

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

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

BALLARD & COMPANY, LTD.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements 1

FINANCIAL STATEMENTS

Statement of Net Position..... 3

Statement of Revenues, Expenses and Changes in Fund Net Position..... 4

Statement of Cash Flows 5

Notes to the Financial Statements..... 6

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Operating Expenses 13

Schedule of Water and Wastewater Usage and Rates 14

Schedule of City Officials 15

OTHER REQUIRED REPORTS

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 16



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the water and wastewater department of the City of Bull Shoals, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the water and wastewater department of the City of Bull Shoals, Arkansas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Bull Shoals water and wastewater department as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the water and wastewater department of the City of Bull Shoals, Arkansas, and do not purport to, and do not, present fairly the financial position of the City of Bull Shoals as of December 31, 2017 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion of the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the water and wastewater department of the City of Bull Shoals, Arkansas. The Schedule of Operating Expenses, Schedule of Water and Wastewater Usage and Rates, and Schedule of City Officials, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Expenses and Schedule of Water and Wastewater Usage and Rates are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Expenses and the Schedule of Water and Wastewater Usage and Rates are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 07, 2020 on our consideration of the City of Bull Shoals, Arkansas water and wastewater department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bull Shoals, Arkansas water and wastewater department's internal control over financial reporting and compliance.

Ballard & Company, Ltd.

Ballard & Company, Ltd.
Mountain Home, Arkansas
January 07, 2020

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 139,638
Accounts receivable	75,583
Interfund receivable	1,294
Inventories	64,217
Total current assets	280,732
Restricted assets - cash and cash equivalents	768,402
Capital assets:	
Nondepreciable assets	230,971
Depreciable assets, net of accumulated depreciation	857,042
Total capital assets, net of accumulated depreciation	1,088,013
Total assets	2,137,147

LIABILITIES

Current liabilities:	
Accounts payable	18,232
Payroll liabilities	4,035
Sales tax payable	3,273
Accrued interest	1,998
Sanitation payable	74,707
Interfund payable	118,200
Short-term note payable	400,000
Current maturities of long-term notes and bonds payable	72,607
Total current liabilities	693,052
Liabilities payable from restricted assets:	
Refundable meter deposits	62,980
Long-term liabilities:	
Notes and bonds payable, net of current maturities	593,943
Total liabilities	1,349,975

NET POSITION

Net investment in capital assets	267,465
Restricted:	
Debt service requirements	64,092
Other	275,131
Unrestricted	180,484
Total net position	\$ 787,172

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>OPERATING REVENUES</u>	
Water service fees	\$ 320,730
Wastewater service fees	253,258
Maintenance fees	62,504
Connection, reconnection fees	7,961
Late penalties	10,107
Other	5,774
	<hr/>
Total operating revenue	660,334
	<hr/>
<u>OPERATING EXPENSES</u>	
Water department	446,182
Wastewater department	117,783
Depreciation expense	200,241
	<hr/>
Total operating expenses	764,206
	<hr/>
Operating income (loss)	(103,872)
	<hr/>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest income	667
Interest expense	(22,839)
Paying agent fees	(1,300)
	<hr/>
Total nonoperating revenues (expenses)	(23,472)
	<hr/>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(127,344)
	<hr/>
Capital contributions from grants	59,100
	<hr/>
INCREASE (DECREASE) IN NET POSITION	(68,244)
	<hr/>
NET POSITION, beginning, <i>as restated</i>	855,416
	<hr/>
<u>NET POSITION, ending</u>	<u>\$ 787,172</u>

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from from customers	\$ 649,143
Payments to and/or for employees	(208,146)
Payments to supplier for goods and services	(360,494)
	80,503
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received but not transferred to sanitation fund	74,707
	74,707
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash received from loan proceeds	400,000
Cash received from grant proceeds	59,100
Cash paid to purchase and construct assets	(152,000)
Cash received from general fund for capital asset purchases	118,200
Principal paid on notes payable	(70,627)
Interest paid on notes payable	(23,300)
Trustee fees paid	(1,300)
	330,073
 CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest earned	667
	667
 NET INCREASE (DECREASE) IN CASH	
	485,950
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	
	422,090
 CASH AND CASH EQUIVALENTS - END OF YEAR	
	\$ 908,040
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided</u>	
(Used In) Operating Activities:	
Operating income (loss)	\$ (103,872)
Depreciation expense	200,241
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:	
Accounts receivable	(12,911)
Accounts payable	(1,310)
Accrued expenses	(3,365)
Meter deposits refundable	1,720
	1,720
Net Cash Flows from Operating Activities	\$ 80,503
 <u>Reconciliation of Total Cash and Cash Equivalents - End of Year</u>	
Current assets - cash and cash equivalents	\$ 139,638
Restricted assets - cash and cash equivalents	768,402
	768,402
	\$ 908,040
 <u>Reconciliation of Total Cash and Cash Equivalents - Beginning of Year</u>	
Current assets - cash and cash equivalents	\$ 51,261
Restricted assets - cash and cash equivalents	370,829
	370,829
	\$ 422,090

