest rate	4.25%	4.25%
Monthly payment	\$ 1,333	\$ 3,962
Original amount	\$ 300,700	\$ 894,200
Maturity date	06/07/2045	05/10/2045

USDA Reserves (cont.):

Maximum required	\$ 16,572	\$ 49,260
12/31/22 balance	\$ 16,572	\$ 49,260

USDA Rural Development (cont.):

	<u>91-16</u>	<u>91-17</u>	<u>91-18</u>	<u>Total</u>
Original date	5/30/2014	5/30/2014	10/23/2014	
Interest rate	2.75%	3.25%	3.25%	
Monthly payment	\$ 4,886	\$ 567	\$ 2,435	\$ 18,501
Original amount	\$ 1,400,000	\$ 150,000	\$ 644,000	\$ 4,491,600
Maturity date	5/30/2054	5/30/2054	10/23/2054	

USDA Reserves (cont.):

Maximum required	\$ 58,632	\$ 7,056	\$ 29,220	\$ 224,556
12/31/22 balance	\$ 49,263	\$ 6,077	\$ 23,912	\$ 208,900

The Water and Sewer Department is also required to fund a short-lived asset reserve that started in 2015. As of December 31, 2022, \$206,042 is required to be on hand with funding each year until \$335,042 by 2030.

As of the years ended December 31, 2022 and 2021, the Water and Sewer Department's debt reserve and short-lived asset reserve were fully funded.

MELBOURNE WATER AND SEWER DEPARTMENT
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Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Arkansas Natural Resources Commission:

	<u>1996B</u>	<u>2002</u>	<u>289-WDF-D</u>
Original date	12/1/1999	4/26/2002	9/1/2003
Interest rate	5.0%	5.9%	5.0%
Annual payment	\$ 6,744	\$ 30,028	\$ 3,306
Original balance	\$ 104,235	\$ 460,000	\$ 41,200
Maturity date	01/01/2024	04/26/2032	06/01/2033

	<u>376-WSSW-D</u>	<u>01082-WDF-L</u>	<u>Total</u>
Original date	6/1/2006	10/1/2016	
Interest rate	5.00%	2.75%	
Annual payment	\$ 24,218	\$ 17,882	\$ 82,178
Original balance	\$ 301,808	\$ 154,500	\$ 1,061,743
Maturity date	06/01/1935	06/01/2026	

Arkansas Natural Resources Commission:

Maximum required	\$ 15,450
12/31/22 balance	\$ 15,450

Arkansas Development Finance Authority:

	<u>01223-DWSRF-L</u>	<u>Total</u>
Original date	12/31/2020	
Interest rate	0.5%	
Annual payment	\$ 5,974	\$ 5,974
Original balance	\$ 700,000	\$ 700,000
Maturity date	01/01/2031	

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Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Scheduled principal and interest repayments on long-term debt at December 31, 2022 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	239,416	136,465	375,881
2024	235,215	128,999	364,214
2025	236,454	121,544	357,998
2026	227,705	114,018	341,723
2027	136,181	64,433	200,614
2028-2032	913,867	462,280	1,376,148
2033-2037	668,189	325,727	993,916
2038-2042	575,123	215,857	790,980
2043-2047	495,093	115,661	610,754
2048-2052	421,491	51,789	473,280
2053-2057	132,214	14,024	146,238
Total maturities	<u>\$ 4,280,948</u>	<u>\$ 1,750,797</u>	<u>\$ 6,031,745</u>

Note 8 – Retirement Plan – APERS

The Water and Sewer Department contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing, multiple-employer, defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this system. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

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

The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Secretary of the Department of Finance and Administration, two members who retired from the system appointed by the President Pro Tempore of the State, and two members who retired from the system appointed by the Speaker of the House of Representatives.

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

MELBOURNE WATER AND SEWER DEPARTMENT
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Notes to Financial Statements
December 31, 2022 and 2021

Note 8 – Retirement Plan – APERS (Cont.)

benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service.

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, 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 or at any age with 25 years of service.

The plan also provides for disability and survivorship benefits. A cost-of-living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2022. In some cases, an additional contribution is required for elected officials.

The Water and Sewer Department's contributions to APERS for the years ending December 31, 2022 and 2021, was \$29,849 and \$27,951, respectively, equal to the required contribution for the year.

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

At December 31, 2022 and 2021, the Water and Sewer Department reported a liability of \$251,332 and \$70,244, respectively, for its proportionate share of the net pension liability.

