
City of Sheridan Water and Sewer Works

Audited Financial Statements

For the Years Ended December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Commission and Management
City of Sheridan Water and Sewer Works
Sheridan, Arkansas

Opinion

We have audited the accompanying financial statements of the City of Sheridan Water and Sewer Works as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Sheridan Water and Sewer Works's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Sheridan Water and Sewer Works, as of December 31, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer System of the City of Sheridan, Arkansas and do not purport to, and do not present fairly the financial position of the City of Sheridan, Arkansas, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, 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 City of Sheridan Water and Sewer Works'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 City of Sheridan Water and Sewer Works'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

Management has omitted the management 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 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 on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the supplemental information for cost sharing plans on page 19 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the miscellaneous statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
June 18, 2024

City of Sheridan Water and Sewer Works
Statement of Net Position
December 31, 2023 and 2022

Assets and Deferred Outflows of Resources

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash	\$ 579,759	\$ 910,576
Certificates of deposit	262,219	259,013
Accounts receivable	174,927	175,697
Accounts receivable- other	150,074	150,074
Accrued interest receivable	282	282
Inventories	116,924	116,924
Prepays & other assets	29,837	5,029
Total Current Assets	<u>1,314,022</u>	<u>1,617,594</u>
Property, Plant, and Equipment:		
Property, plant, and equipment, net	<u>3,083,674</u>	<u>2,828,099</u>
Total Property, Plant, and Equipment	<u>3,083,674</u>	<u>2,828,099</u>
Other Assets:		
Lease receivable	<u>525,550</u>	<u>530,910</u>
Total Other Assets	<u>525,550</u>	<u>530,910</u>
Restricted Assets:		
Cash and cash equivalents	<u>155,959</u>	<u>147,104</u>
Total Restricted Assets	<u>155,959</u>	<u>147,104</u>
Total Assets	<u>5,079,205</u>	<u>5,123,707</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pension	<u>164,604</u>	<u>138,141</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,243,809</u>	<u>\$ 5,261,848</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:		
Accounts payable	\$ 93,770	\$ 88,839
Customer meter deposits	155,959	147,104
Total Current Liabilities	<u>249,729</u>	<u>235,943</u>
Long-term Liabilities:		
Net pension liability	<u>521,668</u>	<u>446,846</u>
Total Long-term Liabilities	<u>521,668</u>	<u>446,846</u>
Total Liabilities	<u>771,397</u>	<u>682,789</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pension	16,655	29,195
Deferred inflows of resources related to lease	525,550	530,910
Total Deferred Inflows of Resources	<u>542,205</u>	<u>560,105</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,313,602</u>	<u>1,242,894</u>
Net Position:		
Net investment in capital assets	3,083,674	2,828,099
Unrestricted	<u>846,533</u>	<u>1,190,855</u>
Total Net Position	<u>3,930,207</u>	<u>4,018,954</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 5,243,809</u>	<u>\$ 5,261,848</u>

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

City of Sheridan Water and Sewer Works
Statement of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water revenue	\$ 569,220	\$ 588,159
Sewer revenue	512,847	504,815
Service charges and penalties	42,402	41,632
Other revenue	21,923	19,845
Connection fees	<u>4,105</u>	<u>4,805</u>
 Total Operating Revenues	 <u>1,150,497</u>	 <u>1,159,256</u>
Operating Expenses		
Depreciation	171,822	152,336
Engineering fees	-	2,800
Equipment and truck expense	24,368	24,861
Insurance	84,785	84,262
Legal and accounting	19,250	17,500
Materials and supplies	125,268	79,196
Miscellaneous expense	18,649	16,422
Office supplies and expenses	6,665	6,072
Postage	12,498	10,785
Repairs and maintenance	59,369	62,277
Retirement expense	99,161	52,581
Salaries, payroll taxes and fringe benefits	460,214	410,229
Sewer lab fees	14,800	10,739
Contracted services	3,675	4,225
Utilities	<u>115,608</u>	<u>119,470</u>
 Total Operating Expenses	 <u>1,216,132</u>	 <u>1,053,755</u>
 Net Operating Income (Loss)	 <u>(65,635)</u>	 <u>105,501</u>
Non-Operating Revenue/(Expense)		
 Interest income	 <u>18,888</u>	 <u>8,899</u>
 Total Non-Operating Revenue/(Expense)	 <u>18,888</u>	 <u>8,899</u>
 Increase (decrease) in net position	 (46,747)	 114,400
Transfers to City of Sheridan - General Fund	(42,000)	(40,000)
Net position at beginning of year	4,018,954	3,086,669
Contributed capital - City of Sheridan	-	758,144
Prior period adjustments	-	99,741
Net position at end of year	<u>\$ 3,930,207</u>	<u>\$ 4,018,954</u>

