

**CITY OF SMACKOVER
ENTERPRISE AND SERVICE FUNDS**

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(With independent auditor's report thereon.)

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Independent Auditor's Report

City Council
City of Smackover, Enterprise and Service Funds

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the City of Smackover, Enterprise and Service Funds (component units of the City of Smackover, Arkansas), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise City of Smackover, Enterprise and Service Funds' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the City of Smackover, Enterprise and Service Funds, 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Smackover, Enterprise and Service Funds 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 City of Smackover, Enterprise and Service Funds' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Smackover, Enterprise and Service Funds' 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Smackover, Enterprise and Service Funds' 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 Smackover, Enterprise and Service Funds' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and information for cost-sharing employer plans on pages 20 and 21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Smackover, Enterprise and Service Funds' basic financial statements. The combining statement of net position, enterprise funds and combining statement of revenues, expenses and changes in net position, enterprise funds (the "Schedules") on pages 26 through 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Enterprise and Service Funds and do not purport to, and do not present fairly the financial position of the City of Smackover as of December 31, 2023 and 2022, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2024 on our consideration of the City of Smackover, Enterprise and Service Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Smackover, Enterprise and Service Funds' internal control over financial reporting and compliance.

February 7, 2024

EGP, PLLC
Certified Public Accountants & Consultants
Bryant, Arkansas

City of Smackover, Enterprise and Service Funds
Statement of Net Position
December 31, 2023 and 2022
(See independent auditor's report.)

	2023			
	Enterprise Funds	Solid Waste Fund	Cemetery Fund	Memorandum Total
<u>Assets and Deferred Outflows</u>				
Current Assets:				
Cash in bank, operations and maintenance	\$ 1,076,232	24,426	46,491	1,147,149
Cash in bank, restricted	348,452	-	-	348,452
Cash in bank, meter deposit funds	162,697	-	-	162,697
Cash on hand	165	-	-	165
Certificates of deposit	228,915	-	84,325	313,240
Accounts receivable, net of allowance of \$804	110,405	-	-	110,405
Total Current Assets	<u>1,926,866</u>	<u>24,426</u>	<u>130,816</u>	<u>2,082,108</u>
Property, Plant and Equipment, Net of Accumulated Depreciation	<u>2,672,783</u>	<u>5,941</u>	<u>78,109</u>	<u>2,756,833</u>
Total Assets	<u>4,599,649</u>	<u>30,367</u>	<u>208,925</u>	<u>4,838,941</u>
Deferred Outflows of Resources				
Deferred outflows related to pensions	99,166	-	-	99,166
Total Deferred Outflows of Resources	<u>99,166</u>	<u>-</u>	<u>-</u>	<u>99,166</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,698,815</u>	<u>30,367</u>	<u>208,925</u>	<u>4,938,107</u>
<u>Liabilities, Deferred Inflows and Net Position</u>				
Current Liabilities:				
Accounts payable	\$ 10,462	10,350	650	21,462
Accrued expenses	-	-	-	-
Sales tax payable	1,211	-	-	1,211
Accrued interest payable	3,422	-	-	3,422
Accrued vacation	5,178	-	-	5,178
Current portion of long-term debt	140,159	-	-	140,159
Total Current Liabilities	<u>160,432</u>	<u>10,350</u>	<u>650</u>	<u>171,432</u>
Noncurrent Liabilities:				
Bonds payable, net of current portion of long-term debt	426,688	-	-	426,688
Pension liability	246,656	-	-	246,656
Customer meter deposits	162,697	-	-	162,697
Total Noncurrent Liabilities	<u>836,041</u>	<u>-</u>	<u>-</u>	<u>836,041</u>
Total Liabilities	<u>996,473</u>	<u>10,350</u>	<u>650</u>	<u>1,007,473</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	23,302	-	-	23,302
Total Deferred Inflows of Resources	<u>23,302</u>	<u>-</u>	<u>-</u>	<u>23,302</u>
Net Position:				
Invested in capital assets, net of related debt	2,105,936	5,941	78,109	2,189,986
Restricted net position	348,452	-	-	348,452
Unrestricted net position	1,224,652	14,076	130,166	1,368,894
Total Net Position	<u>3,679,040</u>	<u>20,017</u>	<u>208,275</u>	<u>3,907,332</u>
Total Liabilities, Deferred Inflow and Net Position	<u>\$ 4,698,815</u>	<u>30,367</u>	<u>208,925</u>	<u>4,938,107</u>

2022			
Enterprise Funds	Solid Waste Fund	Cemetery Fund	Memorandum Total
1,098,391	28,664	34,873	1,161,928
335,242	-	-	335,242
159,954	-	-	159,954
165	-	-	165
223,869	-	82,740	306,609
113,759	-	-	113,759
1,931,380	28,664	117,613	2,077,657
2,605,780	6,808	79,159	2,691,747
4,537,160	35,472	196,772	4,769,404
82,424	-	-	82,424
82,424	-	-	82,424
4,619,584	35,472	196,772	4,851,828
16,655	10,450	-	27,105
7,386	-	-	7,386
6,789	-	-	6,789
4,488	-	-	4,488
5,788	-	-	5,788
135,753	-	-	135,753
176,859	10,450	-	187,309
568,777	-	-	568,777
239,162	-	-	239,162
159,954	-	-	159,954
967,893	-	-	967,893
1,144,752	10,450	-	1,155,202
47,550	-	-	47,550
47,550	-	-	47,550
1,901,250	6,808	79,159	1,987,217
335,242	-	-	335,242
1,190,790	18,214	117,613	1,326,617
3,427,282	25,022	196,772	3,649,076
4,619,584	35,472	196,772	4,851,828

City of Smackover, Enterprise and Service Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2023 and 2022
(See independent auditor's report.)

