

**CITY OF PERRYVILLE WATER AND
SEWER DEPARTMENT
(A Proprietary Fund of the
City of Perryville, Arkansas)**

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2022 AND 2021

(With independent auditor's report thereon)

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Independent Auditor's Report

City Council
City of Perryville Water and Sewer Department

Report on the Financial Statements

Qualified Opinion

We have audited the financial statements of the City of Perryville Water and Sewer Department (the "Department") (a proprietary fund of the City of Perryville, Arkansas), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter discussed in the Basis for Opinion paragraph, the financial statements referred to in the table of contents are presented fairly, in all material respects, the respective financial position of the 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 Qualified Opinion

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which property, plant and equipment (\$8,583,294 of the total \$12,383,987 in 2022 and \$8,583,294 of the total \$12,263,151 in 2021) and accumulated depreciation (\$5,116,432 of the total \$6,698,031 in 2022 and \$4,912,533 of the total \$6,348,337 in 2021) are recorded in the accompanying Statement of Net Position at December 31, 2022 and 2021, or the amount of depreciation expense for the years then ended (\$203,899 of the total \$349,694 in 2022 and \$203,899 of the total \$356,322 in 2021).

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 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 opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 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 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.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the government activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Perryville that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Perryville as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and information for cost-sharing employer plans on pages 18 and 19 be presented to supplement the basic financial statements. Such 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. 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 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 is 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 March 10, 2023 on our consideration of the 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 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 Department's internal control over financial reporting and compliance.

March 10, 2023

EGP, PLLC

Certified Public Accountants & Consultants
Bryant, Arkansas

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Statements of Net Position
December 31, 2022 and 2021
(See independent auditor's report.)

Assets

	2022	2021
Current Assets		
Unrestricted cash	\$ 805,561	961,568
Cash, restricted	75,519	101,348
Certificates of deposit	268,744	268,193
Accounts receivable	118,816	105,708
Inventory	44,793	38,696
Prepaid expenses	22,257	20,986
Total Current Assets	1,335,690	1,496,499
 Property, Plant and Equipment		
Equipment	490,586	490,586
Water and sewer system	11,557,501	11,436,665
Lake and dam	225,852	225,852
Land	110,048	110,048
	12,383,987	12,263,151
Less accumulated depreciation	(6,698,031)	(6,348,337)
Property, Plant and Equipment Net of Accumulated Depreciation	5,685,956	5,914,814
 Deferred Outflows of Resources		
Deferred outflows related to pensions	261,964	80,780
	261,964	80,780
 Total Assets and Deferred Outflows of Resources	\$ 7,283,610	7,492,093

Liabilities and Net Position

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	\$ 32,935	23,629
Accrued payroll and taxes	8,613	16,538
Accrued sales tax	6,448	6,448
Accrued compensated absences	6,524	6,524
Accrued interest payable	202	183
Current maturities of long-term debt	15,020	14,613
Current maturities of revenue bonds payable	27,681	32,699
Total Current Liabilities	<u>97,423</u>	<u>100,634</u>
Non-Current Liabilities		
Long-term debt, net of current maturities	254,961	270,274
Revenue bonds payable, net of current maturities	731,962	759,775
Meter deposit payable	119,404	111,186
Pension liability	656,892	163,110
Total Non-Current Liabilities	<u>1,763,219</u>	<u>1,304,345</u>
Total Liabilities	<u>1,860,642</u>	<u>1,404,979</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	<u>8,059</u>	<u>298,920</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,868,701</u>	<u>1,703,899</u>
Net Position		
Net investment in capital assets	4,656,332	4,837,453
Restricted net position	75,519	101,348
Unrestricted net position	683,058	849,393
Total Net Position	<u>5,414,909</u>	<u>5,788,194</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 7,283,610</u>	<u>7,492,093</u>

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021
(See independent auditor's report.)