The collective net pension liability was measured as of June 30, 2022 and 2021, 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. As of June 30, 2022 and 2021, the Water and Sewer Department's proportion was .0093 % and .0091%, respectively.

For the years ended December 31, 2022 and 2021, the Water and Sewer Department recognized

MELBOURNE WATER AND SEWER DEPARTMENT
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Notes to Financial Statements

December 31, 2022 and 2021

Note 8 – Retirement Plan – APERS (Cont.)

pension expense of \$30,091 and \$(3,901), respectively. At December 31, 2022 and 2021, the Department's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (cont.)

	<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Difference between expected and actual experience	\$ 6,033	\$ 1,607	\$ (3,035)	\$ (4,505)
Net difference between projected and actual investment earnings on pension plan investments	53,019	-	-	(123,302)
Changes of assumptions	-	-	-	(492)
Changes in proportion and differences between employer contributions and share of contributions	9,427	11,731	-	(237)
Contributions subsequent to the measurement date	14,626	14,733	-	-
Total	\$ 83,105	\$ 28,071	\$ (3,035)	\$ (128,536)

The \$14,626 reported as deferred outflows of resources related to pensions resulting from the Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Amount</u>
2023	15,988
2024	11,074
2025	1,407
2026	36,975
	<u>\$ 65,444</u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 – Retirement Plan – APERS (Cont.)

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
Actuarial assumptions:	
Investment rate of return*	7.15%
Salary increases	3.25 – 9.85%
Wage inflation rate	3.25%
Discount rate	7.15%
Mortality rate table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

* Net of investment and administrative expenses.

All other actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2017, and were applied to all prior periods included in the measurement.

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 current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2020 – 2029 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's current asset allocation as of June 30, 2022, these best estimates 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%
Total	<u>100%</u>	

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 – Retirement Plan – APERS (Cont.)

Discount Rate

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

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

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

	1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
Net pension liability	<u>\$ 399,572</u>	<u>\$ 251,332</u>	<u>\$ 128,947</u>

Note 9 – Risk Management

The Water and Sewer Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The Department participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' compensation - this program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised annually based on the cost experience of the particular municipality or group as determined by the workers' compensation commission.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 9 – Risk Management (Cont.)

Municipal vehicle program -

- A. *Liability* — this program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident and \$25,000 for property damage per accident. The Department shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the Department.
- B. *Physical damage* — this program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The Department agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

The Water and Sewer Department also participates in the self-insured fidelity bond program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$300,000 or the amount of the bond. Premiums for coverage are determined by the state risk manager and approved by the board. These premiums are paid by the state treasurer from funds withheld from the municipal aid fund. There is a \$1,000 deductible per occurrence.

Note 10 – Budgets and Budgetary Accounting

The Water and Sewer Department prepares and submits a budget for the subsequent year to the City Council of the City of Melbourne, Arkansas, prior to December 31 of the current year for approval. The budget is prepared on a basis other than GAAP; therefore, the actual amounts in the budgetary comparison, included as supplementary information, are presented on the same non-GAAP basis.

Note 11 – Significant Concentration of Trade Accounts Receivable

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. The Water and Sewer Department grants unsecured credit to its customers, subject to a meter deposit.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Notes to Financial Statements

December 31, 2022 and 2021

Note 12 – Subsequent Events

Management has evaluated subsequent events through July 14, 2023, the date on which the financial statements were available to be issued. No events were noted which would require recognition or disclosure in the financial statements.

**REQUIRED
SUPPLEMENTRY
INFORMATION**

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Water and Sewer Department's Proportionate Share
of the Net Pension Liability
Last Seven State Fiscal Years

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
Water and Sewer Department's portion of the net pension liability (asset)	0.0093%	0.0091%	0.0088%	0.0086%	0.0084%	0.0159%	0.0159%
Water and Sewer Department's proportionate share of the net pension liability (asset)	\$ 251,332	\$ 70,244	\$ 251,093	\$ 208,333	\$ 184,456	\$ 232,819	\$ 218,875
Water and Sewer Department's covered-employee payroll	\$ 194,839	\$ 182,447	\$ 171,090	\$ 165,268	\$ 156,615	\$ 162,382	\$ 165,843
Water and Sewer Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	128.99%	38.50%	146.76%	126.05%	117.78%	143.38%	131.98%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%

Ten years worth of data will be presented as it is available.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Water and Sewer Department Contributions
Last Seven State Fiscal Years

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Contractually required contributions	\$ 29,849	\$ 27,951	\$ 26,211	\$ 25,319	\$ 23,101	\$ 23,545	\$ 24,047
Contributions in relation to the contractually required contribution	<u>(29,849)</u>	<u>(27,951)</u>	<u>(26,211)</u>	<u>(25,319)</u>	<u>(23,101)</u>	<u>(23,545)</u>	<u>(24,047)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water and Sewer Department's covered-employee payroll	\$ 194,839	\$ 182,447	\$ 171,090	\$ 165,268	\$ 156,615	\$ 162,382	\$ 165,843
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%

Ten years worth of data will be presented as it is available.