	2023			Memorandum Total
	Enterprise Funds	Solid Waste Fund	Cemetery Fund	
Operating Revenues				
Income-water and sewer sales	\$ 860,862	-	-	860,862
Income-sales tax allocation	-	118,771	-	118,771
Income-assessments and lot payments	-	-	28,130	28,130
Income-other	28,037	2,802	-	30,839
Total Operating Revenues	<u>888,899</u>	<u>121,573</u>	<u>28,130</u>	<u>1,038,602</u>
Operating Expenditures				
Salaries, labor and benefits	188,363	-	-	188,363
Depreciation	145,997	867	1,050	147,914
Sanitation contract and landfill fees	-	123,631	-	123,631
Repair and maintenance, plant and equipment	110,804	-	1,321	112,125
Utilities	55,867	-	254	56,121
Office expense	9,243	-	-	9,243
Legal and professional	30,150	159	2,000	32,309
Automotive and vehicle	10,194	-	171	10,365
Payroll taxes	15,011	-	-	15,011
Supplies	4,263	1,796	59	6,118
Plant expense	10,384	-	-	10,384
Miscellaneous	-	125	13,288	13,413
Dues, fees, permits, travel, and meetings	24,352	-	-	24,352
Postage	7,298	-	-	7,298
Analysis	5,570	-	-	5,570
Insurance	4,525	-	-	4,525
Total Operating Expenses	<u>622,021</u>	<u>126,578</u>	<u>18,143</u>	<u>766,742</u>
Operating Income (Loss)	<u>266,878</u>	<u>(5,005)</u>	<u>9,987</u>	<u>271,860</u>
Non-operating Revenues (Expenditures)				
Interest revenues	7,805	-	1,516	9,321
Interest expense-bonds and notes	(27,825)	-	-	(27,825)
Total Non-operating Revenues (Expenditures)	<u>(20,020)</u>	<u>-</u>	<u>1,516</u>	<u>(18,504)</u>
Net Income (Loss)	246,858	(5,005)	11,503	253,356
Net Position, Beginning of Year	<u>3,427,282</u>	<u>25,022</u>	<u>196,772</u>	<u>3,649,076</u>
Net Position, End of Year	<u>\$ 3,674,140</u>	<u>20,017</u>	<u>208,275</u>	<u>3,902,432</u>

2022			
Enterprise Funds	Solid Waste Fund	Cemetery Fund	Memorandum Total
814,944	-	-	814,944
-	130,962	-	130,962
-	-	20,370	20,370
36,921	2,088	-	39,009
<u>851,865</u>	<u>133,050</u>	<u>20,370</u>	<u>1,005,285</u>
251,992	-	-	251,992
135,405	867	2,236	138,508
-	123,717	-	123,717
245,063	-	-	245,063
38,951	-	-	38,951
15,973	-	-	15,973
31,731	-	-	31,731
6,952	-	-	6,952
13,958	-	-	13,958
11,642	7,179	355	19,176
10,825	-	-	10,825
-	225	8,044	8,269
24,190	-	-	24,190
6,409	-	-	6,409
6,797	-	-	6,797
1,781	-	-	1,781
<u>801,669</u>	<u>131,988</u>	<u>10,635</u>	<u>944,292</u>
<u>50,196</u>	<u>1,062</u>	<u>9,735</u>	<u>60,993</u>
2,382	-	(21)	2,361
<u>(31,650)</u>	<u>-</u>	<u>-</u>	<u>(31,650)</u>
<u>(29,268)</u>	<u>-</u>	<u>(21)</u>	<u>(29,289)</u>
20,928	1,062	9,714	31,704
<u>3,406,354</u>	<u>23,960</u>	<u>187,058</u>	<u>3,617,372</u>
<u><u>3,427,282</u></u>	<u><u>25,022</u></u>	<u><u>196,772</u></u>	<u><u>3,649,076</u></u>

City of Smackover, Enterprise and Service Funds
Statement of Cash Flows
For the Years Ended December 31, 2023 and 2022
(See independent auditor's report.)

	2023			
	Enterprise Funds	Solid Waste Fund	Cemetery Fund	Memorandum Total
Cash Flows From Operating Activities:				
Cash received from customers	\$ 889,418	121,573	28,130	1,039,121
Cash paid to suppliers for goods or services	(293,854)	(125,811)	(16,443)	(436,108)
Cash paid to employees for services	(229,855)	-	-	(229,855)
Net Cash Provided (Required) by Operating Activities	365,709	(4,238)	11,687	373,158
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(213,000)	-	-	(213,000)
Bond and note payment-principal	(137,683)	-	-	(137,683)
Bond and note payment-interest	(28,891)	-	-	(28,891)
Net Cash Required by Capital and Related Financing Activities	(379,574)	-	-	(379,574)
Cash Flows From Investing Activities:				
Interest received on cash funds	2,759	-	-	2,759
Cash received from maturity of certificates of deposit	-	-	(69)	(69)
Net Cash Provided (Required) by Investing Activities	2,759	-	(69)	2,690
Net (Decrease) Increase in Cash and Cash Equivalents	(11,106)	(4,238)	11,618	(3,726)
Cash and cash equivalents at beginning of year	1,593,752	28,664	34,873	1,657,289
Cash and Cash Equivalents at End of Year	\$ 1,582,646	24,426	46,491	1,653,563
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 266,878	(5,005)	9,987	271,860
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	145,997	867	1,050	147,914
Net change in pension related accounts	(33,496)	-	-	(33,496)
(Increase) decrease in assets and deferred outflows:				
Accounts receivable	3,354	-	-	3,354
Increase (decrease) in liabilities and deferred inflows:				
Accounts payable	(6,193)	(100)	650	(5,643)
Sales tax payable	(5,578)	-	-	(5,578)
Customer meter deposits	2,743	-	-	2,743
Other current liabilities	(7,996)	-	-	(7,996)
Total adjustments	98,831	767	1,700	101,298
Net Cash Provided (Required) by Operating Activities	\$ 365,709	(4,238)	11,687	373,158
Reconciliation of Cash and Cash Equivalents				
Cash - non-restricted	1,239,094	24,426	46,491	1,310,011
Cash - restricted	348,452	-	-	348,452
Total Cash and Cash Equivalents	\$ 1,587,546	24,426	46,491	1,658,463
Supplemental Disclosure of Noncash Transactions and Investing Activities				
Reinvested interest on certificates of deposit	\$ 5,046	-	-	5,046