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Water revenue	\$ 1,181,922	1,140,757
Sewer revenue	106,888	102,129
Connection and service installation fees	19,271	11,189
Plumbing inspection fees	2,315	1,365
Total Operating Revenues	<u>1,310,396</u>	<u>1,255,440</u>
 Operating Expenses		
Depreciation	349,694	356,322
Other operating expenses	1,530,659	1,200,136
Total Operating Expenses	<u>1,880,353</u>	<u>1,556,458</u>
 Operating Income (Loss)	<u>(569,957)</u>	<u>(301,018)</u>
 Non-Operating Revenues (Expenses)		
Sales tax revenue	172,693	162,346
Gain on sale of capital assets	-	1,750
Other income (expense)	58,098	6,573
Interest income	4,163	5,380
Interest expense	(38,282)	(40,345)
Total Non-Operating Revenues (Expenses)	<u>196,672</u>	<u>135,704</u>
 Net Income (Loss)	(373,285)	(165,314)
 Net Position, Beginning of Year	<u>5,788,194</u>	<u>5,953,508</u>
 Net Position, End of Year	<u>\$ 5,414,909</u>	<u>5,788,194</u>

The accompanying notes are an integral part of these financial statements.

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(See independent auditor's report.)

	2022	2021
Cash Flows from Operating Activities:		
Cash received from customers	\$ 1,305,506	1,263,832
Cash payments to suppliers for goods and services	(896,540)	(606,663)
Cash payments to employees	(618,350)	(654,169)
Net Cash Provided by Operating Activities	(209,384)	3,000
Cash Flow from Noncapital Financing Activities:		
Sales tax revenue	172,693	162,346
Net Cash Provided by Noncapital Financing Activities	172,693	162,346
Cash Flow from Capital and Related Financing Activities:		
Principal payments on revenue bonds	(32,831)	(51,505)
Interest payments on revenue bonds and long-term debt	(38,282)	(40,345)
Repayments of long-term debt	(14,906)	(14,497)
Acquisition and construction of capital assets	(120,836)	(48,512)
Proceeds from sale of capital assets	-	1,750
Other receipts	58,098	6,573
Net Cash Provided (Required) by Capital and Related Financing Activities	(148,757)	(146,536)
Cash Flows from Investing Activities:		
Interest on certificates of deposit, net of reinvestment	3,612	4,443
Net Cash Provided by Investing Activities	3,612	4,443
Increase (Decrease) in Cash and Cash Equivalents	(181,836)	23,253
Cash and cash equivalents - beginning of year	1,062,916	1,039,663
Cash and Cash Equivalents - End of Year	\$ 881,080	1,062,916

The accompanying notes are an integral part of these financial statements.

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (569,957)	(301,018)
Adjustments to reconcile operating income (loss) to net cash provided (required) by operating activities:		
Depreciation	349,694	356,322
Net change in pension liability, deferred inflows and deferred outflows	21,737	(64,159)
(Increase) decrease in assets:		
Accounts receivable	(13,108)	3,699
Prepaid assets	(1,271)	(2,382)
Inventory	(6,097)	(4,869)
Increase (decrease) in liabilities:		
Accounts payable	9,306	(5,824)
Payroll and other accruals	(7,906)	16,538
Meter deposit payable	8,218	4,693
Net Cash Provided by Operating Activities	<u>\$ (209,384)</u>	<u>3,000</u>
 Reconciliation of Cash and Cash Equivalents		
Unrestricted cash	\$ 805,561	961,568
Cash, restricted	75,519	101,348
	<u>\$ 881,080</u>	<u>1,062,916</u>

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

Nature of Operations

City of Perryville Water and Sewer Department (the "Department") (a proprietary fund of the City of Perryville, Arkansas) extends water service from the City of Perryville into an area of Perry County bordered by the towns of Houston on the east, Thornburg on the south, Cherry Hill on the west, and Harris Brake and Wye Mountain on the southwest. The Department derives its revenues primarily from fees charged for providing water service to residents in this service area and with wholesale contracts to the surrounding area.

The financial statements present only the City of Perryville Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Perryville, Arkansas, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Department has adopted Government Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results may differ from estimates.

Operating Revenues and Expenses

The Department recognizes revenue and expenses using the economic resources measurement and the accrual method of accounting. The Department distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

Budgeted revenues and expenses are also prepared using the economic resources measurement focus and the accrual basis of accounting. The original budgets adopted by the Department were not amended during the years ended December 31, 2022 and 2021.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers certificates of deposit and all highly liquid cash investments with a maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of materials and supplies valued at the lower of cost or market, using the first-in, first-out method.