**SUPPLEMENTARY
INFORMATION**

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statement of Revenues and Expenses- Budget and Actual
(Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Anticipated revenues			
Water revenue	\$ 685,000	\$ 712,491	\$ 27,491
Sewer revenue	203,000	197,134	(5,866)
Miscellaneous customer fees	95,050	75,299	(19,751)
Interest income	50	827	777
Other revenue	50,000	45,519	(4,481)
Available fund balance	59,900	-	(59,900)
Total anticipated revenues	<u>1,093,000</u>	<u>1,031,270</u>	<u>(61,730)</u>
Proposed disbursements			
Salaries	198,500	192,921	5,579
Payroll taxes and benefits	61,100	55,544	5,556
Tools and supplies	87,000	107,619	(20,619)
Truck expense	10,000	13,283	(3,283)
Insurance expense	8,800	7,364	1,436
Repairs and maintenance	53,300	124,625	(71,325)
Legal and auditing	8,500	10,000	(1,500)
Utilities	94,000	100,798	(6,798)
Telephone	14,000	13,188	812
Office supplies and postage	13,300	32,631	(19,331)
Lab and testing fees	26,000	42,417	(16,417)
Contributions to reserve accounts	57,600	57,600	-
Bad debts	500	6,892	(6,392)
Contract labor	-	4,388	(4,388)
Miscellaneous expense	30,400	27,912	2,488
Debt service	402,000	372,798	29,202
Equipment	28,000	-	28,000
Total proposed disbursements	<u>1,093,000</u>	<u>1,169,980</u>	<u>(76,980)</u>
	<u>\$ -</u>	<u>\$ (138,710)</u>	<u>\$ (138,710)</u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Statement of Revenues and Expenses- Budget and Actual
(Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Anticipated revenues			
Water revenue	\$ 685,000	\$ 681,141	\$ (3,859)
Sewer revenue	196,000	204,154	8,154
Miscellaneous customer fees	85,900	82,802	(3,098)
Interest income	50	592	542
Other revenue	47,000	4,937	(42,063)
Available fund balance	73,500	-	(73,500)
Total anticipated revenues	<u>1,087,450</u>	<u>973,626</u>	<u>(113,824)</u>
Proposed disbursements			
Salaries	195,000	187,421	7,579
Payroll taxes and benefits	57,450	22,837	34,613
Tools and supplies	72,000	62,360	9,640
Truck expense	8,000	10,680	(2,680)
Insurance expense	8,000	7,469	531
Repairs and maintenance	40,700	74,145	(33,445)
Legal and auditing	8,500	7,750	750
Utilities	94,500	101,908	(7,408)
Telephone	15,000	13,384	1,616
Office supplies and postage	11,200	24,679	(13,479)
Lab and testing fees	25,000	37,527	(12,527)
Contributions to reserve accounts	57,600	57,600	-
Bad debts	500	956	(456)
Contract labor	-	1,925	(1,925)
Miscellaneous expense	57,500	1,740	55,760
Debt service	363,000	353,380	9,620
Equipment	73,500	438,826	(365,326)
Total proposed disbursements	<u>1,087,450</u>	<u>1,404,587</u>	<u>(317,137)</u>
	<u>\$ -</u>	<u>\$ (430,961)</u>	<u>\$ (430,961)</u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Schedule of Users and Consumption

For the Year Ended December 31, 2022

<u>Month</u>	<u>Consumption (In Gallons)</u>	<u>Active Users</u>
January	8,641,501	2032
February	6,698,580	2031
March	9,440,729	2019
April	8,945,274	2019
May	13,559,618	2012
June	13,613,606	2021
July	9,386,783	2007
August	8,213,299	1991
September	6,399,322	1981
October	7,861,762	1991
November	9,124,723	1992
December	8,040,137	1982
Total consumption	109,925,334	
Monthly averages	9,160,445	2,007

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Users and Consumption
For the Year Ended December 31, 2021