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

City of Sheridan Water and Sewer Works
Statement of Cash Flows
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Receipts from customers	\$ 1,113,391	\$ 996,013
Receipts from other	21,923	19,845
Payment to suppliers	(575,491)	(481,716)
Payment for contracted services	(3,675)	(4,225)
Payment to employees	<u>(424,395)</u>	<u>(414,711)</u>
Net cash provided (used) by operating activities	<u>131,753</u>	<u>115,206</u>
Cash flows from capital and related financing activities:		
Transfer to General Fund, City of Sheridan	(42,000)	(40,000)
Contributed capital - City of Sheridan	-	758,144
Purchase of capital assets	<u>(427,398)</u>	<u>(836,133)</u>
Net cash provided (used) by capital and related financing activities	<u>(469,398)</u>	<u>(117,989)</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(3,205)	(759)
Interest income	<u>18,888</u>	<u>8,899</u>
Net cash provided (used) by investing activities	<u>15,683</u>	<u>8,140</u>
Net increase (decrease) in cash and cash equivalents	(321,962)	5,358
Cash and cash equivalents at beginning of year	<u>1,057,680</u>	<u>1,052,322</u>
Cash and cash equivalents at end of year	<u>\$ 735,718</u>	<u>\$ 1,057,680</u>
Reconciliation of operating income/(loss) to net cash provided /(used) by operating activities		
Operating income/(loss)	\$ (65,635)	\$ 105,501
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	171,822	152,336
Change in assets and liabilities:		
Accounts and interest receivables, net	770	(148,750)
Prepays	(24,808)	-
Accounts payable	4,930	5,250
Net pension liability	74,822	317,546
Deferred outflows of resources	(26,463)	(40,754)
Deferred inflows of resources	(12,540)	(281,274)
Customer deposits	<u>8,855</u>	<u>5,351</u>
Net cash provided (used) by operating activities	<u>\$ 131,753</u>	<u>\$ 115,206</u>
Reconciliation:		
Unrestricted cash and cash equivalents	\$ 579,759	\$ 910,576
Restricted cash and cash equivalents	<u>155,959</u>	<u>147,104</u>
Cash and cash equivalents at end of year	<u>\$ 735,718</u>	<u>\$ 1,057,680</u>

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

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The City of Sheridan Water and Sewer Works (the System), and enterprise fund of the City of Sheridan, Arkansas, is a municipal enterprise providing water and sewer services to approximately 2,300 customers within and around the City of Sheridan. The System is a proprietary fund within the organization of the City of Sheridan and is considered to be an enterprise fund of the City of Sheridan.

The accounting system is organized and operated on a fund basis. A fund is defined set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Accounting

The financial statements of the System are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise systems of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise system is a proprietary system type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the system financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary system utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary system equity is classified as net assets.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the System's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

Use of Estimates

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

Adoption of New Accounting Standard

On January 1, 2022, the Authority adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Authority had one lease subject to the new standards and the impact to net position and revenues as a result of applying GASB 87 for the year ended December 31, 2023 is described in footnote 9.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The estimated fair values of the System's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Accounts Receivable

Accounts receivables include amounts due from residents for water and sewer services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. As of December 31, 2023 and 2022, all accounts are deemed to be collectible, therefore no allowance is necessary.