2022			
Enterprise Funds	Solid Waste Fund	Cemetery Fund	Memorandum Total
\$875,583	133,050	20,370	1,029,003
(422,897)	(131,008)	(8,623)	(562,528)
(212,182)	-	-	(212,182)
<u>240,504</u>	<u>2,042</u>	<u>11,747</u>	<u>254,293</u>
(30,927)	-	-	(30,927)
(133,364)	-	-	(133,364)
(32,685)	-	-	(32,685)
<u>(196,976)</u>	<u>-</u>	<u>-</u>	<u>(196,976)</u>
2,382	-	-	2,382
-	-	(21)	(21)
<u>2,382</u>	<u>-</u>	<u>(21)</u>	<u>2,361</u>
45,910	2,042	11,726	59,678
1,547,842	26,622	23,147	1,597,611
<u>1,593,752</u>	<u>28,664</u>	<u>34,873</u>	<u>1,657,289</u>
50,196	1,062	9,735	60,993
135,405	867	2,236	138,508
36,591	-	-	36,591
21,050	-	-	21,050
(8,625)	113	(224)	(8,736)
880	-	-	880
1,788	-	-	1,788
3,219	-	-	3,219
<u>190,308</u>	<u>980</u>	<u>2,012</u>	<u>193,300</u>
<u>240,504</u>	<u>2,042</u>	<u>11,747</u>	<u>254,293</u>
1,258,510	28,664	34,873	1,322,047
335,242	-	-	335,242
<u>1,593,752</u>	<u>28,664</u>	<u>34,873</u>	<u>1,657,289</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

1. Summary of Significant Accounting Policies

Principles of Operation

The City of Smackover operates under the Mayor-Council form of government. The component units of the City of Smackover are the Municipal Water System, the Municipal Sewer System (the "Enterprise Funds"), the Municipal Solid Waste System and the Municipal Cemetery System (the "Service Funds"). The operations of these component units are directed by the city council.

The Enterprise Funds are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. In addition, the Municipal Solid Waste System is funded by a portion of a one-percent sales and use tax, which is received from Union County, Arkansas. The Municipal Cemetery System derives revenues from the sale of cemetery lots, assessments, and interest earned on invested funds. Sales of cemetery lots are sold on a twelve month contract, which require a ten percent deposit on the total purchase and payment in full within twelve months of the original contact date. No final notices are sent. Contracts not paid within the period are void and all deposits (payments) are forfeited. A certificate of ownership is issued, only when a contract is fully paid within the twelve month period.

Basis of Accounting

The Enterprise and Service Funds have 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.

The Enterprise and Service Funds use the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the related cash flows. The Utility distinguishes operating revenues and expenses from non-operating items. The Enterprise and Service Funds distinguish 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Enterprise and Service Funds consider all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit include certificates with original maturities of greater than three months. Certificates of deposit are recorded at amortized cost which approximates fair value.

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

Accounts Receivable

The Enterprise and Service Funds utilize the allowance method of accounting for uncollectible accounts receivable. Sales of water and sewer services are made on open account to customers located in Smackover, Arkansas and the surrounding area and are collateralized to the extent of each customer's meter deposit. They review their customer accounts on a periodic basis and record a reserve for specific amounts that management determines may not be collected. In addition, they have established 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 Enterprise and Service Funds' processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded. At December 31, 2023 and 2022, an allowance for doubtful accounts of \$804 was recorded.

Property, Plant and Equipment

Property, plant and equipment are stated at cost unless otherwise noted. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from five to forty years. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. The Enterprise and Service Funds capitalize all purchases over \$1,500. Costs of repairs and maintenance that do not improve or extend the asset lives are expensed as incurred.

Long-Lived Assets

The Enterprise and Service Funds review long-lived assets and certain identifiable intangibles held and used by the Enterprise and Service Funds 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, 2023 and 2022, no impairment has been identified.

Restricted Assets

The Enterprise Funds of the City of Smackover restrict certain assets for the payment of designated liabilities, such as debt service payments, extraordinary repairs to the system and approved construction of extensions to the sewer system.

	<u>2023</u>	<u>2022</u>
Cash in bank-sewer bond fund-2016	\$ 114,785	112,924
Cash in bank-bond escrow funds	16,999	16,770
Cash in bank-depreciation fund	216,668	205,548
	<u>\$ 348,452</u>	<u>335,242</u>

Deferred Outflows/Inflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources, which represents consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. In addition, the statement of net position will sometimes report a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

resources until then. The Utility utilizes deferred outflows and deferred inflows to account for changes regarding pension liabilities.

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 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 for debt service

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

Unrestricted

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

Accrued Absences

Each employee may accumulate a maximum of thirty days of vacation and sixty days of sick leave. The Enterprise Fund has accrued a liability for vacation and sick leave pay, which has been earned but not taken by employees.

