

**West Memphis Utility Department
An Enterprise Fund of
The City of West Memphis, Arkansas**

FINANCIAL REPORT

December 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the West Memphis Utility Commission
West Memphis Utility Department, an Enterprise Fund of the City of West Memphis, Arkansas
West Memphis, Arkansas

Qualified Opinion

We have audited the financial statements of the West Memphis Utility Department, an enterprise fund of the City of West Memphis, Arkansas (the Department), which comprise the statements of net position as of December 31, 2023 and 2022, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, (collectively, the financial statements).

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Department as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Qualified Opinion

As discussed in Note A to the financial statements, the Department's investments in property, plant and equipment and the related allowances cannot presently be determined due to the insufficient historical records. The Department's records do not permit the application of adequate alternative procedures to verify the cost of property, plant and equipment. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibility 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 auditors' 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The capital assets and utility sales and customer data is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the accompanying information of the qualified opinion on the financial statements described above, the information is fairly stated in all material respects in relation to the financial statements as a whole.

West Memphis, Arkansas
June 13, 2024

Jackson, Howell & Associates, PLLC

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
STATEMENTS OF NET POSITION
For The Years Ended December 31

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,501,180	\$ 5,555,376
Investments	14,508,676	14,171,271
Accounts receivable, net	5,252,796	5,860,237
Inventories	2,735,528	2,404,364
Interest receivable	15,707	4,139
Intergovernmental receivables	3,782,506	2,636,401
Restricted assets		
Cash and cash equivalents	21,499,076	27,887,803
Investments	<u>1,963,609</u>	<u>1,863,771</u>
Net restricted assets	<u>23,462,685</u>	<u>29,751,574</u>
TOTAL CURRENT ASSETS	51,259,078	60,383,362
 NON-CURRENT ASSETS		
Capital assets		
Land and improvements	10,123,958	6,099,479
Buildings and equipment	14,531,704	14,388,127
Electric plant	60,803,360	59,153,036
Water plant	26,862,436	21,629,514
Sewer plant	<u>39,593,480</u>	<u>39,139,075</u>
	151,914,938	140,409,231
Less accumulated depreciation	<u>104,381,089</u>	<u>101,296,303</u>
Net capital assets	47,533,849	39,112,928
 Deferred debt and bond insurance, net	<u>268,402</u>	<u>278,074</u>
TOTAL NON-CURRENT ASSETS	<u>47,802,251</u>	<u>39,391,002</u>
	<u>\$ 99,061,329</u>	<u>\$ 99,774,364</u>

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

LIABILITIES AND NET POSITION

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 1,373,190	\$ 3,364,571
Intergovernmental payable	<u>291,182</u>	<u>395,691</u>
	1,664,372	3,760,262
Payable from restricted assets:		
Bond interest payable	68,823	70,856
Bond payable, current	<u>635,000</u>	<u>610,000</u>
	<u>703,823</u>	<u>680,856</u>
TOTAL CURRENT LIABILITIES	2,368,195	4,441,118
NON-CURRENT LIABILITIES		
Customer deposits	1,963,609	1,863,771
Bond payable, non-current	27,585,000	28,220,000
Unamortized premium on sale of bond, net	<u>841,177</u>	<u>893,088</u>
TOTAL NON-CURRENT LIABILITIES	<u>30,389,786</u>	<u>30,976,859</u>
TOTAL LIABILITIES	32,757,981	35,417,977
NET POSITION		
Net investments in capital assets	47,533,849	39,112,928
Restricted for capital projects	21,499,076	27,887,803
Restricted for customer deposits	1,963,609	1,863,771
Unrestricted	<u>(4,693,186)</u>	<u>(4,508,115)</u>
TOTAL NET POSITION	<u>66,303,348</u>	<u>64,356,387</u>
	<u>\$99,061,329</u>	<u>\$99,774,364</u>

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN NET POSITION
For the Years Ended December 31