Customers are billed on a monthly billing cycle by the System based on actual or estimated meter readings. The System recognizes unbilled accounts receivable for services provided prior to year-end that are billed during the following year.

Sales of water and sewer services are made on an open account to customers located in Sheridan, Arkansas, and are collateralized to the extent of each customer's meter deposit.

Inventories

A portion of the materials and supplies inventories are reported at the lower of cost or market, determined by using the first-in, first-out method. The remaining inventory is carried at market value as of December 31, 2023 as management believes this valuation is closer to lower of cost or market as original cost of some items could not be determined.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Major improvements or betterments to property accounts are capitalized. Maintenance and repairs which do not extend the lives of the applicable assets are charged to the expense as incurred. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the property accounts and any resulting gain or loss is regarded in income. Depreciation is computed using primarily the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Useful Life</u>
Water and sewer plant	20-50 years
Buildings and building improvements	5-40 years
Equipment	5-10 years

Depreciation expense was \$171,822 and \$152,336 for the years ended December 31, 2023 and 2022, respectively.

Sales Taxes

Sales taxes charged to the System's customers are recorded as accounts receivable and sales tax payable when charged to customer. When these amounts are remitted to the appropriate taxing authority, the sales tax payable is reduced. When the customer pays the bill the accounts receivable is reduced.

Net Position Classifications

GASB requires the classification of net position into three classifications defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-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 - This component of net position consist of amounts which have external constraints placed on its use 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 consists of net position that do not meet the definition of "net investment in capital assets," or "restricted".

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

Revenue Recognition

Revenues for water and sewer services are recognized in the period during which the related services are provided. The System's revenue is derived primarily from water and sewer services. Revenue is recognized on the accrual basis and is recorded as services are provided. Revenue from services provided is considered operating revenue. Non-operating revenues consist of interest income, grant systems and miscellaneous income. Accounts receivable and revenues reported on the System's financial statements include an estimate of charges for services provided but unbilled at year end.

Grant Revenue

Resources from capital grants are reported as temporarily restricted net position. When a grant restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the statement of revenues, expenses and changes in net position as net assets released from restrictions. There was no grant revenue for the years ended December 31, 2023 or 2022.

Income Taxes

The System is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated all tax positions and determined that the System does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The System does not file federal income tax returns.

Compensated Absences

It is the System's policy to recognize compensated absences when paid. The System requires all leave to be used in the year it was earned. Accordingly, no liability is reported for the years December 31, 2023 and 2022.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

Management has evaluated subsequent events through June 18, 2024, the date which the financial statements were available to be issued.

2) CONCENTRATIONS OF CREDIT

The City of Sheridan Water and Sewer Works maintains cash balances at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At December 31, 2023 and 2022, cash balances that exceed FDIC coverage have collateral pledged to the cover the cash balances.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

3) DEPOSITS

At December 31, 2023 and 2022, cash balances exceed the FDIC coverage and collateral was pledged to the System. The table presented below is designed to disclose the level of custody credit risk assumed by the System based upon how its deposits were insured or secured with collateral at December 31, 2023 and 2022. The categories of credit risk are defined as follows:

Category 1- Insured by FDIC or collateralized with securities held by the System (or public trust) or by its agents in its name.

Category 2- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution's trust system or agent in the System's name.

Category 3- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust system or agent but not in the System's name; or collateralized with no written or approved collateralized agreement.