Budgets and Budgetary Accounting

Budgeted revenues and expenses are also prepared using the economic resources measurement focus and the basis of accounting used by the Enterprise and Service Funds. The governing body may alter or revise the budget and unpledged funds for another purpose. However, funds resulting from taxes levied under statutes or ordinance for specific purposes may not be diverted to another purpose and appropriated funds may not be diverted to another purpose wherein any creditor of the Funds would be prejudiced thereby.

2. Description of Funds

The Enterprise and Service Funds comply with all state and local laws and contractual regulations requiring the use of separate funds. In order to comply with these related laws and regulations the Enterprise and Sewer Funds the City officials created Ordinances #422, #426 and #472 to establish separate cash funds. The legally required funds used by the Enterprise and Service Funds include the following:

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

Operations and Maintenance Fund

The Operations and Maintenance Fund was established for the purpose of payment of reasonable and necessary expense of operation, repair and maintenance of the sewer system (excluding depreciation and debt service payments).

Meter Deposit Fund

The Meter Deposit Fund was established for the purpose of payment of the customer meter deposit liability. All deposits received from customers are deposited into this account and all refunds are paid from this account.

Depreciation Fund

The Depreciation Fund was established to pay the costs of needed capital improvements or replacements. On or before the first business day of each month three percent of the gross revenues of the combined systems for the preceding month shall be deposited into this account; provided, however, that required monies have already been paid into the Operation and Maintenance Fund and the 1991 and 2002 Bond Funds.

2010 ADFA Bond Fund

The ADFA Bond Fund was established for the purposes of providing funds for the payment of principal and interest on the bond when due and an amount sufficient to provide for trustee fees. On the first business day of the month a sum equal to one-sixth the installment of principal and interest coming due during the next six months on the bond due plus an amount sufficient to provide for trustee fees shall be deposited into this account.

2016 Water and Sewer Revenue Bond Fund

The 2016 Water and Sewer Revenue Bond Fund was established for the purposes of providing funds for the payment of principal and interest on the bond when due and an amount sufficient to provide for trustee fees. On the first business day of the month a sum equal to one-sixth the installment of principal and interest coming due during the next six months on the bond due plus an amount sufficient to provide for trustee fees shall be deposited into this account.

3. 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 Enterprise and Service Funds manage their 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 and by attempting to match investment maturities with cash flow requirements.

Credit risk is the risk that the issuer of counterparty will not fulfill its obligations. To minimize exposure to credit risk, the Enterprise and Service Funds' investment policy specifies the types of securities in which the Enterprise and Service Funds may invest. Generally, this is accomplished by investing in certificates of deposit with maturities of less than five years.

Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned to the Enterprise and Service Funds. The Enterprise and Service Funds' deposit policy for custodial credit risk requires compliance with the provisions of state law and ordinances of the City of Smackover, Arkansas. At December 31, 2023 and 2022, the Enterprise and Service Funds' deposits were fully

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

insured and collateralized by securities with a fair market value totaling \$2,790,152 and \$2,733,812, respectively.

4. Property, Plant and Equipment

Property, plant and equipment consists of the following for the Municipal Water System:

	2022	Additions	Disposals	2023
Land	\$ 24,357	-	-	24,357
Tools and equipment	86,184	70,500	-	156,684
Transportation equipment	50,295	-	-	50,295
Office equipment	10,261	-	-	10,261
Plant and equipment	2,847,759	123,500	-	2,971,259
	<u>3,018,856</u>	<u>194,000</u>	<u>-</u>	<u>3,212,856</u>
Less accumulated depreciation	(2,035,099)	(51,137)	-	(2,086,236)
	<u>\$ 983,757</u>	<u>142,863</u>	<u>-</u>	<u>1,126,620</u>
	2021	Additions	Disposals	2022
Land	\$ 24,357	-	-	24,357
Tools and equipment	70,090	16,094	-	86,184
Transportation equipment	50,295	-	-	50,295
Office equipment	10,261	-	-	10,261
Plant and equipment	2,847,759	-	-	2,847,759
	<u>3,002,762</u>	<u>16,094</u>	<u>-</u>	<u>3,018,856</u>
Less accumulated depreciation	(1,993,156)	(41,943)	-	(2,035,099)
	<u>\$ 1,009,606</u>	<u>(25,849)</u>	<u>-</u>	<u>983,757</u>

Property, plant and equipment consists of the following for the Municipal Sewer System:

	2022	Additions	Disposals	2023
Land	\$ 12,565	-	-	12,565
Sewer system	3,222,142	-	-	3,222,142
Wet lands	79,167	-	-	79,167
Equipment	123,241	19,000	-	142,241
	<u>3,437,115</u>	<u>19,000</u>	<u>-</u>	<u>3,456,115</u>
Less accumulated depreciation	(1,815,092)	(94,860)	-	(1,909,952)
	<u>\$ 1,622,023</u>	<u>(75,860)</u>	<u>-</u>	<u>1,546,163</u>

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

	2021	Additions	Disposals	2022
Land	\$ 12,565	-	-	12,565
Sewer system	3,222,142	-	-	3,222,142
Wet lands	79,167	-	-	79,167
Equipment	108,408	14,833	-	123,241
	<u>3,422,282</u>	<u>14,833</u>	<u>-</u>	<u>3,437,115</u>
Less accumulated depreciation	(1,721,630)	(93,462)	-	(1,815,092)
	<u>\$ 1,700,652</u>	<u>(78,629)</u>	<u>-</u>	<u>1,622,023</u>

Property, plant and equipment consists of the following for the Solid Waste System:

	2022	Additions	Disposals	2023
Building	\$ 31,036	-	-	31,036
Less accumulated depreciation	(24,228)	(867)	-	(25,095)
	<u>\$ 6,808</u>	<u>(867)</u>	<u>-</u>	<u>5,941</u>