The accompanying notes are an integral part of these statements.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Basis of Accounting

The water and wastewater department is used to account for the operations of the City of Bull Shoals, Arkansas' proprietary fund and is an enterprise fund. Enterprise funds are for operations which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public be financed or recovered primarily through user charges.

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

Basis of Presentation

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

Estimates

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

Budget and Budgetary Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents are considered to be bank deposits and certificates of deposit. All balances are displayed separately on the statement of net position as current and restricted cash and cash equivalents.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Consumer accounts receivable reflects the balances due from the individuals and entities using the water and wastewater services provided by the Department. These consumers are substantially all local residents and businesses.

Management closely monitors outstanding balances and evaluates collectability of its accounts receivable on a per-customer basis. Customer accounts are typically collected within a short period of time, and, based on its assessment of current conditions, management believes realization losses on the amount outstanding at the end of 2017 will be immaterial. Accordingly, the account balance is reported at the full amount outstanding.

Inventories

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

Capital Assets

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

Estimated useful lives are as follows:

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

Accounts Payable

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

Net Position

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

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

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

**CITY OF BULL SHOALS, ARKANSAS
 WATER AND WASTEWATER DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 2: CASH AND INVESTMENTS

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

The carrying amount of the Department's cash deposits was \$908,040 and the respective bank balances totaled \$916,190. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the water and wastewater department of the City of Bull Shoals, Arkansas will not be able to recover deposits or will not be able to recover collateral securities. The Department's policy is to place deposits only in collateralized or insured accounts. As of December 31, 2017, all bank balances of the Department were fully insured or collateralized.

NOTE 3: RESTRICTED ASSETS

Restricted assets consist of cash and equivalents restricted by various bond ordinances and the City Council for debt service and other specific uses. Restricted assets as of December 31, 2017 were as follows:

Debt service funds	\$	64,092
Depreciation funds		150,846
Capital improvement funds		502,474
Meter deposit fund		50,990
Total restricted assets	\$	768,402

NOTE 4: FUND REQUIREMENTS

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

Ordinance 2011-02, effective with its adoption July 28, 2011, provided for a maintenance fee of \$5.00 to be included on each water bill in order to establish a water depreciation fund. This depreciation fund has been established, however monthly transfers of the maintenance fees collected are not being made.

Meter deposits are customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposit reserves at December 31, 2017 were \$50,990, a deficit in the amount of \$11,990 from the total customer deposits of \$62,980.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<i>Capital assets, not being depreciated:</i>				
Land and land rights	\$ 78,971	\$ -	\$ -	\$ 78,971
Construction in progress	-	152,000	-	152,000
	<u>78,971</u>	<u>152,000</u>	<u>-</u>	<u>230,971</u>
<i>Capital assets, being depreciated:</i>				
Equipment	1,196,524	-	-	1,196,524
Vehicles	52,200	-	-	52,200
System and improvements	5,995,316	-	-	5,995,316
	<u>7,244,040</u>	<u>-</u>	<u>-</u>	<u>7,244,040</u>
<i>Less accumulated depreciation for:</i>				
Equipment	(961,778)	(41,360)	-	(1,003,138)
Vehicles	(33,700)	(8,540)	-	(42,240)
System and improvements	(5,191,279)	(150,341)	-	(5,341,620)
	<u>(6,186,757)</u>	<u>(200,241)</u>	<u>-</u>	<u>(6,386,998)</u>
Total capital assets, being depreciated, net	<u>1,057,283</u>	<u>(200,241)</u>	<u>-</u>	<u>857,042</u>
Capital assets, net	<u>\$ 1,136,254</u>	<u>\$ (48,241)</u>	<u>\$ -</u>	<u>\$ 1,088,013</u>

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

Water department	\$ 47,737
Wastewater department	<u>152,504</u>
	<u>\$ 200,241</u>

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 6: INTERFUND PAYABLE

The Department has a payable due to the General Fund in the amount of \$118,200. This amount is due as reimbursement for engineering invoices paid for out of the General Fund for the wastewater facilities improvement project. See note 14 for further discussion regarding this project.

