

**Southeast White County Water Association
Public Water Authority**

Financial Statements
with
Independent Auditor's Report
and Supplementary Information

December 31, 2022 and 2021

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Independent Auditor's Report

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Southeast White County Water Association Public Water Authority (the Authority), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Authority's 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 Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Authority'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 Authority'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 required supplemental information for cost-sharing employer plans on page 16 be presented to supplement the basic financial statements. Such information is the responsibility for 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.

Management has omitted 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 opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Authority's internal control over financial reporting and compliance.

Bell & Company, P.A.

North Little Rock, Arkansas
January 25, 2024

Southeast White County Water Association Public Water Authority
Statements of Net Position
December 31, 2022 and 2021

Assets

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 834,485	\$ 447,992
Restricted checking and deposits	274,330	261,141
Accounts receivable, net of allowance for doubtful accounts	184,028	150,102
Inventory	16,985	18,671
Total current assets	<u>1,309,828</u>	<u>877,906</u>
Capital assets		
Land and easements	230,039	230,039
Structures and improvements	4,239,546	3,261,095
Equipment	767,109	769,150
Construction in progress	-	128,343
	<u>5,236,694</u>	<u>4,388,627</u>
Accumulated depreciation	<u>(2,776,071)</u>	<u>(2,697,113)</u>
Net capital assets	2,460,623	1,691,514
Other noncurrent assets		
Utility deposits	<u>1,074</u>	<u>10</u>
Total assets	3,771,525	2,569,430
Deferred outflows		
Deferred outflows of resources related to pension	<u>116,731</u>	<u>66,796</u>
Total assets and deferred outflows	<u><u>\$ 3,888,256</u></u>	<u><u>\$ 2,636,226</u></u>

Liabilities and Net Position

	<u>2022</u>	<u>2021</u>
Current liabilities		
Accounts payable	\$ 38,651	\$ 43,664
Accrued expenses	22,787	11,599
Accrued sales tax	8,523	7,348
Accrued interest	819	819
Specific services payable	29,859	29,437
Customer meter deposits	160,060	153,550
Line of credit	-	6,660
Current portion of long-term debt	49,071	16,922
Total current liabilities	<u>309,770</u>	<u>269,999</u>
Long-term liabilities		
Long-term debt	1,171,110	282,605
Net pension liability	285,978	82,838
Total long-term liabilities	<u>1,457,088</u>	<u>365,443</u>
Total liabilities	1,766,858	635,442
Deferred inflows		
Deferred inflows of resources related to pension	10,924	161,950
Net position		
Net investment in capital assets	1,240,442	1,391,987
Restricted	116,996	113,797
Unrestricted	753,036	333,050
Total net position	<u>2,110,474</u>	<u>1,838,834</u>
Total liabilities, deferred inflows, and net position	<u><u>\$ 3,888,256</u></u>	<u><u>\$ 2,636,226</u></u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
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		
Metered water sales, net of bad debts	\$ 1,192,175	\$ 1,078,791
Connection and other fees	42,659	46,618
Sewer billing and line maintenance revenue	47,032	45,235
Late charges	14,175	15,762
Other revenue	17,351	20,723
Total operating revenues	<u>1,313,392</u>	<u>1,207,129</u>
Operating expenses		
Depreciation	115,868	106,761
Dues and subscriptions	2,446	24,800
Employee benefits	49,590	50,549
Equipment rental	2,854	4,337
Insurance	30,003	27,051
Licenses and permits	10,296	10,608
Miscellaneous expense	6,064	4,841
Office expenses	70,547	17,987
Operating supplies	10,663	6,528
Pension plan expense	15,983	15,978
Net outflows (inflows) of resources related to pension	20,368	(20,574)
Postage	19,983	7,073
Professional services	24,512	28,332
Repairs and maintenance	91,890	59,170
Salaries and taxes	247,897	245,594
Theft	-	-
Training	170	50
Utilities and telephone	16,308	15,261
Vehicle expense	14,883	12,639
Water purchases	286,648	345,906
Total operating expenses	<u>1,036,973</u>	<u>962,891</u>
Operating income	276,419	244,238