	2021	Additions	Disposals	2022
Building	\$ 31,036	-	-	31,036
Less accumulated depreciation	(23,361)	(867)	-	(24,228)
	<u>\$ 7,675</u>	<u>(867)</u>	<u>-</u>	<u>6,808</u>

Property, plant and equipment consists of the following for the Cemetery System:

	2022	Additions	Disposals	2023
Land	\$ 70,895	-	-	70,895
Equipment	23,497	-	-	23,497
Leasehold improvements	44,362	-	-	44,362
	<u>138,754</u>	<u>-</u>	<u>-</u>	<u>138,754</u>
Less accumulated depreciation	(59,595)	(1,050)	-	(60,645)
	<u>\$ 79,159</u>	<u>(1,050)</u>	<u>-</u>	<u>78,109</u>

	2021	Additions	Disposals	2022
Land	\$ 70,895	-	-	70,895
Equipment	23,497	-	-	23,497
Leasehold improvements	44,362	-	-	44,362
	<u>138,754</u>	<u>-</u>	<u>-</u>	<u>138,754</u>
Less accumulated depreciation	(57,359)	(2,236)	-	(59,595)
	<u>\$ 81,395</u>	<u>(2,236)</u>	<u>-</u>	<u>79,159</u>

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

5. Long-Term Debt

On April 15, 2010, the City of Smackover, Arkansas issued a \$450,000 Water and Sewer Revenue Bond, Series 2010A. Interest and principal of \$12,174 are payable on October 15 and April 15 of each year. The bond matures April 15, 2042, and bears interest at 3.50%. The bond is secured by a pledge of the system revenues from the operation of the City of Smackover, Arkansas Municipal Water System.

On March 15, 2016, the City of Smackover, Arkansas issued a \$690,000 Water and Sewer Refunding Revenue Bond, Series 2016. Beginning April 1, 2016 interest and principal of \$6,944 are payable monthly. The bond matures December 1, 2025. The interest rate on the Series 2016 Refunding Revenue Bond is 3.45%. The bond is secured by the pledge of system revenues and the funds and accounts held under the pursuant to the 2010A Bond. The Series 2016 bond was issued for the refunding of the 1992 and 2002 Series bonds which were paid off with the proceeds.

On September 22, 2016 the City of Smackover, Arkansas issued a \$412,000 Water and Sewer Revenue Bond, Series 2016. Interest and principal of \$52,300 are payable on June 1 of each year starting June 1, 2017. The bond matures on June 1, 2026 and bears interest at 2.75%. The bond is secured by a statutory mortgage lien on the water facilities of the system and a pledge of the revenues. The bond is issued for the purpose of financing improvements.

The City has specifically pledged the revenues of the water and sewer system for the repayment of the bonds. The above notes payable contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding notes payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Take possession of the collateralized properties, (3) Gain access to other assets of the City to protect the lender's interest, and (4) Use any remedy allowed by state or federal law. The City of Smackover is required to establish rates sufficient to pay the expenses and operation and maintenance of the water and sewer system, to pay the principal of and premium, if any, and interest on all outstanding bonds to which system revenues are pledged as they become due and make required deposits into the Sewer Depreciation Fund. The City also covenants that the rates shall, from time to time be increased to such an amount as will provide revenues at least sufficient for the above purposes. The City was in compliance with all debt covenants for the years ended.

The following is a summary of the note and bond payable transactions during the year ending December 31, 2023 and 2022:

	2022	Additions	Payments	2023
2010A Water Revenue Bond	\$ 342,030	-	(12,485)	329,545
2016 Revenue Refunding Bond	237,156	-	(76,345)	160,811
2016 Water and Sewer Revenue Bond	125,344	-	(48,853)	76,491
	<u>\$ 704,530</u>	<u>-</u>	<u>(137,683)</u>	<u>566,847</u>

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

	2021	Additions	Payments	2022
2010A Water Revenue Bond	\$ 354,089	-	(12,059)	342,030
2016 Revenue Refunding Bond	310,915	-	(73,759)	237,156
2016 Water and Sewer Revenue Bond	172,890	-	(47,546)	125,344
	<u>\$ 837,894</u>	<u>-</u>	<u>(133,364)</u>	<u>704,530</u>

Aggregate payments required are as follows for all debt for the years ending December 31:

	Principal	Interest	Total
2024	140,159	16,552	156,711
2025	123,451	12,131	135,582
2026	13,855	7,495	21,350
2027	14,345	7,145	21,490
2028 to 2032	79,686	30,038	109,724
2033 to 2037	94,782	19,256	114,038
2038 to 2042	100,569	6,432	107,001
	<u>\$ 566,847</u>	<u>99,049</u>	<u>665,896</u>

6. Arkansas Public Employees Retirement System (“APERS”)

Plan Description

The following brief description of APERS is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

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.

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:

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

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 and 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A 24-2-701(c)(3)). The Enterprise and Service Funds contributed 15.32% of applicable compensation for the fiscal year ended June 30, 2023 and 2022. 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, 2023 and 2022 were \$28,862 and \$28,413.

APERS Fiduciary Net Position

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

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

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

The collective net pension liability of \$2,914,186,564 and \$2,696,383,467 for APERS was measured as of June 30, 2023 and 2022, respectively, 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.

Deferred outflows of resources and deferred inflows of resources related to pensions for the Enterprise and Service Funds are as follows:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,923	(1,354)	5,741	(2,887)
Changes of assumptions	11,596	-	-	-
Changes in proportionate share of contributions	25,792	(21,948)	3,516	(44,663)
Contributions since actuarial calculation	17,155	-	22,716	-
Net difference between projected and actual earnings on plan investments	30,700	-	50,451	-
Total	\$ 99,166	(23,302)	82,424	(47,550)

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, 2023 and 2022, 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:

2024	\$ 10,387
2025	6,179
2026	44,215
2027	(2,072)
2028	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2023 and 2022, actual valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	23 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	3.7241 for June 30, 2023 and 3.7989 for June 30, 2022.