NOTE 7: SHORT-TERM NOTE PAYABLE

Ordinance 2017-05 authorized the Mayor to enter into short-term financing in order to initiate improvements to the wastewater system. A loan, dated July 20, 2017 in the amount of \$400,000, was taken out from First Security Bank and is payable in monthly, interest-only payments at rate of 4%. A final balloon payment is due July, 2018.

NOTE 8: LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2017 are as follows:

	BEGINNING			ENDING	AMOUNTS
	<u>BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u>	<u>DUE WITHIN</u>
					<u>ONE YEAR</u>
ANRC - note payable	\$ 42,565	\$ 0	\$ (13,494)	\$ 29,071	\$ 13,831
USDA - 1988 revenue bond	142,880	0	(9,451)	133,429	9,934
ANRC - 2010 revenue bond	364,016	0	(15,430)	348,586	15,779
ANRC - 2012 revenue bond	<u>187,716</u>	<u>0</u>	<u>(32,252)</u>	<u>155,464</u>	<u>33,063</u>
 Total long-term debt	 <u>\$ 737,177</u>	 <u>\$ 0</u>	 <u>\$ (70,627)</u>	 <u>\$ 666,550</u>	 <u>\$ 72,607</u>

NOTE PAYABLE - ANRC

The Department has a note payable with the Arkansas Natural Resources Commission in the amount of \$180,250, payable in annual installments of \$14,558. The note bears interest at 2.50% and matures in 2019.

BONDS PAYABLE

1988 Bonds Payable

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

2010 Bonds Payable

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

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 8: LONG-TERM LIABILITIES - Continued

BONDS PAYABLE

2012 Bonds Payable

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

Combined maturity requirements of the note and revenue bonds payable subsequent to December 31, 2017 are as follows:

	Principal	Interest
12-31-2018	\$ 72,607	\$ 18,609
12-31-2019	75,713	16,566
12-31-2020	62,225	14,433
12-31-2021	64,033	12,625
12-31-2022	47,523	10,756
2023 - 2027	162,931	36,639
2028 - 2033	111,045	14,530
2034 - 2036	70,473	2,908
Total	\$ 666,550	\$ 127,066

NOTE 9: DEBT SERVICE COVERAGE

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

The actual percentage at December 31, 2017 was 104%, computed as follows:

Operating Income	\$ (103,872)
Plus Depreciation Expense	200,241
Funds Available for Debt Service	\$ 96,369
Annual Debt Service Requirement on Outstanding Note and Bonds Payable, Excluding the Short-Term Note with First Security Bank	\$ 92,279
Debt Service Coverage Percentage	104%

NOTE 10: RISK MANAGEMENT

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

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 11: PENSION PLAN

Plan Description

The City of Bull Shoals, Arkansas has a Section 457B defined contribution pension plan covering substantially all of the employees of the water and wastewater department. The City established this plan on March 21, 2006. The plan is administered through the Arkansas Diamond Plan.

Eligibility

Employees are eligible to participate in the plan after they have completed one year of service.

Contributions and Earnings

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

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

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

During the year ended December 31, employer contributions to the plan totaled \$4,437.

NOTE 12: RESTATEMENT OF BEGINNING NET POSITION

The beginning balance of net position has been decreased due to prior period adjustments in various asset and liability accounts. There is no current year effect on the change in net position.

NOTE 13: SALES AND USE TAX

Ordinance 2017-03, adopted on February 23, 2017, called for a special election on the question of issuing capital improvement bonds of up to \$5,000,000 for the purpose of financing a portion of the cost of wastewater improvements and levying a one percent (1%) sales and use tax for the purpose of retiring such bonds. The citizens of Bull Shoals, Arkansas voted for the bond issuance and for the sales and use tax to retire the bonds.

NOTE 14: WASTEWATER FACILITIES IMPROVEMENT PROJECT

During the year ended December 31, 2017, the Department began a project to replace the City's aging wastewater treatment facility. The project will be primarily be funded through the issuance of capital improvement bonds as discussed in Note 13, as well as grants from the Delta Regional Authority, the U.S. Department of Commerce Economic Adjustment Assistance Program, and the U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Program.