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Charges for services		
Electric	\$30,348,810	\$38,611,367
Water	2,379,410	2,126,207
Sewer	2,610,711	2,252,458
Other	<u>583,857</u>	<u>495,866</u>
	35,922,788	43,485,898
 OPERATING EXPENSES		
Purchase power for resale	12,823,978	20,521,124
Transmission charges	3,317,186	4,643,538
General and administrative	8,061,445	7,722,765
Maintenance, operations, and contracted services	5,746,493	4,655,293
Payment in lieu of taxes	1,699,118	1,942,495
Depreciation	<u>3,084,786</u>	<u>2,804,521</u>
	<u>34,733,006</u>	<u>42,289,736</u>
 OPERATING INCOME	1,189,782	1,196,162
 NON-OPERATING REVENUE (EXPENSES)		
Interest on bonds	(796,331)	(875,865)
Investment income	1,563,182	347,006
Amortization	<u>(9,672)</u>	<u>(9,672)</u>
	<u>757,179</u>	<u>(538,531)</u>
 INCREASE IN NET POSITION	1,946,961	657,631
 NET POSITION AT BEGINNING OF YEAR	<u>64,356,387</u>	<u>63,698,756</u>
 NET POSITION AT END OF YEAR	<u>\$66,303,348</u>	<u>\$64,356,387</u>

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

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$36,630,067	\$42,569,619
Payments to suppliers for goods and services	(29,513,128)	(34,290,325)
Payments to employees	<u>(4,457,637)</u>	<u>(4,140,077)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,659,302	4,139,217
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to) from other funds	<u>(1,250,614)</u>	<u>(227,955)</u>
NET CASH (USED IN) NON-CAPITAL FINANCING ACTIVITIES	(1,250,614)	(227,955)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(11,505,707)	(4,613,379)
Premium on bonds	(51,910)	(90,431)
Principal paid on bonds	(610,000)	(475,000)
Interest paid on bonds	<u>(798,365)</u>	<u>(897,168)</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(12,965,982)	(6,075,978)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	1,551,614	344,385
Purchases of investments	<u>(437,243)</u>	<u>(102,997)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,114,371</u>	<u>241,388</u>
NET (DECREASE) IN CASH	(10,442,923)	(1,923,328)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>33,443,179</u>	<u>35,366,507</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$23,000,256</u>	<u>\$33,443,179</u>

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

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	1,189,782	1,196,162
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,084,786	2,804,521
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	607,441	(971,378)
(Increase) decrease in inventories	(331,164)	(294,871)
Increase (decrease) in accounts payable	(1,991,381)	1,349,684
Increase (decrease) in customer deposits	<u>99,838</u>	<u>55,099</u>
Total adjustments	<u>1,469,520</u>	<u>2,943,055</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,659,302</u>	 <u>\$ 4,139,217</u>

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

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Operations

The West Memphis Utility Department (the “Department”), an enterprise fund of the City of West Memphis, Arkansas provides electric, water and sewer services for the City. The current West Memphis Utility Commission has the authority to recommend electric, water and sewer rates to the City Council which has final authority for approving utility rates. The Department procures energy through Next Era Marketing. The Department is a member of the Mid-Continent Independent System Operator (MISO) system. MISO is an Independent System Operator (ISO) and a Regional Transmission Organization (RTO) that offers open access transmission, monitors the high-voltage transmission grid and operates an energy market for electric utilities in the region.

Governmental Accounting Standards

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America as applied to enterprise funds of governmental entities. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Department.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Department’s financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred, regardless of the measurement focus applied. Interfund items and transactions between the electric, water and sewer funds have been eliminated.

Fair Value of Financial Instruments

The Department’s financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable and accounts payable. The Department’s estimate of fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net asset. The carrying amount of these financial instruments approximates fair value because of the short maturity of these investments.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Department considers all liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Short-term Investments

Short-term investments are stated at cost unless there is an indication of permanent impairment of value, in which case the adjustment to market value is included in results of operations. Interest income is accrued as earned.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable is recorded at the amount the Department expects to collect on balances outstanding at year-end. An allowance for uncollectible accounts is estimated and recorded based on the Department's historical bad debt experience and on management's judgment. The allowance for uncollectible accounts was \$500,000 on December 31, 2023 and December 31, 2022.

Inventories

Inventories consist of materials and supplies for the following:

	<u>2023</u>	<u>2022</u>
Electric Department	\$ 791,917	\$ 541,660
Water Department	83,731	65,353
Sewer Department	14,184	15,218
Gas and Oil	12,729	42,904
Independence - Coal Stockpile	596,901	554,173
Independence - Materials and supplies	275,455	259,524
White Bluff - Coal Stockpile	645,039	626,795
White Bluff - Materials and supplies	<u>315,572</u>	<u>298,737</u>
Total	<u>\$2,735,528</u>	<u>\$2,404,364</u>

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Capital Assets

Capital assets, which include property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are expensed when incurred. Additions, major improvements and replacements of units are capitalized and depreciated on a straight-line basis over the estimated useful lives of the various classes as follows:

	<u>Years</u>
Buildings	40
Furniture, fixtures and equipment	6 - 10
Plant in service	20 - 50
Investment in electric generating plant	27 - 30

Costs and related allowances for depreciation of assets sold or otherwise retired are eliminated from the asset and accumulated depreciation accounts where detail property records are available.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - continued

The Department's detailed property, plant and equipment records do not provide sufficient historical detail to determine the cost of individual assets. Due to this inadequacy, it is not always possible to determine the historical cost of property, plant and equipment to be retired. Therefore, certain assets have not been removed from the books when retired. A schedule has been included in the supplemental information due to this inadequacy.