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 APERS's target asset allocation are summarized in the table below:

Asset Class	2023		2022	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.19%	37%	6.22%
International Equity	24%	6.77%	24%	6.69%
Real Assets	16%	3.34%	16%	4.81%
Absolute Return	5%	3.36%	5%	3.05%
Domestic Fixed Income	18%	1.79%	18%	0.57%
Total	<u>100%</u>		<u>100%</u>	
Total real rate of return		4.94%		4.93%
Plus price inflation - actuary assumption		<u>2.50%</u>		<u>2.50%</u>
Net expected return		<u>7.44%</u>		<u>7.43%</u>

Discount Rate

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

A single discount rate of 7.15% was used to measure the total pension liability at June 30, 2023 and 2022. This single discount rate was based on the expected rate of return on pension plan investments of 7.15% at June 30, 2023 and 2022. 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 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:

1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
\$ 393,148	\$ 246,656	\$ 125,961

7. Other Post Employment Benefits

The Enterprise and Service Funds' employees may participate in an OPEB 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 Enterprise and Service Funds' healthcare plan after retirement provided that they pay 100% of the group premium. For the years ended December 31, 2023 and 2022, the Enterprise and Service Funds had no former employees or history of former employees participating in the OPEB Plan. 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. Volume of Water Sold

During the current year ended December 31, 2023 and 2022, the volume of water sold was 70,022,700 and 67,225,000 gallons, respectively.

9. Risk Management

The Enterprise and Service Funds are 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 Enterprise and Service Funds consider 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-

City of Smackover, Enterprise and Service Funds
Notes to the Financial Statements
December 31, 2023 and 2022

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 Enterprise and Service Funds continue to carry commercial insurance for all other risks of loss, including fire and extended coverage, inland marine coverage, fidelity bond, and employee health, life and accident insurance. Settled claims resulting from these risks have exceeded commercial insurance coverage during the past three fiscal years regarding the prior year's theft loss and fidelity bond recoveries. There has been no significant reduction in the amount of coverage provided.

10. Water and Sewer Rates

Water and sewer rates in effect at December 31, 2023, are as follows:

<u>Gallons</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>	<u>Standard Umstead Users</u>
5/8" or 3/4"	\$ 15.40	18.86	24.03
1" meter	52.28	55.73	59.12
1-1/2" meter	108.31	111.75	116.98
2" meter	200.12	203.58	No 2" meters

Residential and Commercial Users

5/8" or 3/4"	Minimum meter plus \$3.75 per thousand in excess of 1,500 gallons
1" meter	Minimum meter plus \$3.75 per thousand in excess of 7,500 gallons
1-1/2" meter	Minimum meter plus \$3.75 per thousand in excess of 16,500 gallons
2" meter	Minimum meter plus \$3.75 per thousand in excess of 32,000 gallons

Standard Umstead Users

5/8" or 3/4"	Minimum meter plus \$5.50 per thousand in excess of 1,500 gallons
1" meter	No minimum see rate above
1-1/2" meter	Minimum meter plus \$5.50 per thousand in excess of 16,500 gallons
2" meter	No 2" meters

Residential and Commercial Sewer Rates

<u>Gallons</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
First 1,500 minimum	\$ 23.72	23.72
Over 1,500 per thousand	0.40	0.40

City of Smackover, Enterprise and Service Funds
Budgetary Comparison Schedule
For the Year Ended December 31, 2023
(See independent auditor's report.)

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Income-water and sewer sales	\$ 822,000	860,862	38,862
Income-sales tax allocation	116,000	118,771	2,771
Income-assessments and lot payments	10,000	28,130	18,130
Income-other	22,000	30,839	8,839
Total Operating Revenues	970,000	1,038,602	68,602
Operating Expenditures			
Salaries, labor and benefits	304,100	188,363	115,737
Depreciation	151,500	147,914	3,586
Repair and maintenance, plant and equipment	148,500	112,125	36,375
Sanitation contract and landfill fees	116,000	123,631	(7,631)
Utilities	58,500	56,121	2,379
Legal and professional	39,500	32,309	7,191
Payroll taxes	21,500	15,011	6,489
Supplies	16,000	6,118	9,882
Office expense	15,000	9,243	5,757
Dues, fees, permits, travel, and meetings	15,000	24,352	(9,352)
Automotive and vehicle	12,000	10,365	1,635
Miscellaneous	11,000	13,413	(2,413)
Plant expense	10,000	10,384	(384)
Insurance	6,000	4,525	1,475
Postage	6,000	7,298	(1,298)
Analysis	4,000	5,570	(1,570)
Total Operating Expenses	934,600	766,742	167,858
Operating Income or (Loss)	35,400	271,860	236,460
Non-operating Revenues (Expenditures)			
Interest revenues	4,600	9,321	4,721
Interest expense-bonds and notes	(40,000)	(27,825)	12,175
Total Non-operating Revenues (Expenditures)	(35,400)	(18,504)	16,896
Net Income (Loss)	-	253,356	253,356
Net Position, Beginning of Year	3,649,076	3,649,076	-
Net Position, End of Year	\$ 3,649,076	3,902,432	253,356