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

Accounts Receivable

Sales of water and sewer services are made on open account to customers located in Perryville, Arkansas and the surrounding area and are collateralized to the extent of each customer's meter deposit. The Department utilizes the allowance method of accounting for uncollectible accounts receivable. The Department reviews its customer accounts on a periodic basis and records a reserve for specific amounts that management determines may not be collected. In addition, the Department evaluates the need to establish a general reserve for potential uncollectible accounts based on historical bad debts. Amounts are written off at the point when collection attempts have been exhausted, which is usually 120 days after the account is past due. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Department's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Department. At December 31, 2022 and 2021, no allowance was deemed necessary by management.

Property, Plant and Equipment

All property, plant and equipment is valued at cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is computed on the straight line method for financial reporting purposes, based on the estimated useful lives of the assets which range from 5 to 40 years. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. The Department capitalizes all purchases over \$1,000. Costs of repairs and maintenance that do not improve or extend the asset lives are expensed as incurred.

Compensated Absences

The Department's policies permit employees to earn time off benefits. The expense and related liability are recognized and accrued regardless of whether the employee is expected to realize the benefit. Compensated absences are computed using the regular pay rates in effect at December 31, 2022 and 2021.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to a future period and so will not be recognized as an outflow or inflow of resources until then. The Department's deferred outflows and inflows of resources consist of deferred outflows/inflows of resources related to the Department's pension plan activities, as further discussed in Note 6.

Restricted Assets

The Department restricts certain assets for the payment of debt service, capital improvements, and repairs and maintenance of the Department.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
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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

This component of net position consists of 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.

Unrestricted

This component of net position consists of net assets that do not meet the definition of “net investment in capital assets” or “restricted.”

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department’s policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Long-Lived Assets

The Department reviews long-lived assets and certain identifiable intangibles held and used by the Department for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended December 31, 2022 and 2021, this review has not materially affected the Department’s reported earnings, financial position or results of operations.

2. Cash and Certificates of Deposit

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Department manages its exposure to declines in fair values by limiting investments to securities with a maturity of not more than five years from the date of purchase.

Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned to the Department. At December 31, 2022 and 2021, the Department’s deposits with financial institutions were fully insured and collateralized by securities with a fair market value totaling \$2,320,000 and \$1,790,000, respectively.

3. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31:

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

	2021	Additions	Disposals	2022
Equipment	\$ 490,586	-	-	490,586
Water and sewer system	11,436,665	120,836	-	11,557,501
Lake and dam	225,852	-	-	225,852
Land	110,048	-	-	110,048
	<u>12,263,151</u>	<u>120,836</u>	<u>-</u>	<u>12,383,987</u>
Less accumulated depreciation	(6,348,337)	(349,694)	-	(6,698,031)
	<u>\$ 5,914,814</u>	<u>(228,858)</u>	<u>-</u>	<u>5,685,956</u>
	2020	Additions	Disposals	2021
Equipment	\$ 457,519	45,667	(12,600)	490,586
Water and sewer system	11,433,820	2,845	-	11,436,665
Lake and dam	225,852	-	-	225,852
Land	110,048	-	-	110,048
	<u>12,227,239</u>	<u>48,512</u>	<u>(12,600)</u>	<u>12,263,151</u>
Less accumulated depreciation	(6,004,615)	(356,322)	12,600	(6,348,337)
	<u>\$ 6,222,624</u>	<u>(307,810)</u>	<u>-</u>	<u>5,914,814</u>

4. **Bonds Payable**

The Thornburg Rural Development Bond was issued July 25, 2005 by the United States Department of Agriculture in the amount of \$609,970 for the purpose of funding the acquisition of the Thornburg Water System by the City of Perryville Water and Sewer Department. The bond is payable solely from net revenues of the Thornburg Water System in monthly payments of \$2,825, including interest at 4.125%, for thirty-three years, maturing in 2038. The balances owed at December 31, 2022 and 2021 totaled \$388,112 and \$405,633, respectively.

The Cherry Hill Bond 91-06 was issued by the United States Department of Agriculture and had a loan amount of \$120,988 at the time that Cherry Hill merged with the Department. The bond is payable in monthly installments of \$2,259, including interest at 5%, maturing in 2031. The balances owed at December 31, 2022 and 2021 totaled \$- and \$6,092, respectively.

The Cherry Hill Bond 91-07 was issued by the United States Department of Agriculture and had a loan amount of \$112,306 at the time that Cherry Hill merged with the Department. The bond is payable in monthly installments of \$614, including interest at 4.5%, maturing in 2043. The balances owed at December 31, 2022 and 2021 totaled \$96,877 and \$99,816, respectively.