	<u>2022</u>	<u>2021</u>
Nonoperating revenues (expenses)		
Gain (loss) on disposal of assets	(1,041)	-
Interest income	7,361	3,820
Interest expense	(11,099)	(13,398)
Net nonoperating revenues (expenses)	<u>(4,779)</u>	<u>(9,578)</u>
 Change in net position	 271,640	 234,660
 Net position - beginning of year	 <u>1,838,834</u>	 <u>1,604,174</u>
 Net position - end of year	 <u><u>\$ 2,110,474</u></u>	 <u><u>\$ 1,838,834</u></u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash receipts from customers and other sources	\$ 1,287,573	\$ 1,219,690
Cash payments to suppliers for goods and services	(664,232)	(646,228)
Cash payments to employees for services	(247,897)	(245,594)
Net cash flows provided by operating activities	<u>375,444</u>	<u>327,868</u>
Cash flows from investing activities		
Net restricted checking and deposits activity	(13,189)	(5,344)
Interest income	7,361	3,820
Net cash flows provided (used) by investing activities	<u>(5,828)</u>	<u>(1,524)</u>
Cash flows from capital and related financing activities		
Cash paid for property, plant, and equipment	-	(170,174)
Proceeds (loss) from disposal of property, plant, and equipment	500	-
Net advances on line of credit	50,564	6,660
Principal paid on long-term debt	(23,088)	(60,657)
Interest paid on long-term debt	(11,099)	(13,398)
Net cash flows used by capital and related financing activities	<u>16,877</u>	<u>(237,569)</u>
Net increase (decrease) in cash and cash equivalents	386,493	88,775
Cash and cash equivalents - beginning of year	<u>447,992</u>	<u>359,217</u>
Cash and cash equivalents - end of year	<u><u>\$ 834,485</u></u>	<u><u>\$ 447,992</u></u>

	<u>2022</u>	<u>2021</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 276,419	\$ 244,238
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	115,868	106,761
Pension related adjustments	2,179	(38,186)
Changes in:		
Accounts receivable	(33,926)	486
Other receivables	-	-
Prepaid expenses	-	-
Inventory	1,686	-
Accounts payable	(5,013)	5,678
Accrued expenses	11,188	(3,184)
Accrued sales tax	1,175	112
Specific services payable	422	4,052
Customer meter deposits	6,510	7,911
Utility deposits	(1,064)	-
Net cash provided by operating activities	<u>\$ 375,444</u>	<u>\$ 327,868</u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

- a. Reporting Entity** - Southeast White County Water Association Public Water Authority (the "Authority"), formally known as Southeast White County Water Association (the "Association"), was originally formed as a nonprofit organization chartered under the laws of the State of Arkansas. On December 31, 2008, the Association reorganized as a Public Water Authority of the State of Arkansas. The Authority provides water service to the residences and businesses in southeast White County, Arkansas. The Authority also provides sewer billing and line maintenance services for several small communities in the service area.
- b. Financial Reporting** - The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority. The Authority accounts for its operations as an enterprise fund. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a matter similar to private business or where the board of directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

- c. Cash Equivalents** - The Authority considers unrestricted demand deposits, certificates of deposit, and money market funds to be cash equivalents.
- d. Accounts Receivable** - The Authority uses the valuation method as required by generally accepted accounting principles to value accounts receivable. The allowance for doubtful accounts represents management's estimate of uncollectible accounts receivable and totaled \$35,052 and \$31,476 as of December 31, 2022 and 2021, respectively.
- e. Inventory** - Inventory consists of expendable materials and supplies necessary for maintenance of the system and is recorded at cost.
- f. Capital Assets and Depreciation** - Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	Years
Structures and improvements	5-50
Equipment	5-40

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

- g. Compensated Absences** - The Authority permits employees to accumulate earned but unused vacation and sick pay benefits. There was no accrual necessary for unpaid accumulated sick leave and vacation time as of December 31, 2022 and 2021.
- h. Net Position** - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources on the Authority's financial statements. Net position is classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of assets.

