

**FORREST CITY WATER
AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2022**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396**

FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

Members of the Forrest City, AR City Council
Forrest City, Arkansas 72335

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Forrest City Water and Sewer Utility as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise of the Utility's basic financial statements as listed in the table of contents.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Forrest City Water and Sewer Utility 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.

Emphasis of Matter

As discussed in Note A, the accompanying financial statements of the Forrest City Water and Sewer Utility are intended to present the financial position, and the changes in financial position and the cash flows of the City that are attributable to the transactions of the Forrest City Water and Sewer Utility. They do not purport to, and do not, present fairly the financial position of the City of Forrest City, Arkansas, as of December 31, 2022, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our report is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 Forrest City Water and Sewer Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards 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 Forrest City Water and Sewer Utility'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 Forrest City Water and Sewer Utility'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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–7 and 27 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 an opinion on the financial statements that collectively comprise the entity's basic financial statements. The accompanying Schedule of Proportionate Share of the Net Pension Liability and Related Ratios is presented for the purpose 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 basic financial statements. The 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 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 information is fairly stated in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2023, on our consideration of the Forrest City Water and Sewer Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Forrest City Water and Sewer Utility's 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 Forrest City Water and Sewer Utility's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

August 29, 2023

FORREST CITY WATER AND SEWER UTILITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2022

Within this section of the Forrest City Water and Sewer Utility's financial report, the Utility's management provides narrative discussion and analysis of the financial activities of the Utility for the year ended December 31, 2022. The Utility's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Utility as a whole and present a longer term view of the Utility's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year ended December 31, 2022. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Forrest City Water and Sewer Utility as a whole

Our analysis of the Utility as a whole follows in the next section. The Utility operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better off as a result of this period's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Utility as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net position and the changes which have occurred in the period. You can think of the Utility's net position (the difference between its assets and liabilities) as one way to measure the Utility's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Utility.

**FORREST CITY WATER AND SEWER UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2022**

Financial Highlights:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Beginning Net Position	\$ 9,697,819	\$ 8,933,724	\$9,189,543
Restatement of Beginning Net Position	(129,844)		
Increase (decrease) in Net Position	<u>624,890</u>	<u>764,095</u>	<u>(255,819)</u>
Ending Net Position	<u>\$ 10,192,865</u>	<u>\$ 9,697,819</u>	<u>\$ 8,933,724</u>

Assets, liabilities, and net position for years ended December 31, 2022, 2021, and 2020 are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current and Other Assets	\$ 7,265,113	\$ 6,774,466	\$ 2,215,106
Restricted Assets	931,896	924,008	4,930,376
Capital Assets	4,923,723	4,249,395	4,175,455
Deferred Outflows	<u>509,031</u>	<u>220,111</u>	<u>527,312</u>
Total Assets	<u>\$ 13,629,763</u>	<u>\$ 12,167,980</u>	<u>\$ 11,848,249</u>
Current Liabilities	\$ 756,317	\$ 949,079	\$ 833,010
Long Term Liabilities	<u>2,520,454</u>	<u>465,586</u>	<u>2,043,250</u>
Total Liabilities	<u>3,276,771</u>	<u>1,414,665</u>	<u>2,876,260</u>
Deferred Inflows	<u>160,127</u>	<u>1,055,496</u>	<u>38,265</u>
Net Position			
Unrestricted	6,203,008	5,448,424	4,758,269
Restricted for Construction	7,002		
Net Investment in Capital Assets	<u>3,982,855</u>	<u>4,249,395</u>	<u>4,175,455</u>
Total Net Position	<u>10,192,865</u>	<u>9,697,819</u>	<u>8,933,724</u>
Total Liabilities and Net Position	<u>\$ 13,629,763</u>	<u>\$ 12,167,980</u>	<u>\$ 11,848,249</u>

**FORREST CITY WATER AND SEWER UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2022**

The following schedule presents a summary of revenues and expenses for the years ended December 31, 2022, 2021, and 2020:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 4,018,498	\$ 3,986,969	\$ 3,872,447
Operating Expenses	<u>3,415,567</u>	<u>3,396,571</u>	<u>4,142,485</u>
Operating Income	602,931	590,398	(270,038)
Other Income (Expense)	<u>21,959</u>	<u>173,697</u>	<u>14,219</u>
	<u>\$ 624,890</u>	<u>\$ 764,095</u>	<u>\$ (255,819)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2022, the Utility had \$ 4,923,723 invested in capital assets. This represents a net increase of \$ 674,328 which is the result of depreciation expense recognized of \$ 450,821 and additions of \$ 1,125,149.