The System's bank balances by category were as follows:

	<u>2023</u>	<u>2022</u>
Category 1	\$ 500,000	\$ 500,000
Category 2	525,040	867,971
Category 3	-	-
	<u>\$ 1,025,040</u>	<u>\$ 1,367,971</u>

The carrying values of deposits (including certificates of deposit) are included in the following balance sheet accounts as follows:

	<u>2023</u>	<u>2022</u>
Cash		
Unrestricted	\$ 579,759	\$ 910,576
Restricted	155,959	147,104
	<u>\$ 735,718</u>	<u>\$ 1,057,680</u>
Certificates of deposit	<u>\$ 262,218</u>	<u>\$ 259,013</u>
	<u>\$ 997,936</u>	<u>\$ 1,316,693</u>

4) RESTRICTED ASSETS

Restricted assets at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Meter deposits	\$ 155,959	\$ 147,104
Total restricted assets	<u>\$ 155,959</u>	<u>\$ 147,104</u>

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

5) PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	2022	Additions	Disposals	Transfers	2023
Land	\$ 222,406	\$ -	\$ -	\$ -	\$ 222,406
Building and improvements	399,360	-	-	-	399,360
Water and sewer System	7,105,844	427,397	-	-	7,533,241
Construction in progress	622,594	-	-	-	622,594
	8,350,204	427,397	-	-	8,777,601
Accumulated depreciation	(5,522,105)	(171,822)	-	-	(5,693,927)
Net property and equipment	\$ 2,828,099	\$ 255,575	\$ -	\$ -	\$ 3,083,674

	2021	Additions	Disposals	Transfers	2022
Land	\$ 195,888	\$ 26,518	\$ -	\$ -	\$ 222,406
Building and improvements	399,360	-	-	-	399,360
Water and sewer System	6,925,448	193,521	(13,125)	-	7,105,844
Construction in progress	6,500	616,094	-	-	622,594
	7,527,196	836,133	(13,125)	-	8,350,204
Accumulated depreciation	(5,382,894)	(152,336)	13,125	-	(5,522,105)
Net property and equipment	\$ 2,144,302	\$ 683,797	\$ -	\$ -	\$ 2,828,099

6) RETIREMENT PLAN

Plan Description

The System 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 Department 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.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

Funding Policy: The System contributes an actuarially determined amount to the plan, which was 15.32% of annual covered payroll for the years ending December 31, 2023 and 2022. Contributions made by the System were \$60,784 and \$53,069 for the years ended December 31, 2023 and 2022, respectively. There were 9 employees covered by the plan at December 31, 2023.

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 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non- Contributory	1.72%

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

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

The normal retirement benefit amount, paid on a monthly basis is determined by the member's final average salary and years of service. A member 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.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

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. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches the maximum 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2023. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

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

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

The collective Net Pension Liability was measured as of June 30, 2023, 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. The System's proportion of the Net Pension Liability was .01790097% (17.278362% of the City's proportion of .10360341%) at June 30, 2023.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed (Level Dollar, Closed For District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	23 years (6.6 years for District Judges New Plan/Paid Off Old Plan and 15 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)

Actuarial Assumptions:

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
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Investment Rate of Return	7.15%
Inflation	3.25% wage inflation and 2.5% price inflation
Salary Increases	3.25%-9.85% including inflation (3.25%-6.96% including inflation for District Judges)
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	3.7241
Notes	None

Long-Term Expected Return on Plan Assets

The APERS's policy in regard to allocation of its invested assets was established by the Board and is reviewed at least annually to determine if the asset allocation is consistent with an acceptable level of risk and volatility.

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 current asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2023 to 2032 were based upon capital market assumptions provided by the pension plan's investment consultants. For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2023, these best estimates are summarized in the following table:

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
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Asset Class	Current Allocation	Long- Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
Total	100%	
Total Real Rate of Return		4.94%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		0.00%
Net Expected Return		7.44%

For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.00% 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 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes to the Single Discount Rate Assumption

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

	1% Lower than Discount Rate (6.00%)	Current Rate (7.00%)	1% Higher than Current Rate (8.00%)
Net Pension Liability	\$4,644,951,151	\$2,914,186,564	\$1,488,200,387