Restricted - This amount is restricted by creditors, granters, contributors, or laws or regulations of other governments.

Unrestricted - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position". Generally, these net assets represent those financial resources that are available to the Authority to meet any future obligations that might arise.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted funds first, then the unrestricted resources as needed.

- i. Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.
- j. Budget** - The Authority is not required by law to submit a formal budget.
- k. Water Purchases** - The Authority purchases all of the water sold to customers from the City of Searcy, Arkansas.
- l. Date of Management's Review** – The Authority has evaluated events and transactions for subsequent events that would impact the financial statements through January 25, 2024, the date the financial statements were available to be issued.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

2. Restricted Assets

Restricted checking and deposits accounts at December 31, consists of the following:

	<u>2022</u>	<u>2021</u>
Meter deposit checking	\$ 36,786	\$ 30,913
Sewer billing account	31,453	27,291
Meter deposit CD	92,017	91,418
Debt service CD	80,173	77,899
Depreciation reserve CD	18,936	18,804
Employee group insurance trust CD	14,965	14,816
Total	<u>\$ 274,330</u>	<u>\$ 261,141</u>

3. Capital Assets

Activity of capital assets consists of the following:

	January 1, <u>2022</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2022</u>
Land	\$ 220,964	\$ -	\$ -	\$ 220,964
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,261,095	1,016,803	40,393	4,237,505
Equipment	769,150	-	-	769,150
Construction in progress	128,343	-	128,343	-
Total	<u>\$ 4,388,627</u>	<u>\$ 1,016,803</u>	<u>\$ 168,736</u>	<u>\$ 5,236,694</u>

	January 1, <u>2021</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2021</u>
Land	\$ 220,964	\$ -	\$ -	\$ 220,964
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,261,095	-	-	3,261,095
Equipment	705,941	63,209	-	769,150
Construction in progress	21,378	106,965	-	128,343
Total	<u>\$ 4,218,453</u>	<u>\$ 170,174</u>	<u>\$ -</u>	<u>\$ 4,388,627</u>

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

4. Line of Credit

On December 28, 2021, the Authority entered into an agreement with a financial institution for a draw down line of credit loan, with funding being specifically used to construct a new office building. This line of credit had a maximum borrowing of \$956,660 and interest at 4.00%. On December 28, 2022, the line of credit was converted to a loan. At December 31, 2022, the Authority did not have any outstanding line of credit.

5. Long-Term Debt

Long-term debt of the Authority consists of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Rural Development - Payments are made monthly in the amount of \$1,009 and include interest of 5.000%. The loan is scheduled to mature in October 2036.	\$ 117,472	\$ 123,045
Rural Development - Payments are made monthly in the amount of \$1,369 and include interest of 3.250%. The loan is scheduled to mature in June 2035.	165,627	176,482
Real Estate - Payments are made monthly in the amount of \$5,708 and include interest of 4.000%. The loan is secured by property of the Authority and is scheduled to mature in December 2027 with a final balloon payment.	<u>937,082</u>	<u>-</u>
Total long-term debt	1,220,181	299,527
Less current maturities	<u>49,071</u>	<u>16,922</u>
Long-term debt	<u><u>\$ 1,171,110</u></u>	<u><u>\$ 282,605</u></u>

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

5. Long-Term Debt (Continued)

The Authority has a security agreement with the Rural Economic and Community Development Services which establishes a lien on all structures and improvements and a pledge of revenue to assure payment of principal and interest on the indebtedness until paid. Debt activity is summarized as follows:

	January 1,			December 31,	Amounts Due
	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2022</u>	<u>Within One Year</u>
Long-term debt	\$ 299,527	\$ 937,082	\$ 16,428	\$ 1,220,181	\$ 49,071

	January 1,			December 31,	Amounts Due
	<u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>2021</u>	<u>Within One Year</u>
Long-term debt	\$ 360,184	\$ -	\$ 60,657	\$ 299,527	\$ 16,922