Debt

As of December 31, 2022, the Utility had \$ 940,868 in outstanding notes payable. This represents an increase of \$ 940,868 in new debt issued.

ECONOMIC FACTORS, BUDGET AND RATES

The Utility has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Edward Gregory Jr., manager, Forrest City Water and Sewer Utility.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

ASSETS

Current Assets	
Cash on hand and in banks	\$ 2,343,762
Certificate of Deposit	4,048,013
Accounts receivable - customers	471,932
Prepaid Utilities	136,407
Inventory	264,999
Total Current Assets	7,265,113
Restricted Assets	
Cash - Bond Construction	7,002
Certificate of deposit - depreciation	924,894
Total Restricted Assets	931,896
Capital Assets, Net	4,923,723
Deferred Outflows	
Pension Plan	509,031
Total Assets	\$ 13,629,763

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable and accrued liabilities	\$ 173,569
Current portion of notes payable	45,378
Customer meter deposits	359,626
Accrued service fees	3,636
Accrued Interest payable	2,727
Accrued employee benefits	171,381
Total Current Liabilities	<u>756,317</u>
Long Term Liabilities	
Long-term debt, net of current portion	895,490
Net Pension Liability	1,624,964
Total Long Term Liabilities	<u>2,520,454</u>
Deferred Inflows	
Pension Plan	<u>160,127</u>
Net Position	
Net investment in capital assets	3,982,855
Restricted for debt service	7,002
Unrestricted	6,203,008
Total Net Position	<u>10,192,865</u>
Total Liabilities and Net Position	<u>\$ 13,629,763</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022**

Operating Revenues:	
Water Revenues	\$ 2,910,779
Wastewater Revenues	1,043,611
Other Revenues	64,108
Total Operating Revenues	<u>4,018,498</u>
Operating Expenses:	
Accounting and billing	118,625
Depreciation	450,821
Fuel	66,016
Insurance	317,348
Lab Fees	68,239
Miscellaneous	32,967
Operating Maintenance and Supplies	547,041
Office supplies and postage	2,657
Retirement	144,425
Salaries and benefits	1,224,093
Utilities	443,335
Total Operating Expenses	<u>3,415,567</u>
OPERATING INCOME (LOSS)	602,931
Non-operating Revenues (Expenses)	
Interest Income	29,239
Service Fees	(4,160)
Interest Expense	(3,120)
Total Non-operating Revenues (Expenses)	<u>21,959</u>
Change in Net Position	<u>624,890</u>
Net Position	
Beginning of year - as previously reported	9,697,819
Adjustment to correct understatement of prior year payable	(129,844)
Beginning of year as restated	9,567,975
End of year net position	<u>\$ 10,192,865</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Cash Flows from Operating Activities	
Receipts from Customers	\$ 4,036,410
Payments to Suppliers	(2,313,540)
Payments to Employees	(1,224,093)
Net Cash Provided by (Used In) Operating Activities	<u>498,777</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of Equipment	(1,125,149)
Interest Paid	(917)
Proceeds from Bond Issue	940,868
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>(185,198)</u>
Cash Flows from Investing Activities	
Interest Income	29,239
Transfers (to) from Restricted Accounts	(30,279)
Net Cash Provided by (Used In) Investing Activities	<u>(1,040)</u>
Increase (Decrease) in Cash and Cash Equivalents	312,539
Cash and Cash Equivalents, Beginning of Year	<u>2,031,223</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,343,762</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income- (Loss)	\$ 602,931
Depreciation and Amortization	450,821
Net Change in Pension Liability	(24,911)
(Increase) Decrease in Accounts Receivable	19,155
(Increase) Decrease in Inventory	(38,465)
(Increase) Decrease in Prepaid Expense	(136,407)
Increase (Decrease) in Accounts Payable	(334,524)
Increase (Decrease) in Accrued Payroll and Payroll Taxes	(95)
Increase (Decrease) in Accrued Employee Benefits	(38,485)
Increase (Decrease) in Customer Deposits	(1,243)
Total Adjustments	<u>(104,154)</u>
Net Cash Provided by Operating Activities	<u>\$ 498,777</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Financial Reporting Utility - Forrest City Water and Sewer Utility is a department of the City of Forrest City, Arkansas. The accompanying financial statements present only the Forrest City Water and Sewer Utility and do not include all funds, account groups, and programs controlled by the City of Forrest City. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Utility consists of a proprietary fund with the purpose of providing water and sewer services to the general public within the City and some rural residents of the surrounding area.