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

Pension Expense, and Deferred Inflow/Outflows of Resources related to Pensions

The System's proportionate share of pension expense was \$89,262 as of the measurement date of June 30, 2023. At December 31, 2023 and 2022, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	2023	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 29,447	\$ 2,866
Changes due to proportion	13,756	13,789
Changes in assumptions	24,525	-
Net difference between projected and actual earnings on pension plan investments	64,929	-
System contributions subsequent to measurement date	<u>31,947</u>	<u>-</u>
Total	<u>\$ 164,604</u>	<u>\$ 16,655</u>

	2022	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,726	\$ 5,395
Changes due to proportion	3,603	23,800
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	94,263	-
System contributions subsequent to measurement date	<u>29,549</u>	<u>-</u>
Total	<u>\$ 138,141</u>	<u>\$ 29,195</u>

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

\$31,947 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. 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:

Year Ended December 31,	Net Increase (Decrease) in Pension Expense
2024	\$ 27,661
2025	13,671
2026	79,050
2027	(4,381)
2028	-
Total	<u>\$ 116,001</u>

7) RISK MANAGEMENT

The City of Sheridan Water and Sewer Works is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance for risks of loss, including property and casualty insurance, worker's compensation, employee and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in the amount of coverage provided.

8) CHANGES IN NET POSITION

	Invested in Capital assets	Unrestricted	Restricted	Total
The changes in net position are as follows:				
Net position at December 31, 2021	\$ 2,144,302	\$ 942,367	\$ -	\$ 3,086,669
Net increase in net position	-	114,400	-	114,400
Transfer to city	-	(40,000)	-	(40,000)
Prior period adjustment	-	99,741	-	99,741
Contributed capital - City of Sheridan	683,797	74,347	-	758,144
Net position at December 31, 2022	<u>\$ 2,828,099</u>	<u>\$ 1,190,855</u>	<u>\$ -</u>	<u>\$ 4,018,954</u>
Net increase in net position	-	(46,747)	-	(46,747)
Transfer to city	-	(42,000)	-	(42,000)
Transfers	255,575	(255,575)	-	-
Net position at December 31, 2023	<u>\$ 3,083,674</u>	<u>\$ 846,533</u>	<u>\$ -</u>	<u>\$ 3,930,207</u>

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2023 and 2022

9) LEASE

On July 12, 1993, the City of Sheridan Water and Sewer Works, as lessor, entered into an agreement with American Towers, LLC (the "tenant"), the lessee, for the right to install an antenna on the lessor's water tower. The current lease is scheduled to expire on July 11, 2033 assuming the exercise by the tenant of all remaining renewal options and contains an option to extend the lease for each of six additional five year renewal terms. The lease will be automatically renewed upon the same terms for the six additional five year terms. The tenant may terminate the lease prior to the new renewal periods with sixty days prior written notice to the other party. The Department is reasonably certain that the lessee will renew this lease for all extension terms. In accordance with GASBS No. 87, the lease was retroactively measured as of May 2017 with a lease term of twenty-six years and one months and an interest rate of 1.00%, the Department's incremental borrowing rate.

Rent is payable annually with rent increases by 2% at each annual anniversary. The Department collected \$10,669 from the tenant for the year ended December 31, 2023, which includes \$5,360 in lease revenue and \$5,309 in lease interest revenue.

10) FUTURE ACCOUNTING STANDARDS

GASB Statement No. 100 - An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for periods beginning after June 15, 2023, with earlier application encouraged.