<u>Month</u>	<u>Consumption (In Gallons)</u>	<u>Active Users</u>
January	9,603,100	1,951
February	9,906,854	1,944
March	21,297,377	1,942
April	19,748,631	1,952
May	6,795,562	1,959
June	8,951,166	1,962
July	20,705,175	1,976
August	10,282,377	1,996
September	12,198,195	1,999
October	9,269,580	2,000
November	7,681,589	2,004
December	7,306,528	1,995
Total consumption	<u>143,746,134</u>	
Monthly averages	<u>11,978,845</u>	<u>1,973</u>

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Current Usage Rates
For the Year Ended December 31, 2022

City Water Rates

First 1,000 gallons	\$19.10 (minimum)
Next 1,000 gallons	\$2.15 per 1,000 gallons
Next 8,000 gallons	\$2.65 per 1,000 gallons
Over 10,000 gallons	\$2.15 per 100 gallons

Rural Water Rates

First 1,000 gallons	\$27.55 (minimum)
Next 1,000 gallons	\$2.75 per 1,000 gallons
Next 8,000 gallons	\$3.30 per 1,000 gallons
Over 10,000 gallons	\$2.75 per 1,000 gallons

Sewer Rates

First 1,000 gallons	\$10.08 (minimum)
All over 1,000 gallons	\$2.10 per 1,000 gallons

Water Meter Deposits

Home owners	\$100.00
Renters	\$150.00

New Water Connections Fees

<u>3/4" Meter</u>	<u>1" Meter</u>	<u>1 1/2" Meter</u>	<u>2" Meter</u>
City - \$1185.00		Call for Price	
Rural - \$1260.00			

New Sewer Connection Fees

\$250.00 – gravity flow
\$350.00 – pressure line

Water and sewer bills due the 15th of each month
 Past due balances will be due the 1st of the following month or services will be disconnected.
 Collecting fee \$50.00
 Vacation service fee \$30.00

Trash pick-up is provided by Melbourne Sanitation Service and billed on the water bill at \$15.00 per month 4 bag or 2 can limit per week.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Current Usage Rates
For the Year Ended December 31, 2021

City Water Rates

First 1,000 gallons	\$19.10 (minimum)
Next 1,000 gallons	\$2.15 per 1,000 gallons
Next 8,000 gallons	\$2.65 per 1,000 gallons
Over 10,000 gallons	\$2.15 per 100 gallons

Rural Water Rates

First 1,000 gallons	\$27.55 (minimum)
Next 1,000 gallons	\$2.75 per 1,000 gallons
Next 8,000 gallons	\$3.30 per 1,000 gallons
Over 10,000 gallons	\$2.75 per 1,000 gallons

Sewer Rates

First 1,000 gallons	\$10.08 (minimum)
All over 1,000 gallons	\$2.10 per 1,000 gallons

Water Meter Deposits

Home owners	\$100.00
Renters	\$150.00

New Water Connections Fees

<u>3/4" Meter</u>	<u>1" Meter</u>	<u>1 1/2" Meter</u>	<u>2" Meter</u>
City - \$575.00		Call for Price	
Rural - \$650.00			

New Sewer Connection Fees

\$100.00 – gravity flow
\$200.00 – pressure line

Water and sewer bills due the 15th of each month
 Past due balances will be due the 1st of the following month or services will be disconnected.
 Collecting fee \$50.00
 Vacation service fee \$30.00

Trash pick-up is provided by Melbourne Sanitation Service and billed on the water bill at \$12.45 per month 4 bag or 2 can limit per week.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Schedule of Insurance in Force

December 31, 2022

<u>Property Coverage</u>	<u>Coverage</u>	<u>Premium</u>
Arkansas Municipal League Account # 02510		
Policy period 04/01/22 - 04/01/23		
Knob Creek pump station	\$ 22,510	\$ 6,344
Main pump station and equipment	56,275	
Water pump station - Hwy 9 North	56,275	
Generator at waste water plant	109,273	
Waste water plant and contents	225,102	
Water pump house	90,041	
Pump house and well # 3 - Hwy 9 South	84,413	
Ground storage tank	112,551	
Well waterhouse # 4	225,102	
Pump station	302,762	
Main sewer lift station	84,413	
Well # 5 - wellhouse/equipment	450,204	
Tank - Violet Hill	506,479	
Shop	212,180	
Policy period: 02/26/22 - 02/25/23		
Vehicles	Various	\$ 1,947

Fidelity Bond Coverage

Arkansas Insurance Department Bond FBTF10

Policy period 01/01/22 - 12/31/22

All elected, appointed, or hired employees	\$ 300,000
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MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)