Basis of accounting - The Forrest City Water and Sewer Utility uses the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized when earned, and expenses are recognized when incurred.

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

Cash and Cash Equivalents - The Forrest City Water and Sewer Utility considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are presented net of an allowance for doubtful accounts as of December 31, 2022, of \$ 109,981. Accounts receivable are collateralized by customer deposits.

Capital Assets – Capital assets consist of utility plant and equipment. These assets are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 3 - 15 years for office furniture and equipment, and up to 50 years for the water and sewer system.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE A- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Restricted Assets - The Forrest City Water and Sewer Utility has established and maintained certain cash balances that can only be used for specific purposes.

Risk Management - The Forrest City Water and Sewer Utility minimizes risk of loss through purchase of commercial insurance coverage.

Operating Revenues and Expenses - Operating Revenues and Expenses consists of those revenues that result from ongoing operations, and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Utility's policy to apply those expenses to restricted net assets to the extent such assets are available and then to unrestricted net assets.

Sales Tax - The Forrest City Water and Sewer Utility collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

Net Position – Net Position is categorized as investments in capital assets (net of related debt), restricted for debt services (pursuant to debt agreements), or unrestricted.

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Utility's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Utility's deposits are categorized to give an indication of the level of risk assumed by the Utility. The categories are described as follows:

Category 1- Insured or collateralized by the Utility or by its agent in the Utility's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust Utility or by its agent in the Utility's name.

Category 3- Uncollateralized.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS (CONT'D)

At December 31, 2022, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
\$ 7,323,671	\$ 1,000,000	\$ 6,134,789	\$ 188,882

NOTE C - PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Utility is presented below:

	1/1/2022	Additions	Deletions	12/31/2022
Not Subject to Depreciation:				
Land	\$ 237,640			\$ 237,640
Construction in Progress	80,923	\$ 959,446	\$ 106,503	933,866
Subject to Depreciation:				
General Plant and Equipment	3,891,360	96,466		3,987,826
Other Plant Assets	987,876			987,876
Madison System	71,861			71,861
Source of Supply	3,952,658			3,952,658
Transmission and Distribution	4,959,284			4,959,284
Water Disposal System	10,745,790	69,237		10,815,027
Other Plant and Equipment	44,579	106,503		151,082
	<u>24,971,971</u>	<u>1,231,652</u>	<u>106,503</u>	<u>26,097,120</u>
Less Accumulated Depreciation	<u>(20,722,576)</u>	<u>(450,821)</u>		<u>(21,173,397)</u>
Net Capital Assets	<u>\$ 4,249,395</u>	<u>\$ 780,831</u>	<u>\$ 106,503</u>	<u>\$ 4,923,723</u>

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE D – RESTRICTED ACCOUNTS

Restricted Accounts at December 31, 2022 consists of the following

Certificates of Deposit	
Repair and Replacement	\$ 924,894
Construction	<u>7,002</u>
Total Restricted Accounts	<u>\$ 931,896</u>

NOTE E – INVENTORY

Supplies and materials are stated at the lower of cost or market. Cost is determined on the first in, first out basis.

NOTE F – RELATED PARTIES

At December 31, 2022, Accounts payable includes \$15,000 due to the City of Forrest City, Arkansas.

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report; no items were noted which would require disclosure.

NOTE H– RETIREMENT PLAN

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information 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, all county employees, municipal employees whose municipalities have elected coverage under the system, college and university employees, and certain non-teaching school employees. 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). Memberships 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.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H- RETIREMENT PLAN- cont'd

Benefits Provided

Benefit provisions are set forth in the 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 for member's year of service.