City of Smackover, Enterprise and Service Funds
Required Supplementary Information for Cost-Sharing Employer Plans
For the Year Ended December 31, 2023
(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
2023	0.00846%	246,656	190,613	129.40%	77.94%
2022	0.00887%	239,162	182,201	131.26%	78.31%
2021	0.00887%	68,212	169,247	40.30%	93.57%
2020	0.00921%	263,805	177,739	148.42%	75.38%
2019	0.00927%	223,693	179,513	124.61%	78.55%
2018	0.00895%	197,482	165,546	119.29%	79.59%
2017	0.00884%	228,458	158,080	144.52%	75.65%
2016	0.00819%	195,775	146,967	133.21%	75.50%
2015	0.00799%	147,154	139,693	105.34%	80.39%
2014	0.00690%	97,902	121,233	80.76%	84.15%

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
2023	\$ 29,202	(29,202)	-	190,613	15.32%
2022	27,913	(27,913)	-	182,201	15.32%
2021	25,929	(25,929)	-	169,247	15.32%
2020	27,230	(27,230)	-	177,739	15.32%
2019	27,501	(27,501)	-	179,513	15.32%
2018	24,418	(24,418)	-	165,546	14.75%
2017	22,922	(22,922)	-	158,080	14.50%
2016	21,692	(21,692)	-	146,967	14.76%
2015	20,619	(20,619)	-	139,693	14.76%
2014	18,040	(18,040)	-	121,233	14.88%



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*

City Council
City of Smackover, Enterprise and Service Funds

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 Smackover, Enterprise and Service Funds (the "Funds") as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon dated February 7, 2024.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See findings 2023-1 and 2023-2.

Compliance and Other Matters

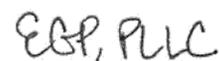
As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 two instances of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as items 2023-1 and 2023-2.

The Funds' Response to Findings

The Funds' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Funds' 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.



February 7, 2024

Certified Public Accountants & Consultants
Bryant, Arkansas

City of Smackover, Enterprise and Service Funds
Schedule of Findings and Questioned Costs
December 31, 2023 and 2022

Summary of Auditor's Results

The auditor's report expresses an unqualified opinion on the financial statements of City of Smackover, Enterprise and Service Funds.

Significant deficiencies 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 on Other Matters. No material weaknesses were reported.

Instances of noncompliance material to the financial statements of the City of Smackover, Enterprise and Service Funds were disclosed during the audit and are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and on Other Matters.

Findings and Questioned Costs

2023-1 (Prior year finding # 2022-1)

In the auditor's report for the year ending December 31, 2022, dated February 28, 2023, it was noted that the City of Smackover, Enterprise and Service Funds requires the water and sewer be combined. This condition is repeated as current year finding #2023-1.

Criteria:	The provisions of Ordinance 472 require that the municipal water system and the municipal sewer system, operated as separate entities, be combined into a single integrated system. Specific guidance relative to the establishment of fund bank accounts is contained in the ordinance.
Condition/Context:	Management does not have a single integrated system for the water system and the municipal sewer system, which are operated as separate entities.
Effect:	The municipal water and municipal sewer systems do not have an integrated accounting system.
Cause:	Noncompliance with specific provisions of Ordinance 472 requiring combination into a single integrated system.
Recommendation:	We recommend that management take action to comply with the provisions of Ordinance 472 requiring combination of the separate systems into a single integrated system, or to rescind Section 2 of Ordinance 472.
Management's Response:	Presently it is not feasible to combine the water and sewer systems and operate as a combined system. The separately operated systems are combined for annual reporting purposes. Discussions are in the works to pass an ordinance to rescind Ordinance 472 in order to keep the water and sewer systems separate entities.

City of Smackover, Enterprise and Service Funds
Schedule of Findings and Questioned Costs
December 31, 2023 and 2022

2023-2 (Prior year finding # 2022-2)

In the auditor's report for the year ending December 31, 2022, dated February 28, 2023, it was noted that the City of Smackover, Enterprise and Service Funds does not have proper segregation of duties. This condition is repeated as current year finding #2023-2.

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting.
Condition:	We noted several instances where the City of Smackover, Enterprise and Service Funds 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. This includes adjustments to customer accounts made in the billing system and employee expense reports.
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 City of Smackover, Enterprise and Service Funds has a limited number of employees.
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 City of Smackover, Enterprise and Service Funds believes the costs of hiring additional accounting personnel would outweigh the benefits derived. In addition, adjustments to customer accounts and employee expense accounts are being reviewed and approved.

All matters reported under *Governmental Auditing Standards* for the year ended December 31, 2022, are reported as current year findings.

City of Smackover, Enterprise and Service Funds
Combining Statement of Net Position, Enterprise Funds
For the Years Ended December 31, 2023 and 2022
(See independent auditor's report.)

	2023		
	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
<u>Assets and Deferred Outflows</u>			
Current Assets:			
Cash in bank, operations and maintenance fund	765,183	311,049	1,076,232
Cash in bank, restricted	16,999	331,453	348,452
Cash in bank, meter deposit funds	162,697	-	162,697
Cash on hand	165	-	165
Certificate of deposit	228,915	-	228,915
Accounts receivable, consumers net of allowance of \$804	60,482	49,923	110,405
Total Current Assets	<u>1,234,441</u>	<u>692,425</u>	<u>1,926,866</u>
Property, Plant and Equipment, Net of Accumulated Depreciation	<u>1,126,620</u>	<u>1,546,163</u>	<u>2,672,783</u>
Total Assets	<u>2,361,061</u>	<u>2,238,588</u>	<u>4,599,649</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	64,720	34,446	99,166
Total Deferred Outflows of Resources	<u>64,720</u>	<u>34,446</u>	<u>99,166</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,425,781</u>	<u>2,273,034</u>	<u>4,698,815</u>
<u>Liabilities, Deferred Inflows and Net Position</u>			
Current Liabilities:			
Accounts payable	\$ 6,997	3,465	10,462
Accrued expenses	-	-	-
Sales tax payable	1,211	-	1,211
Accrued interest payable	1,738	1,684	3,422
Accrued vacation	5,178	-	5,178
Current portion of long-term debt	12,926	127,233	140,159
Total Current Liabilities	<u>28,050</u>	<u>132,382</u>	<u>160,432</u>
Noncurrent Liabilities:			
Bonds payable, net of current portion of long-term debt	316,619	110,069	426,688
Pension liability	160,979	85,677	246,656
Customer meter deposits	162,697	-	162,697
Total Noncurrent Liabilities	<u>640,295</u>	<u>195,746</u>	<u>836,041</u>
Total Liabilities	<u>668,345</u>	<u>328,128</u>	<u>996,473</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	15,208	8,094	23,302
Total Deferred Inflows of Resources	<u>15,208</u>	<u>8,094</u>	<u>23,302</u>
Net Position:			
Invested in capital assets, net of related debt	797,075	1,308,861	2,105,936
Restricted net position	16,999	331,453	348,452
Unrestricted net position	928,154	296,498	1,224,652
Total Net Position	<u>1,742,228</u>	<u>1,936,812</u>	<u>3,679,040</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 2,425,781</u>	<u>2,273,034</u>	<u>4,698,815</u>