The Cherry Hill Bond 91-08 was issued by the United States Department of Agriculture and had a loan amount of \$308,582 at the time that Cherry Hill merged with the Department. The bond is payable in monthly installments of \$1,276, including interest at 3.25%, maturing in 2050. The balances owed at December 31, 2022 and 2021 totaled \$274,658 and \$280,933 respectively.

The Department has fixed and has covenanted and agreed to maintain rates for the services of the system sufficient to produce net revenues at least sufficient to provide the required deposits into the operations, depreciation fund and the debt service reserves; deposit all water and sewer revenues into a single bank account and pay all expenses from that same account; operate the water system separately from any other

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

facility the Department may be operating; conduct annual audits by an independent certified public accountant for the lives of the bond and loan agreements and submit management reports with annual audit; purchase property, liability, workmen's compensation and fidelity bond coverage insurance for the lives of the bond and loan agreements.

Aggregate maturities of these bonds are as follows:

	Principal	Interest	Total Principal and Interest
2023	27,681	28,788	56,469
2024	28,798	27,671	56,469
2025	29,962	26,507	56,469
2026	31,172	25,297	56,469
2027	32,432	24,037	56,469
2028-2032	182,941	99,404	282,345
2033-2037	223,138	59,207	282,345
2038-2042	105,621	24,754	130,375
2043-2047	66,250	10,731	76,981
2048-2050	31,648	1,180	32,828
	\$ 759,643	327,576	1,087,219

The following is a summary of the bonds payable activity for the years ending December 31:

	2021	Payments	Advances	2022
Thornburg rural development bond	\$ 405,634	(17,522)	-	388,112
Cherry Hill USDA loan 91-06	6,092	(6,092)	-	-
Cherry Hill USDA loan 91-07	99,816	(2,943)	-	96,873
Cherry Hill USDA loan 91-08	280,932	(6,274)	-	274,658
	\$ 792,474	(32,831)	-	759,643
	2020	Payments	Advances	2021
Thornburg rural development bond	\$ 422,164	(16,530)	-	405,634
Cherry Hill USDA loan 91-06	32,184	(26,092)	-	6,092
Cherry Hill USDA loan 91-07	102,624	(2,808)	-	99,816
Cherry Hill USDA loan 91-08	287,007	(6,075)	-	280,932
	\$ 843,979	(51,505)	-	792,474

5. Restricted Cash

At December 31, 2022 and 2021, the Department had cash restricted for debt service requirements totaling \$75,519 and \$101,348.

**City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021**

6. Arkansas Public Employees Retirement System (APERS)

Plan Description

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the “Board”). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State, and the Director of the Department of Finance and Administration.

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 or from their website www.apers.org.

Benefits Provided

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

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

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

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

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

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

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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. 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. The Enterprise and Service Funds contributed 15.32% of applicable compensation for the fiscal year ended June 30, 2022 and 2021. In some cases, an additional 2.5% of member and employer contributions are required for elected officials. Contributions to the plan for the year ended December 31, 2022 and 2021, were \$78,015 and \$64,902, respectively.

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

At December 31, 2022 and 2021, the Department fund reported a liability of \$656,892 and \$163,110, respectively. The 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 actual valuation as of that date. The APERS collective net pension liability at June 30, 2022 and 2021, was \$2,696,383,462 and \$768,832,303, respectively. 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. The Enterprise and Service Funds proportion was 0.024% and 0.021% at June 30, 2022 and 2021, respectively. Deferred outflows of resources and deferred inflows of resources related to pensions for the Enterprise and Service Funds are as follows:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,768	(7,931)	3,733	(10,461)
Changes of assumptions	-	-	-	(1,142)
Changes in proportionate share of contributions	72,644	(128)	40,279	(1,005)
Contributions since actuarial calculation	34,980	-	36,768	-
Net difference between projected and actual earnings on plan investments	138,572	-	-	(286,312)
Total	\$ 261,964	(8,059)	80,780	(298,920)

The amount reported as deferred outflows of resources related to contributions since the actuarial calculation will be recognized as a reduction of the net pension liability for the years ending December 31, 2022 and 2021, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows for the year ended June 30:

**City of Perryville Water and Sewer Department
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December 31, 2022 and 2021**

2023	\$	59,293
2024		48,546
2025		14,446
2026		96,640
2027		-
Thereafter		-

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

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

Sensitivity of Discount Rate		
1% Lower	Discount Rate	1% Higher
6.15%	7.15%	8.15%
\$1,044,338	\$656,892	\$337,021

Actuarial Assumptions

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	4-year smoothed market, 25% corridor
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation
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.
Average Service Life of All Members	3.7989

A single discount rate of 7.15% was used to measure the total pension liability at June 30, 2022 and 2021. This single discount rate was based on the expected rate of return on pension plan investments of 7.15% at June 30, 2022 and 2021. 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

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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.

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

Asset Class	2022		2021	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%	37%	6.22%
Domestic Fixed Income	18%	0.57%	18%	0.57%
International Equity	24%	6.69%	24%	6.69%
Real Assets	16%	4.81%	16%	4.81%
Absolute Return	5%	3.05%	5%	3.05%
Total	100%		100%	
Total real rate of return		4.93%		4.93%
Plus price inflation - actuary assumption		2.50%		2.50%
Net expected return		7.43%		7.43%

7. Other Post Employment Benefits

Department employees may participate in an OPEB (other post employee benefit) plan (the "OPEB Plan") resulting from Arkansas statutes which provide that any municipal official or employee vested in any retirement plan that has 20 years of service and attains 55 years of age may continue to participate in the Department's healthcare plan after retirement provided that they pay 100% of the group premium. Stand alone financial statements are not issued for the OPEB Plan.

For the years ended December 31, 2022 and 2021, the Department had no former employees or history of former employees participating in the OPEB Plan. Therefore, there is no annual required contribution or net OPEB obligation. Therefore, there is no annual required contribution or OPEB obligation under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

8. Related Party

The General Fund of the City of Perryville paid the Department \$172,346 and \$162,346 of city sales tax revenues for the years ended December 31, 2022 and 2021, respectively.

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The Department paid the General Fund of the City of Perryville \$36,000 for rent on a month-to-month basis for each of the years ended December 31, 2022 and 2021.

9. Risk Management

The 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. The Department considers it to be more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for workers’ compensation, vehicle and legal defense insurance. As such, they participate in the Arkansas Municipal League Risk Management Pool “AML”, which is a public entity risk pool consisting of member political subdivisions of the State of Arkansas. The Enterprise and Service Funds pay an annual premium to the AML pool for its workers’ compensation, vehicle and legal defense insurance. The AML Risk Management Pool for workers’ compensation, vehicle and legal defense insurance is totally self-insured and each political subdivision that has participated in the AML pool is not subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the AML pool.

The Department continues to carry commercial insurance for all other risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there have been no significant reductions in coverage provided.

10. Water and Sewer Rates

Water and sewer rates are established by city ordinance. The current Ordinance #2007-04 effective January 1, 2008 established rates for the 2008 year. Further, Ordinance #2008-06 provides for an annual adjustment in the water rates of 2% for the first 1,000 gallons utilized and 3% for each 1,000 gallons thereafter, and an annual adjustment in the sewer rates of 3%.

Water and sewer rates in effect at December 31, 2022, are as follows:

<u>Water Rates</u>				
<u>Residential and Commercial</u>				
<u>Gallons</u>	<u>Perryville</u>	<u>Thornburg</u>	<u>Harris Brake</u>	<u>Cherry Hill</u>
First 1,000	20.26	19.11	20.26	20.26
Each 1,000 after	3.32	8.67	3.32	4.71

<u>Sewer Rates</u>				
<u>Residential and Commercial</u>				
<u>Gallons</u>	<u>Perryville</u>	<u>Thornburg</u>	<u>Harris Brake</u>	<u>Harris Brake</u>
First 1,000	8.86	Sewer service	Sewer service	Sewer service
Next 3,000	2.01	not provided	not provided	not provided
Over 4,000	1.77			

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

11. Long-Term Debt

Long-term debt consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Note payable to a financial institution, unsecured, due in monthly installments of \$1,888, including interest at a rate of 2.75%, maturing in June of 2023	\$ 269,981	284,887
Less current maturities	<u>(15,020)</u>	<u>(14,613)</u>
	<u>\$ 254,961</u>	<u>270,274</u>

Future maturities of long-term debt at December 31, 2022, are as follows:

2023	\$ 15,020
2024	254,961
2025	-
2026	-
2027	-
Thereafter	-
	<u>\$ 269,981</u>

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Statement of Revenues, Expenses and Changes in Net Position
Budgetary Comparison Schedule
For the Year Ended December 31, 2022
(See independent auditor's report.)