Debt is scheduled to be repaid as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 49,071	\$ 47,961	\$ 97,032
2024	51,157	45,876	97,033
2025	53,221	43,811	97,032
2026	55,370	41,662	97,032
2027	823,472	39,425	862,897
2028-2032	115,770	26,910	142,680
2033-2037	72,120	4,543	76,663
Total	<u>\$ 1,220,181</u>	<u>\$ 250,188</u>	<u>\$ 1,470,369</u>

6. Reserve for Customer Deposits

The Authority collects a deposit for each new customer. The individual deposit amounts, included in total customer deposits vary, from \$10 in the 1970's to \$100 currently. The Authority is required to maintain cash reserves equal to the total amount of customer meter deposits. At December 31, 2022, the total amount of customer deposits was \$160,060 with a total cash reserve balance of \$128,803 resulting in a deficit of \$31,257. In 2010, the general operating account borrowed \$11,625 which has not been paid.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan

Plan Description

The Authority participates in the Arkansas Public Employees Retirement Systems (APERS). 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 passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

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

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy

The Authority contributes an actuarially determined amount to the plan, which was 15.32% of annual covered payroll at December 31, 2022. For 2020, there was a correction made for employees that totaled \$64,787. Total contributions made by the Authority were \$34,172, \$33,500, and \$92,897 for the years ended December 31, 2022, 2021, and 2020, respectively.

Benefits Provided

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

Contributory Plan: 2.00% of FAC times years of service (2.03% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009.

Non-Contributory Plan: 1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009. If retirement is prior to age 62, an additional .33% of FAC times years of service will be paid until age 62. The portion of the APERS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at the time of retirement.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan (Continued)

Benefits Provided (Continued)

The minimum monthly benefit is \$150 minus any age and beneficiary option reductions. Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.

Members may retire with a full benefit, after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age. Members may retire with a reduced benefit after either (a) age 55 with 5 years of service, or (b) 25 years of actual service, regardless of age.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. If a death occurs while in APERS covered employment, member's accumulated contributions are refundable. If a member had 5 years of service, monthly benefits are payable instead. The surviving spouse receives a benefit computed as if a member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately. Each dependent receives benefit of 10% of compensation (maximum of 25% for all children). If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

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.

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>.

Measurement Date

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

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan (Continued)

Actuarial Assumptions

Assumptions were established based upon an Experience Study covering the period July 1, 2012 through June 30, 2017 (report dated May 14, 2018). The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Long-Term Expected Return on Plan Assets

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 are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for each major asset class that is included in the pension plan's current asset allocation as of June 30, 2022, are summarized in the following table:

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan (Continued)

Long-Term Expected Return on Plan Assets (Continued)

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37.00%	6.22%
International Equity	24.00%	6.69%
Real Assets	16.00%	4.81%
Absolute Return	5.00%	3.05%
Domestic Fixed	18.00%	0.57%
	100.00%	
Total Real Rate of Return		4.93%
Plus: Price Inflation - Actuary's Assumption		2.50%
Net Expected Return		7.43%

Single 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.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher:

1% Decrease	Current Single Rate Assumption	1% Increase
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
\$ 454,653	\$ 285,978	\$ 146,722

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan (Continued)

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

The Authority's proportionate share of pension expense was \$27,591 for the year ended June 30, 2022. The Authority's proportion of the collective net pension liability, based on the ratio of employer contributions to total employer contributions from all member employers less contributions from APERS, was 0.01060600% during that period. At December 31, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,864	\$ 3,453
Net difference between projected and actual earnings in pension plan investments	60,328	-
Changes in assumptions	-	-
Changes in proportion and differences between employer contributions and share contributions	31,350	7,471
Authority contributions subsequent to the measurement date	18,189	
Total	<u>\$ 116,731</u>	<u>\$ 10,924</u>

\$18,189 is reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2022 and 2021

7. Pension Plan (Continued)

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

Year Ending <u>December 31</u>	Net Deferred Outflows (Inflows) of Resources
2023	\$ 22,743
2024	23,052
2025	(248)
2026	42,071
	<u>\$ 87,618</u>

8. Concentrations of Credit Risk

The Authority maintains cash balances at two financial institutions located in Arkansas, which at times may exceed the Federal Deposit Insurance Corporation (FDIC). The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The uninsured cash balance at two of the financial institutions totaled approximately \$636,000 at December 31, 2022.