**SUPPLEMENTARY AND OTHER
INFORMATION**

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Water Department</u>	<u>Wastewater Department</u>
Advertising	\$ -	\$ 1,197
Auto and fuel expense	2,589	2,558
Bank charges and fees	1,866	21
Computer support	994	993
Dues and licenses	12,053	4,231
DMR reports	-	6,516
Educational expense	1,291	-
Insurance - general	4,165	9,770
Insurance - health and life	25,129	14,163
Legal and professional services	14,782	9,000
Postage and freight	2,427	1,243
Pension expense	2,901	1,536
Repairs and maintenance	7,784	8,889
Rent - equipment	1,374	1,152
Salaries	150,917	-
Sludge removal	-	2,530
Special election	-	4,805
Supplies - office	2,292	1,597
Supplies - operating	5,653	4,014
Taxes - payroll	11,798	-
Taxes - sales	1,752	-
Telephone and utilities	2,920	43,011
Uniforms	1,050	557
Water purchases	192,445	-
Total Operating Expenses	<u>\$ 446,182</u>	<u>\$ 117,783</u>

See auditor's report on supplementary information.

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF WATER AND WASTEWATER USAGE AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Rate Schedule

Ordinance 2014-02, effective with its adoption on March 27, 2014, set forth the following water and wastewater rates:

<u>Meter Size</u>	<u>Water Minimum Rates</u>		<u>Wastewater Minimum Rates</u>	
¾ "	\$15.74	2,000 gallons	\$14.30	2,000 gallons
1"	\$22.87	3,000 gallons	\$18.76	3,000 gallons
1 ½ "	\$44.16	7,000 gallons	\$30.70	7,000 gallons
2"	\$83.45	13,000 gallons	\$53.52	13,000 gallons
3"	\$150.19	26,000 gallons	\$99.63	26,000 gallons
All usage over the minimum:	\$5.05	per 1,000 gallons	\$2.82	per 1,000 gallons

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

Subsequent to the year ended December 31, 2017, ordinance 2019-02, effective with its adoption on February 28, 2019, increased the above rates as followed:

<u>Meter Size</u>	<u>Water Minimum Rates</u>		<u>Wastewater Minimum Rates</u>	
¾ "	\$16.84	2,000 gallons	\$18.90	2,000 gallons
1"	\$24.70	3,000 gallons	\$27.18	3,000 gallons
1 ½ "	\$49.35	7,000 gallons	\$46.33	7,000 gallons
2"	\$89.16	13,000 gallons	\$80.87	13,000 gallons
3"	\$207.64	26,000 gallons	\$222.38	26,000 gallons
4"	\$302.96	40,000 gallons	\$308.04	40,000 gallons
All usage over the minimum:	\$5.60	per 1,000 gallons	\$3.62	per 1,000 gallons

Water Usage

Gallons purchased and sold during the year ended December 31, 2017 were as follows:

Gallons of water purchased	65,425,000
Gallons of water sold	<u>41,685,771</u>
Gallons of water lost	<u><u>23,739,229</u></u>

**CITY OF BULL SHOALS, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
SCHEDULE OF CITY OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Position</u>	<u>Official</u>
Mayor	David Hotchkiss David Nixon (as of June 29, 2017)
Council Member	Alan Graley
Council Member	Jim Traylor
Council Member	Daryl Lindman
Council Member	Tuesday Rhodes
Council Member	Dino Giannini
Council Member	Martin Nickels

See auditor's report on other information.

OTHER REPORTS



BALLARD & COMPANY, LTD.

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BUSINESS CONSULTANTS

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Member of the Arkansas Society of Certified Public Accountants

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ASH FLAT, AR 72513
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the water and wastewater department of the City of Bull Shoals, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Bull Shoals, Arkansas water and wastewater department's basic financial statements, and have issued our report thereon dated January 07, 2020.

Internal Control Over Financial Reporting

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

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

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

We did identify a certain deficiency in internal control, described below as item 2017-1, to be a material weakness:

- 2017-1 To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions should be distributed among appropriate employees. The water and wastewater department of the City of Bull Shoals' management did not segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the Department's assets because of limited financial resources. We recommend that the financial accounting duties in the water and wastewater department be segregated among employees to the extent possible.

2017-1 Continued:

The City of Bull Shoals' management responded and indicated that the water and wastewater department will segregate the duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to the extent possible with the current staffing levels.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the water and wastewater department of the City of Bull Shoals, Arkansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

City of Bull Shoals' Response to Findings

The City of Bull Shoals' response to the findings identified in our audit is previously described. The City of Bull Shoals' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Ballard & Company, Ltd.

Ballard & Company, Ltd.
Mountain Home, Arkansas
January 07, 2020