	<u>2022 Actual</u>	<u>Original and Final Budget</u>	<u>Favorable/ (Unfavorable) Variance</u>
Operating Revenue			
Water and sewer revenue	\$ 1,288,810	1,158,000	130,810
Connection, service installation and miscellaneous fees	21,586	252,500	(230,914)
Total Operating Revenues	<u>1,310,396</u>	<u>1,410,500</u>	<u>(100,104)</u>
Operating Expenses			
Salaries	632,181	595,000	(37,181)
Depreciation	349,694	144,000	(205,694)
System maintenance, parts and service	288,045	272,000	(16,045)
Administrative expense	280,510	124,500	(156,010)
Utilities	110,636	86,000	(24,636)
Chemicals	122,669	105,000	(17,669)
Rent	36,000	36,000	-
Payroll expenses	41,714	36,000	(5,714)
Insurance	18,904	19,500	596
Total Operating Expenses	<u>1,880,353</u>	<u>1,418,000</u>	<u>(462,353)</u>
Operating Income (Loss)	<u>(569,957)</u>	<u>(7,500)</u>	<u>(562,457)</u>
Non-Operating Income (Expense)			
Sales tax revenue	172,693	-	172,693
Other income (expense)	58,098	7,000	51,098
Interest income	4,163	2,400	1,763
Interest expense	(38,282)	-	(38,282)
Total Non-Operating Income (Expense)	<u>196,672</u>	<u>9,400</u>	<u>187,272</u>
Change in Net Position	(373,285)	1,900	(375,185)
Net position - beginning of year	<u>5,788,194</u>	<u>5,788,194</u>	<u>-</u>
Net Position - End of Year	<u>\$ 5,414,909</u>	<u>5,790,094</u>	<u>(375,185)</u>

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Required Supplementary Information for Cost-Sharing Employer Plans
For the Year Ended December 31, 2021
(See independent auditor's report.)

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

June 30:	Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered - Employee Payroll	Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.02436%	\$ 656,892	500,441	131.26%	78.31%
2021	0.02122%	163,110	404,712	40.30%	93.57%
2020	0.01906%	545,779	367,719	148.42%	75.38%
2019	0.01875%	452,394	363,044	124.61%	78.55%
2018	0.01877%	413,972	347,027	119.29%	79.59%
2017	0.01867%	482,525	333,879	144.52%	75.65%
2016	0.02072%	495,379	371,879	133.21%	75.50%
2015	0.01358%	250,149	237,465	105.34%	80.39%

Schedule of Required Contributions Last Fiscal Year

June 30:	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Organization's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2022	\$ 76,668	(76,668)	-	500,441	15.32%
2021	62,002	(62,002)	-	404,712	15.32%
2020	56,335	(56,335)	-	367,719	15.32%
2019	55,618	(55,618)	-	363,044	15.32%
2018	50,319	(50,319)	-	347,027	14.50%
2017	49,281	(49,281)	-	333,879	14.76%
2016	53,922	(53,922)	-	371,879	14.50%
2015	35,050	(35,050)	-	237,465	14.76%

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

**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 City Council
City of Perryville Water and Sewer Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Perryville Water and Sewer Department (the "Department") (a proprietary fund of the City of Perryville, Arkansas), as of and for the years ended December 31, 2022 and 2021, and have issued our report thereon dated March 10, 2023.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-1, 2022-2 and 2022-4 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-3 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's 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 that is required to be reported under *Government Auditing Standards*.

The Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion to 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 10, 2023

EGP, PLLC

Certified Public Accountants and Consultants
Bryant, Arkansas

**City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022**

Summary of Auditor's Results

The auditor's report expresses a qualified opinion on the financial statements of City of Perryville Water and Sewer Department (the "Department") (a proprietary fund of the City of Perryville, Arkansas).

Significant deficiencies and material weaknesses in internal control were disclosed by the audit of the financial statements and are reported in the 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*.