2022		
Water System	Sewer System	Total
814,355	284,036	1,098,391
16,770	318,472	335,242
159,954	-	159,954
165	-	165
223,869	-	223,869
63,947	49,812	113,759
<u>1,279,060</u>	<u>652,320</u>	<u>1,931,380</u>
<u>983,757</u>	<u>1,622,023</u>	<u>2,605,780</u>
<u>2,262,817</u>	<u>2,274,343</u>	<u>4,537,160</u>
<u>52,854</u>	<u>29,570</u>	<u>82,424</u>
<u>52,854</u>	<u>29,570</u>	<u>82,424</u>
<u>2,315,671</u>	<u>2,303,913</u>	<u>4,619,584</u>
5,923	10,732	16,655
7,386	-	7,386
6,789	-	6,789
1,804	2,684	4,488
5,788	-	5,788
12,486	123,267	135,753
<u>40,176</u>	<u>136,683</u>	<u>176,859</u>
329,544	239,233	568,777
153,362	85,800	239,162
159,954	-	159,954
<u>642,860</u>	<u>325,033</u>	<u>967,893</u>
<u>683,036</u>	<u>461,716</u>	<u>1,144,752</u>
<u>30,491</u>	<u>17,059</u>	<u>47,550</u>
<u>30,491</u>	<u>17,059</u>	<u>47,550</u>
641,727	1,259,523	1,901,250
16,770	318,472	335,242
943,647	247,143	1,190,790
<u>1,602,144</u>	<u>1,825,138</u>	<u>3,427,282</u>
<u>2,315,671</u>	<u>2,303,913</u>	<u>4,619,584</u>

City of Smackover, Enterprise and Service Funds
Combining Statement of Revenues, Expenses and Changes in Net Position, Enterprise Funds
For the Years Ended December 31, 2023 and 2022
(See independent auditor's report.)

	2023		
	Water System	Sewer System	Total
Operating Revenues			
Income-water and sewer sales	\$ 490,352	370,510	860,862
Income-other	24,267	3,770	28,037
Total Operating Revenues	<u>514,619</u>	<u>374,280</u>	<u>888,899</u>
Operating Expenditures			
Salaries, labor and benefits	120,635	67,728	188,363
Depreciation	51,137	94,860	145,997
Repair and maintenance, plant and equipment	44,807	65,997	110,804
Utilities	54,839	1,028	55,867
Legal and professional	29,150	1,000	30,150
Office expense	9,243	-	9,243
Payroll taxes	9,525	5,486	15,011
Dues, fees, permits, travel, and meetings	24,352	-	24,352
Plant expense	10,384	-	10,384
Supplies	-	4,263	4,263
Automotive and vehicle	9,739	455	10,194
Postage	7,298	-	7,298
Analysis	-	5,570	5,570
Insurance	4,525	-	4,525
Total Operating Expenses	<u>375,634</u>	<u>246,387</u>	<u>622,021</u>
Operating Income or (Loss)	<u>138,985</u>	<u>127,893</u>	<u>266,878</u>
Non-operating Revenues (Expenditures)			
Interest revenues	7,805	-	7,805
Interest expense-bonds and notes	(11,606)	(16,219)	(27,825)
Total Non-operating Revenues and (Expenditures)	<u>(3,801)</u>	<u>(16,219)</u>	<u>(20,020)</u>
Net Income (Loss)	135,184	111,674	246,858
Net Position, Beginning of Year	1,602,144	1,825,138	3,427,282
Net Position, End of Year	<u>\$ 1,737,328</u>	<u>1,936,812</u>	<u>3,674,140</u>

2022		
Water System	Sewer System	Total
466,183	348,761	814,944
21,452	15,469	36,921
<u>487,635</u>	<u>364,230</u>	<u>851,865</u>
161,913	90,079	251,992
41,943	93,462	135,405
87,006	158,057	245,063
35,423	3,528	38,951
29,731	2,000	31,731
15,973	-	15,973
8,870	5,088	13,958
24,190	-	24,190
10,825	-	10,825
-	11,642	11,642
6,952	-	6,952
6,409	-	6,409
-	6,797	6,797
1,781	-	1,781
<u>431,016</u>	<u>370,653</u>	<u>801,669</u>
<u>56,619</u>	<u>(6,423)</u>	<u>50,196</u>
2,382	-	2,382
(12,209)	(19,441)	(31,650)
<u>(9,827)</u>	<u>(19,441)</u>	<u>(29,268)</u>
46,792	(25,864)	20,928
1,555,352	1,851,002	3,406,354
<u>1,602,144</u>	<u>1,825,138</u>	<u>3,427,282</u>