Amortization of Bond Discounts, Insurance and Premiums

Cost associated with issuing the Series 2021 revenue bond has been deferred and is being amortized using the straight-line method over the 30-year life of the bond. Amortization expense at December 31, 2023 and 2022 was \$9,672 and \$9,672, respectively.

Net position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Department's financial statements. Net position is classified in the following categories:

1. Net investment in capital assets - This amount consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of those assets.
2. Restricted net position - This amount is restricted by creditors, grantors, contributors, or laws or regulations of the government.
3. Unrestricted net position - This amount is the net position that does not meet the definition of "net investment of capital assets" or "restricted net position".

The Department's activities and net position are tracked in the accounting system by numerous sources of funds. Certain assets are restricted for specific purposes. Legal and contractual agreements restrict amounts for debt service, refund of customer deposits and capital improvements. The general manager, in conjunction with the finance director, utility commission and city council are authorized to assign amounts to a specific purpose. The Department does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenses are incurred for purposes for which both restricted and unrestricted amounts are available. Restricted funds are first used for expenses when available at the discretion of management depending on the availability of funds.

Classification of Revenues and Expense

As an enterprise (proprietary) fund, the Department classifies its revenues and expenses into the following classifications: operating revenue, operating expenses, non-operating revenue and non-operating expenses.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Classification of Revenues and Expense - continued

Operating revenue and expenses are deemed as revenues realized by the Department in exchange for providing its primary services for electric, water, sewer and other charges. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to bond costs and amortization expenses.

Revenue Recognition

Revenues are included in income as services are delivered. Billings are rendered and recorded monthly based on metered usage. Included in the accounts receivable at December 31, 2023 and 2022, was an estimate for these unbilled services totaling \$1,878,037 and \$1,747,246, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Compensated Absences

Employees of the Department are entitled to pay for compensated absences depending on job classification, length of service, and other factors. It is the Department's policy to recognize the cost of compensated absences when actually paid to the employees.

Subsequent Events

The Company has evaluated events and transactions that occurred between December 31, 2023, and June 13, 2024, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE B - CASH AND SHORT-TERM INVESTMENTS

The Treasurer of West Memphis Utility Commission is authorized by the State of Arkansas Statutes to invest excess cash balances in short-term investments. At December 31, 2023 and 2022, cash and short-term investments are listed below:

	<u>2023</u>		<u>2022</u>	
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>
CASH	\$21,499,076	\$ 1,501,180	\$27,887,803	\$ 5,555,376
INVESTMENTS:				
Certificates of Deposit	<u>1,963,609</u>	<u>14,508,676</u>	<u>1,863,771</u>	<u>14,171,271</u>
	<u>\$23,462,685</u>	<u>\$16,009,856</u>	<u>\$29,751,574</u>	<u>\$19,726,647</u>

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - CASH AND SHORT-TERM INVESTMENTS - CONTINUED

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Department's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations.

At December 31, 2023 and 2022, none of the Department's bank balances of \$18,388,074 and \$27,440,400, respectively, were exposed to custodial credit risk.

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in eligible investment securities having a maturity of no longer than 5 years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity; an Arkansas bank certificate of deposit; an account established by a local government joint investment trust; or an Arkansas financial institution repurchase agreement for eligible investment securities in which the seller agrees to repurchase the investment at a price including interest earned during the holding period as determined by the repurchase agreement.

NOTE C - INVESTMENT IN GENERATING PLANTS

In 1980, the Department entered into an Ownership Agreement with Entergy whereby it purchased a 1% interest in two fossil fuel electric generating plants in Arkansas, one at White Bluff and one in Independence County. Both generating plants include two fully operational generating power units. The Department financed these purchases through the issuance of revenue bonds.

As a party to the Ownership Agreement, the Department was required to pay its 1% share of the construction costs of the plants, as incurred by Entergy and as defined in the Agreement. After commercial operation of the plants began, the Department was also responsible for its 1% share of additions or replacements at each plant. The amounts recorded (including capitalized interest), of \$13,069,848 and \$12,627,923 for White Bluff and Independence, respectively, represent the Department's 1% share of plant construction cost.