Financial instruments that potentially subject the Authority to credit risk consist primarily of accounts receivable. The Authority sells only to its customers in and around southeast White County, Arkansas.

9. Risk Management

The Authority is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance and workers compensation insurance through two major insurance companies.

There has been no significant reduction in the Authority's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Authority's coverage in any of the prior three fiscal year.

Supplementary Information

**Southeast White County Water Association Public Water Authority
Required Supplemental Information for Cost-Sharing Employer Plans
For the Year Ended December 31, 2022**

Schedule of Proportionate Share of Net Pension Liability and Related Ratios Last Fiscal Year

	APERS at <u>6/30/2022</u>	APERS at <u>6/30/2021</u>	APERS at <u>6/30/2020</u>
Organization's portion of the net pension liability (asset)	0.01060600%	0.01077452%	0.00828341%
Organization's proportionate share of the net pension liability	\$ 285,978	\$ 82,838	\$ 237,202
Organization's covered-employee payroll	\$ 227,279	\$ 174,585	\$ 153,912
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	125.83%	47.45%	154.12%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%

Schedule of Required Contributions Last Fiscal Year

	APERS at <u>6/30/2022</u>	APERS at <u>6/30/2021</u>	APERS at <u>6/30/2020</u>
Contractually required contribution	\$ 33,964	\$ 32,962	\$ 24,761
Contributions in relation to the contractually required contribution	<u>(33,964)</u>	<u>(32,962)</u>	<u>(24,761)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Organization's covered-employee payroll	\$ 227,279	\$ 174,585	\$ 153,912
Contributions as a percentage of covered-employee payroll	14.94%	18.88%	16.09%

Note to Schedules:

Only the nine fiscal years are presented because 10-year data is not yet available.

<u>APERS at 6/30/2019</u>	<u>APERS at 6/30/2018</u>	<u>APERS at 6/30/2017</u>	<u>APERS at 6/30/2016</u>	<u>APERS at 6/30/2015</u>	<u>APERS at 6/30/2014</u>
0.00905645%	0.00923034%	0.01005405%	0.01079762%	0.01194904%	0.01201647%
\$ 218,489	\$ 203,615	\$ 259,811	\$ 258,209	\$ 220,069	\$ 170,503
\$ 112,968	\$ 125,901	\$ 177,099	\$ 268,282	\$ 214,365	\$ 212,453
193.41%	161.73%	146.70%	96.25%	102.66%	80.25%
78.55%	79.59%	75.65%	75.50%	80.39%	84.21%
<u>APERS at 6/30/2019</u>	<u>APERS at 6/30/2018</u>	<u>APERS at 6/30/2017</u>	<u>APERS at 6/30/2016</u>	<u>APERS at 6/30/2015</u>	<u>APERS at 6/30/2014</u>
\$ 26,551	\$ 25,502	\$ 26,275	\$ 28,367	\$ 31,640	\$ 31,613
<u>(26,551)</u>	<u>(25,502)</u>	<u>(26,275)</u>	<u>(28,367)</u>	<u>(31,640)</u>	<u>(31,613)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 112,968	\$ 125,901	\$ 177,099	\$ 268,282	\$ 214,365	\$ 212,453
23.50%	20.26%	14.84%	10.57%	14.76%	14.88%

See independent auditor's report.

Report Required by Government Auditing Standards



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

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, 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 business-type activities of Southeast White County Water Association Public Water Authority (the Authority), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 5, 2024, which was modified to reflect the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of 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 compliances. Accordingly, this communication is not suitable for any other purpose.

Bell & Company, P.A.

North Little Rock, Arkansas
January 25, 2024