The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 07/01/2005	2.07%
Contributory, on or after 07/01/2005, but prior to 07/01/2007	2.03%
Contributory on or after 07/01/2007	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, except for members of the General Assembly who must have 10 years of actual service if the member only has services as a member of the General Assembly
- at any age with 28 years actual service,
- at age 55 with 35 years of credited service for elected or public safety officials, or
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005)

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. A member who is defined as a public safety member is eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid monthly, is determined based on 1) the members final average compensation (an average of the highest 36 months earnings) and 2) the number of years of credited service. The plan also provides for disability and survivor benefits. Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H – RETIREMENT PLAN – CONT'D

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2022. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

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

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

The collective Net Pension Liability of \$ 2,696,383,462 was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H – RETIREMENT PLAN – CONT'D

Deferred outflows of resources and deferred inflows of resources related to pensions related to the Department are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,005	
Changes of Assumptions	-	
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,481	
Differences between expected and actual experience		\$ 19,619
Net difference between projected and actual investment earnings on pension plan investments	342,789	
Changes of Assumptions		
Changes in proportion and differences between employer contributions and proportionate share of contributions		140,508
	\$ 405,275	\$ 160,127

In accordance with GASB Statement No. 68 the recognition for outflows (inflows) of resources from the net difference between projected and actual earnings on pension plan investments was five years. All other deferred outflows (inflows) of resources related to pensions were amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan. For fiscal years 2018, it was 4.1233 years; for fiscal year 2019, it was 4.1431 years; for fiscal year 2020 it was 4.0486 years; for fiscal year 2021 it was 3.9676 years; and for fiscal year 2022 it was 3.7989 years.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H – RETIREMENT PLAN – CONT'D

Actuarial Assumptions

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

Actuarial Cost Method	Entry Age Normal
Discount rate	7.15%
Wage inflation rate	3.25%
Salary Increases	3.25 – 9.85% including inflation
Mortality Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H – RETIREMENT PLAN – CONT'D

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 the 10-year period from 2020-2029 were based upon capital markets assumptions provided by the plan's investment consultant. For each major asset class included in the plan's current asset allocation as of June 30, 2022, these best estimates are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	18%	0.57%

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE H – RETIREMENT PLAN – CONT'D

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 than Current Rate - 6.15%	Current Rate 7.15%	1% Higher than Current Rate - 8.15%
Net Pension Liability	\$ 2,583,396	\$ 1,624,964	\$ 833,693

NOTE I – CONSTRUCTION IN PROGRESS

At year end, construction in progress includes costs incurred for an utility plant updates, expected to be completed during fiscal year 2023. Total estimated costs of the projects are approximately \$1,803,531.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE J – NOTES PAYABLE

Notes payable at December 31, 2022 consists of the following:

	Balance 12/31/2022
1.75% Note payable in semi-annual installments of \$ 53,633 beginning October 15, 2023, with remaining balance due April 2043. Proceeds from the note are to be used for construction. The loan is secured by and pledge of future revenues. The maximum loan amount is \$ 1,803,531	<u>\$ 940,868</u>

A summary of future payments required at December 31, 2022 is as follows:

For years ending December 31,	Principal	Interest	Total
2023	\$ 45,378	\$ 8,255	\$ 53,633
2024	91,954	15,312	107,266
2025	93,613	13,653	107,266
2026	95,259	12,007	107,266
2027	96,933	10,333	107,266
For 5 year periods ending December 31,			
2032	510,794	25,536	536,330
2037	6,937	61	6,998
	<u>\$ 940,868</u>	<u>\$ 85,157</u>	<u>\$ 1,026,025</u>

A summary of long-term debt activity is as follows:

Balance <u>1/1/2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2022</u>
<u>\$ -</u>	<u>940,868</u>	<u>-</u>	<u>\$ 940,868</u>

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE K- RESTATEMENT OF BEGINNING NET POSITION

During the current year, it was determined that Accounts Payable were understated by \$ 129,844 at December 31, 2021. An adjustment has been made to restate the beginning net position to correct the error. Effects of the restatement on beginning balances was as follows:

	Increase (Decrease)
Net Position - unrestricted	\$ (129,844)
Accounts Payable	129,844

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Members of the City Council
Forrest City, Arkansas 72335

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Forrest City Water and Sewer Utility as of December 31, 2022 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated August 29, 2023.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility'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 over financial reporting 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 over financial reporting 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 responses that we consider to be significant deficiencies (2022-1).