The Department is also a party to an Operating Agreement with Entergy whereby it has agreed to pay 1% of the operating costs (mainly operations and maintenance expenses, not including fuel) of the plants. Furthermore, the Department also pays for 1% of the coal purchased by the plants and this amount is included in inventory on the accompanying balance sheets.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - INVESTMENT IN GENERATING PLANTS - CONTINUED

These agreements entitle the Department to 1% of the net generating capacity and energy of the plants, which is delivered to West Memphis in accordance with a transmission agreement.

NOTE D - RESTRICTED ASSETS

Restricted cash and investments represent amounts required to be maintained by agreements related to deposits received from customers and the bond issue.

NOTE E - REVENUE BONDS PAYABLE

On October 12, 2021, the Department issued \$29,305,000 of the Public Utility System Revenue Bonds, Series 2021.

Principal payments are due annually in increasing amounts over 30 years beginning in 2022. Interest is payable semi-annually. The bond has various interest rates from 2.5 - 4.0% dependent upon the maturity date.

Current principal maturities of long-term debt as of December 31, 2023, are as follows:

2025	\$ 635,000
2026	660,000
2027	685,000
2028	715,000
2029	745,000
Thereafter	<u>24,780,000</u>
	<u>\$28,220,000</u>

NOTE F - RELATIONSHIPS WITH THE CITY

The Department is one of a number of departments and/or funds of the City of West Memphis established for a specific purpose. General services, such as personnel, data processing, financial administration and legal services are provided to the Department by the City. The costs associated with providing these services are charged to the Department by the City. The City also charges the Department an amount in lieu of franchise taxes.

The Department, as a convenience to customers, includes the fees for city-provided garbage collection in its monthly customer billings. These fees are remitted to the Sanitation Department monthly and are not reflected in the accompanying financial statements.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE G - INTERGOVERNMENTAL BALANCES

During the course of its operations, the Department has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds have not been paid or received as of December 31, 2023, balances of interfund amounts receivable or payable have been recorded as “intergovernmental receivables/payables”. All interfund balances are expected to be paid within one year.

NOTE H - RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to independent contractors and natural disasters, all of which is satisfactorily insured by general liability service. Commercial insurance policies are also obtained for other risks of loss, including workers’ compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE I - CONTINGENCY

The City of West Memphis is involved in a number of lawsuits arising in the ordinary course of business. One of the lawsuits is directly related to the West Memphis Utility Department, but an evaluation of an unfavorable outcome cannot be made at this time.

On March 5, 2020, the Arkansas Department of Energy and Environment Division of Environmental Quality (“ADEQ”) and the City entered into a Consent Administrative Order (“CAO”) concerning, among other things, sanitary sewer overflows and unpermitted discharges. The City has submitted to ADEQ a corrective action plan and milestone schedule with a final compliance date of December 31, 2023. The City must submit to ADEQ quarterly progress reports. In compromise and full settlement of the violations specified in the CAO, the City paid to ADEQ a civil penalty of \$4,000. Failure to meet any requirement or deadline penalties in the CAO subjects the City to additional monetary penalties ranging from \$100 per day to \$1,000 per day, depending on the length of time such violations remain unresolved. Proceeds from Series 2021 Bonds will finance improvements to the System needed to fully comply with the CAO.

As of June 6, 2024, there is an amended Consent Administrative Order (“CAO”) that addresses two additional unpermitted discharge findings that were not included in the original CAO. In compromise and full settlement of the additional violations, the City paid to the Arkansas Department of Energy and Environment Division of Environmental Quality (“ADEQ”) a civil penalty of \$2,700.

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE J - PENSION PLAN

In January 1977, the City established a defined contribution pension plan for all non-uniformed employees. The City contributes 6% of each participant's annual salary, and employees can also contribute a voluntary amount of not less than 2% of his/her regular pay to the plan. Participants vest in the employer's contribution at a rate of 20% per year. Eligibility commences one year from date of employment.

Employees have the option to invest the funds in their account. Employees are entitled only to the funds deposited by them and on their behalf; therefore, there is no unfunded liability.

The amount contributed to the pension plan and expensed by the Department was \$237,515 and \$215,153 for the years ended December 31, 2023 and 2022, respectively.

NOTE K - MAJOR VENDORS

Purchases for the years ended December 31, 2023 and 2022, include purchases from one major vendor.