All matters reported under *Governmental Auditing Standards* for the year ended December 31, 2021, are reported as current year findings.

Findings and Questioned Costs Required to be Reported by *Government Auditing Standards*

2022-1 (Prior year finding #2021-1)

In the auditor's report for the year ending December 31, 2021, dated April 1, 2022, it was noted that the Department did not have proper segregation of duties. This condition is repeated as current year finding #2022-1.

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting.
Condition:	We noted several instances where the Department does not have proper segregation of duties.
Context:	While obtaining an understanding of internal control over financial reporting, it was noted that the same person has the ability to initiate, record, process and report financial data.
Effect:	Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.
Cause:	The Department has a limited number of employees and has not adequately segregated duties or implemented monitoring or other compensating controls.
Recommendation:	We recommend that management consider hiring additional staff or make alternative efforts to segregate certain functions related to initiating, recording, processing and reporting financial data.
Management's Response:	The Department believes the costs of hiring additional accounting personnel would outweigh the benefits derived.

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

2022-2 (Prior year finding #2021-2)

In the auditor's report for the year ending December 31, 2021, dated April 1, 2022, it was noted that the Department expenses all of its fixed asset additions and debt payments and does not maintain an adequate listing of capital assets. This condition is repeated as current year finding #2022-2.

Criteria:	Management is responsible for ensuring that the financial statements are in accordance with accounting principles generally accepted in the United States of America.
Condition:	The Department had misstated property, plant and equipment and revenue bonds payable in its internal financial statements.
Context:	During the testing of the fixed assets and debt, it was determined that the client expensed all additions to property, plant and equipment and had reflected payments on its revenue bonds as an expense rather than reducing the balance of the revenue bond payable.
Effect:	Property, plant and equipment and revenue bonds payable were misstated in the Department's internal financial statements.
Cause:	The Department accounts for its additions to property, plant and equipment and payments related to its revenue bonds on the cash basis.
Recommendation:	We recommend that management capitalize their property, plant and equipment according to the Department's capitalization policy and properly allocate revenue bond payments between interest expense and its corresponding liability accounts.
Management's Response:	The Department and City Council prefer to operate on the cash basis of accounting and deem the cost of the change in this method to outweigh the benefit.

2022-3 (Prior year finding #2021-3)

In the auditor's report for the year ending December 31, 2021, dated April 1, 2022, it was noted that the Department does not write-off old accounts from the billing system. This condition is repeated as current year finding #2022-3.

Criteria:	Management is responsible for ensuring that the financial statements are in accordance with accounting principles generally accepted in the United States of America.
Condition:	The Department had misstated accounts receivable in its internal financial statements.
Context:	The Department has past due amounts in the billing system over 10 years old which are uncollectible. There is no system in place for writing off these old accounts. As noted in finding 2022-4, the billing system and the

City of Perryville Water and Sewer Department
(A Proprietary Fund of the City of Perryville, Arkansas)
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

	general ledger are not integrated; therefore management must make significant manual adjustments to properly state accounts receivable.
Effect:	There are numerous old accounts that have not been written-off from the billing system and accounts receivable were misstated in the Department's internal financial statements.
Cause:	The Department does not write off uncollectible accounts receivable.
Recommendation:	We recommend that management write-off all old accounts that are deemed uncollectible.
Management's Response:	The Department intends to remove uncollectible accounts receivable from the billing software and adjust the remaining amounts to bad debts.

2022-4 (Prior year finding #2021-4)

In the auditor's report for the year ending December 31, 2021, dated April 1, 2022, it was noted that the Department does not reconcile the billing system to the general ledger. This condition is repeated as current year finding #2022-4.

Criteria:	Management is responsible for ensuring that the financial statements are in accordance with accounting principles generally accepted in the United States of America.
Condition:	The Department should review and reconcile total sales, accounts receivable, collections and account adjustments from the billing system to the general ledger on a recurring, frequent basis.
Context:	In the billing cycle, management does not adequately reconcile the billing system to the general ledger.
Effect:	Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.
Cause:	The Department does not adequately review and reconcile the amounts in the billing system to the general ledger.
Recommendation:	We recommend that management begin reviewing and reconciling total sales, accounts receivable, collections and account adjustments from the billing system to the general ledger.
Management's Response:	The Department reviews the reasonableness of all amounts and determines them to be reasonable and properly stated.