Required Supplemental Information for Cost-Sharing Employer Plans

City of Sheridan Water and Sewer Works
Required Supplemental Information for Cost-Sharing Employer Plans
Arkansas Public Employee Retirement System

For the Year Ended December 31, 2023:

	Schedule of System's Proportionate Share of the Net Pension Liability							
	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
System's proportion of the net pension liability	0.01790097%	0.01657204%	0.01681766%	0.01663311%	0.01676324%	0.01474167%	0.01615326%	0.01708738%
System's proportionate share of the net pension liability	\$ 521,668	\$ 446,846	\$ 129,300	\$ 476,303	\$ 404,418	\$ 325,192	\$ 417,423	\$ 408,619
System's covered-employee payroll	\$ 396,760	\$ 346,405	\$ 335,829	\$ 324,541	\$ 315,230	\$ 296,846	\$ 310,254	\$ 293,816
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.48%	129.00%	38.50%	146.76%	128.29%	109.55%	134.54%	139.07%
Plan fiduciary net position as a percentage of the total pension liability	77.94%	78.31%	75.38%	75.38%	78.55%	79.59%	75.65%	75.50%
APERS discount rate	7.00%	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%	7.50%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 -year trend is compiled, the System will present information for only years in which information is available. Information has been determined as of the measurement date (June 30).

	Schedule of Required Contributions							
	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 69,188	\$ 58,842	\$ 51,473	\$ 50,249	\$ 48,551	\$ 45,253	\$ 41,488	\$ 44,728
Contributions in relation to the contractually required contribution	(69,188)	(58,842)	(51,473)	(50,249)	(48,551)	(45,253)	(41,488)	(44,728)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
System's covered-employee payroll	\$ 451,619	\$ 383,537	\$ 334,809	\$ 328,869	\$ 316,913	\$ 280,693	\$ 275,233	\$ 273,231
Contributions as a percentage of covered-employee payroll	15.32%	15.34%	15.37%	15.28%	15.32%	16.12%	15.07%	16.37%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 -year trend is compiled, the System will present information for only years in which information is available. Information has been determined as of the System's most recent fiscal year-end (December 31).

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

Supplemental Information

City of Sheridan Water and Sewer Works
Miscellaneous Statistical Information
(Unaudited)
Year Ended December 31, 2023

Calculation of Cost of Water Sold per 1,000 Gallons

Total Costs Allocated to Water Operations	\$	775,628
Number of Gallons Sold (in Thousands)		136,951
2023 Cost per 1,000 Gallons - Water	\$	5.66

	Water Cost per 1,000 Gallons	Percent Change from Preceding Year	Amount of Change from Preceding Year
2023	\$ 5.66	-0.30%	\$ (0.01)
2022	5.68	35.60%	1.51
2021	4.17	-1.42%	(0.06)
2020	4.23	-3.64%	(0.16)
2019	4.39	22.28%	0.80
2018	3.59	-14.52%	(0.61)
2017	4.20	-2.10%	(0.09)
2016	4.29	18.18%	0.66
2015	3.63	-4.22%	(0.16)
2014	3.79	0.26%	0.01
2013	3.78	0.80%	0.03
2012	3.75	4.17%	0.15
2011	3.60	10.77%	0.35

City of Sheridan Water and Sewer Works
Miscellaneous Statistical Information (Continued)
(Unaudited)
Year Ended December 31, 2023

Calculation of Cost of Water Used by Sewer Operations per 1,000 Gallons

Total Costs Allocated to Sewer Operations	\$	273,378
Number of Gallons Used (in Thousands)		135,234
2023 Cost per 1,000 Gallons - Sewer	\$	2.02

	<u>Sewer Cost per 1,000 Gallons</u>	<u>Percent Change from Preceding Year</u>	<u>Amount of Change from Preceding Year</u>
2023	\$ 2.02	-0.47%	\$ (0.01)
2022	2.03	5.78%	0.11
2021	1.92	-30.94%	(0.86)
2020	2.78	28.70%	0.62
2019	2.16	27.06%	0.46
2018	1.70	18.06%	0.26
2017	1.44	-12.20%	(0.20)
2016	1.64	20.59%	0.28
2015	1.36	7.94%	0.10
2014	1.26	9.57%	0.11
2013	1.15	7.48%	0.08
2012	1.07	-20.15%	(0.27)
2011	1.34	4.69%	0.06