	<u>2023</u>		<u>2022</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Purchases from:				
Vendor A	\$12,823,978	100.00%	\$20,521,124	100.00%
Accounts Payable:				
Vendor A	\$ 839,661	68.00%	\$1,704,753	56.29%
Vendor B	227,345	18.41%	311,503	10.29%
Vendor C	167,831	13.59%	1,012,066	33.42%

SUPPLEMENTARY INFORMATION

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
CAPITAL ASSETS
December 31, 2023

	COST			
	Balance January 1, <u>2023</u>	Additions and <u>Transfers</u>	Disposals and <u>Transfers</u>	Balance December 31, <u>2023</u>
UTILITY, PLANT IN SERVICE				
Electric	\$ 33,627,921	\$ 1,477,666	\$ -	\$ 35,105,587
Generating plants				
White Bluff	13,000,656	69,193	-	13,069,849
Independence	<u>12,524,459</u>	<u>103,465</u>	-	<u>12,627,924</u>
	59,153,036	1,650,324	-	60,803,360
Water	21,629,514	5,232,922	-	26,862,436
Sewer	<u>39,139,075</u>	<u>454,405</u>	-	<u>39,593,480</u>
	119,921,625	7,337,651	-	127,259,276
CAPITAL ASSETS				
Land	418,341	-	-	418,341
Buildings	1,903,506	-	-	1,903,506
Building improvements	5,681,138	4,024,479	-	9,705,617
Furniture and fixtures	749,493	-	-	749,493
Transportation equipment	7,085,619	138,737	-	7,224,356
Miscellaneous equipment	<u>4,649,509</u>	<u>4,840</u>	-	<u>4,654,349</u>
	20,487,606	4,168,056	-	24,655,662
CONTRIBUTION IN AID OF CONSTRUCTION				
	-	-	-	-
	<u>\$140,409,231</u>	<u>\$11,505,707</u>	<u>\$ -</u>	<u>\$151,914,938</u>

ACCUMULATED DEPRECIATION

Balance January 1, <u>2023</u>	<u>Current Provision</u>	<u>Other Additions</u>	Balance December 31, <u>2023</u>
\$ 21,368,495	\$ 840,562	\$ -	\$ 22,209,057
10,930,744	135,563	-	11,066,307
<u>10,346,744</u>	<u>135,075</u>	<u>-</u>	<u>10,481,819</u>
42,645,983	1,111,200	-	43,757,183
14,080,865	529,603	-	14,610,468
<u>26,080,015</u>	<u>966,311</u>	<u>-</u>	<u>27,046,326</u>
82,806,863	2,607,114	-	85,413,977
-	-	-	-
732,979	41,906	-	774,885
1,240,534	182,111	-	1,422,645
675,652	14,195	-	689,847
6,714,623	157,192	-	6,871,815
<u>4,158,566</u>	<u>82,268</u>	<u>-</u>	<u>4,240,834</u>
13,522,354	477,672	-	14,000,026
<u>4,967,086</u>	<u>-</u>	<u>-</u>	<u>4,967,086</u>
<u>\$101,296,303</u>	<u>\$3,084,786</u>	<u>\$ -</u>	<u>\$104,381,089</u>

West Memphis Utility Department
An Enterprise Fund of the City of West Memphis, Arkansas
UTILITY SALES AND CUSTOMER DATA
For the Years Ended December 31

	Electric Sales (KWH)		Number of Metered	
	<u>In Thousands</u>		<u>Customers</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Residential	134,761	141,598	10,106	10,157
Commercial & industrial	201,996	210,960	1,568	1,577
Public authority	<u>15,903</u>	<u>15,999</u>	<u>135</u>	<u>132</u>
	<u>352,660</u>	<u>368,557</u>	<u>11,809</u>	<u>11,866</u>

	Water Sale		Number of Metered	
	<u>(Thousand of Gallons)</u>		<u>Customers</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Residential	661,231	653,376	8,085	8,056
Commercial & industrial	780,865	767,680	1,031	1,030
Public authority	<u>26,013</u>	<u>30,352</u>	<u>41</u>	<u>37</u>
	<u>1,468,109</u>	<u>1,451,408</u>	<u>9,157</u>	<u>9,123</u>

	Sewer Sale		Number of Metered	
	<u>(Thousand of Gallons)</u>		<u>Customers</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Residential	1,457	1,241	8,036	8,039
Commercial & industrial	1,083	957	941	956
Public authority	<u>21</u>	<u>21</u>	<u>33</u>	<u>31</u>
	<u>2,561</u>	<u>2,219</u>	<u>9,010</u>	<u>9,026</u>