Schedule of Insurance in Force

December 31, 2021

<u>Property Coverage</u>	<u>Coverage</u>	<u>Premium</u>
Arkansas Municipal League Account # 02510		
Policy period 04/01/21 - 04/01/22		
Knob Creek pump station	\$ 21,855	\$ 5,648
Main pump station and equipment	54,636	
Water pump station - Hwy 9 North	54,636	
Generator at waste water plant	106,090	
Waste water plant and contents	218,545	
Water pump house	87,418	
Pump house and well # 3 - Hwy 9 South	81,955	
Ground storage tank	109,273	
Well waterhouse # 4	218,545	
Pump station	293,944	
Main sewer lift station	81,955	
Well # 5 - wellhouse/equipment	437,091	
Tank - Violet Hill	491,727	
Shop	206,000	
Policy period: 02/26/21 - 02/25/22		
Vehicles	Various	\$ 1,821

Fidelity Bond Coverage

Arkansas Insurance Department Bond FBTF10

Policy period 01/01/21 - 12/31/21

All elected, appointed, or hired employees	\$ 300,000
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MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedules of City Officials
December 31, 2022 and 2021

December 31, 2022

Mayor:	Rhonda Halbrook
Recorder/Treasurer:	Alecia Bray
Councilmen:	Nina Wright
	Jerry Crosby
	Laura Sipe
	Gary Teague
	Ronnie Treat
	Ty Woodall
	Mike Cone
	Lee Melton

December 31, 2021

Mayor:	Rhonda Halbrook
Recorder/Treasurer:	Alecia Bray
Councilmen:	Nina Wright
	Jerry Crosby
	Ronnie Treat
	Trey Lamb
	Lee Melton
	Laura Sipe
	Mike Cone
	Shannon Womack

**OTHER
REQUIRED
REPORTS**



Welch, Couch & Company, PA

Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA
M. Garrett McSpadden, CPA

Members of American Institute of Certified Public Accountants

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 Mayor and City Council
Melbourne Water and Sewer Department
Melbourne, Arkansas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Melbourne Water and Sewer Department, a proprietary fund of the City of Melbourne, Arkansas, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the Melbourne Water and Sewer Department's basic financial statements, and have issued our report thereon dated July 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Melbourne Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Melbourne Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Melbourne Water and Sewer 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 Water and Sewer Department's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items #2022-01 and #2022-02, that we consider to be significant deficiencies.

Batesville: PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

Salem: PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

Little Rock: 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

Report on Compliance and Other Matters


As part of obtaining reasonable assurance about whether Melbourne Water and Sewer Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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*.

Melbourne Water and Sewer Department's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water and Sewer 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 Water and Sewer Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Welch, Couch & Company, P.A.
Certified Public Accountants

Batesville, Arkansas
July 14, 2023

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Findings and Management Responses
For the Year Ended December 31, 2022

Financial Statement Findings

Significant Deficiencies:

2022-01 – Segregation of Duties

Condition: Due to the limited number of personnel, there is a general lack of segregation of accounting duties. Melbourne Water and Sewer Department personnel have access to or physical custody of assets and perform accounting functions which may not be compatible from a control perspective.

Criteria: Internal controls should be in place to eliminate the incompatible functions of authorization, physical custody of assets and recording of transactions.

Cause: There is a small number of people responsible for the financial transactions of the Water and Sewer Department.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Recommendation: Such activities should be split between employees to the greatest extent possible in order to separate incompatible duties.

Management response: The Melbourne Water and Sewer Department will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties.

2022-02 – Material Adjustments

Condition: During our audit, we made a material adjustment to the financial statement to properly record long-term debt.

Criteria: Policies and procedures should be in place to make all routine entries to the financial statements.

Cause: Note payments were reported as an expense and, in turn, did not release the liability.

Effect: Failure to post note payments to the balance sheet verses an expense account may cause the financial statements to be materially misstated.

MELBOURNE WATER AND SEWER DEPARTMENT
(A Proprietary Fund of the City of Melbourne, Arkansas)
Schedule of Findings and Management Responses (Cont.)
For the Year Ended December 31, 2022

Financial Statement Findings (Cont.)

Significant Deficiencies (cont.):

2022-02 – Material Adjustments (cont.)

Recommendation: We recommend that the Water clerk make monthly entries to post note payments to the long-term liability accounts on the balance sheet.

Management response: The Melbourne Water and Sewer Department will develop procedures that will ensure all routine entries are made.