Compliance and Other Matters

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

Forrest City Water and Sewer Utility's Response to Findings

Forrest City Water and Sewer Utility's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Forrest City Water and Sewer Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on 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 Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

August 29, 2023

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2022**

2022-01 Segregation of Duties

CONDITION: The Forrest City Water and Sewer Utility has not adequately segregated duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Utility's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Utility's management should segregate responsibilities among employees so that no individual has the ability to both authorize a transaction and process it within the Utility's accounting system.

RESPONSE: Management will implement this process in the upcoming period.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Actual	Budget	Variance
Operating Revenues:			
Water Revenues	\$ 2,910,779	\$ 2,400,000	\$ 510,779
Wastewater Revenues	1,043,611	1,091,000	(47,389)
Other Revenues	64,108	54,000	10,108
Total Operating Revenues	<u>4,018,498</u>	<u>3,545,000</u>	<u>473,498</u>
Operating Expenses:			
Accounting and Billing	118,625		(118,625)
Administrative		421,080	421,080
Customer Service		442,940	442,940
Depreciation	450,821		(450,821)
Distribution and Collection		1,421,600	1,421,600
Fuel	66,016		(66,016)
General Operations		93,620	93,620
Insurance	317,348		(317,348)
Inflow and Infiltration		155,640	155,640
Lab Fees	68,239		(68,239)
Miscellaneous	32,967		(32,967)
Operating Maintenance and Supplies	547,041		(547,041)
Office supplies and postage	2,657		(2,657)
Retirement	144,425		(144,425)
Salaries and benefits	1,224,093		(1,224,093)
Utilities	443,335		(443,335)
Waterwaste Treatment		439,700	439,700
Water Supply		553,700	553,700
Total Operating Expenses	<u>3,415,567</u>	<u>3,528,280</u>	<u>112,713</u>
OPERATING INCOME (LOSS)	<u>602,931</u>	<u>16,720</u>	<u>586,211</u>
Non-Operating Revenues (Expenses)			
Interest Income	29,239	13,000	16,239
Service Fees	(4,160)		(4,160)
Interest Expense	(3,120)		(3,120)
Total Non-operating Revenues (Expenses)	<u>21,959</u>	<u>13,000</u>	<u>8,959</u>
Change in Net Position	<u>\$ 624,890</u>	<u>\$ 29,720</u>	<u>\$ 595,170</u>

**FORREST CITY WATER AND SEWER UTILITY SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2022**

<u>Year Ended</u>	<u>Proportionate Net Pension Liability</u>	<u>Net Pension Liability</u>	<u>Actual Covered Member Payroll</u>	<u>Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>	<u>Contractually Required Contribution</u>	<u>Made in Relation to Required Contributions</u>
6/30/2015	0.05720817%	\$ 1,053,622	\$ 1,015,014	104%	80.39%	148,816	\$ 148,816
6/30/2016	0.05097124%	\$ 1,412,599	\$ 1,132,371	125%	75.50%	167,138	\$ 167,138
6/30/2017	0.06117326%	\$ 1,580,803	\$ 1,083,110	146%	75.65%	155,815	\$ 155,815
6/30/2018	0.06083443%	\$ 1,341,968	\$ 1,138,720	118%	79.59%	168,075	\$ 168,075
6/30/2019	0.06838664%	\$ 1,649,847	\$ 1,308,675	126%	78.55%	200,489	\$ 200,489
6/30/2020	0.07135287%	\$ 2,043,250	\$ 1,392,219	147%	75.38%	213,288	\$ 213,288
6/30/2021	0.06055749%	\$ 465,586	\$ 1,155,220	40%	93.57%	185,259	\$ 185,259
6/30/2022	0.06026459%	\$ 1,624,964	\$ 1,237,948	131%	78.31%	192,986	\$ 192,986

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The date in this schedule is based on the measurement date of APERS Net Pension Liability.