

**FORREST CITY WATER  
AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**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, 2023, 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, 2023, 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 Opinions***

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, 2023, 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.

***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.

### ***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 4–6 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.

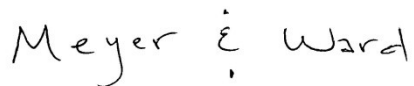
**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Entity's basic financial statements. The accompanying supplementary information on page 26 is presented for the 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 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 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 information is fairly stated in all material respects 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 23, 2024, 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, P.A.  
Certified Public Accountants  
Wynne, Arkansas 72396

August 23, 2024

## **FORREST CITY WATER AND SEWER UTILITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2023**

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, 2023. The Utility's financial performance is discussed and analyzed in 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, 2023. 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 the 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, 2023**

Financial Highlights:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Beginning Net Position	\$ 10,192,865	\$ 9,697,819	\$ 8,933,724
Restatement of Beginning Net Position		(129,844)	
Increase (decrease) in Net Position	<u>986,661</u>	<u>624,890</u>	<u>764,095</u>
Ending Net Position	<u>\$ 11,179,526</u>	<u>\$ 10,192,865</u>	<u>\$ 9,697,819</u>

Assets, liabilities, and net position for selected dates are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current and Other Assets	\$7,892,426	\$7,265,113	\$6,774,466
Restricted Assets	957,610	931,896	924,008
Capital Assets	5,570,575	4,923,723	4,249,395
Deferred Outflows	<u>425,548</u>	<u>509,031</u>	<u>220,111</u>
Total Assets	<u>\$14,846,159</u>	<u>\$13,629,763</u>	<u>\$12,167,980</u>
Current Liabilities	\$816,675	\$710,939	\$949,079
Long-term Liabilities	<u>2,574,368</u>	<u>2,565,832</u>	<u>465,586</u>
Total Liabilities	<u>3,391,043</u>	<u>3,276,771</u>	<u>1,414,665</u>
Deferred Inflows	<u>275,590</u>	<u>160,127</u>	<u>1,055,496</u>
Net Position			
Unrestricted	6,833,953	6,203,008	5,448,424
Restricted - Debt Service		7,002	
Net Investment in Capital Assets	<u>4,345,573</u>	<u>3,982,855</u>	<u>4,249,395</u>
Total Net Position	<u>11,179,526</u>	<u>10,192,865</u>	<u>9,697,819</u>
Total Liabilities and Net Position	<u>\$14,846,159</u>	<u>\$13,629,763</u>	<u>\$12,167,980</u>

**FORREST CITY WATER AND SEWER UTILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)  
DECEMBER 31, 2023**

The following schedule presents a summary of revenues and expenses for the years ended December 31, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues	\$3,877,486	\$4,018,498	\$3,986,969
Operating Expenses	<u>3,565,457</u>	<u>3,415,567</u>	<u>3,396,571</u>
Operating Income	312,029	602,931	590,398
Other Income (Expense)	<u>674,632</u>	<u>21,959</u>	<u>173,697</u>
	<u>\$986,661</u>	<u>\$624,890</u>	<u>\$764,095</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At December 31, 2023, the Utility had \$5,570,575 invested in capital assets. This represents a net increase of \$646,854 which is the result of depreciation expense recognized of \$440,845 and additions of \$1,087,699.

Debt

As of December 31, 2023, the Utility had \$1,271,704 in outstanding notes payable. This represents a net increase of \$330,836 which is the result of \$368,688 in new debt issued and principal payments of \$37,852.

**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, 2023**

ASSETS

Current Assets	
Cash on hand and in banks	\$ 2,829,930
Certificate of Deposit	4,203,618
Accounts receivable - customers	505,737
Prepaid Utilities	78,548
Inventory	274,593
Total Current Assets	7,892,426
Restricted Assets	
Certificate of deposit - depreciation	957,610
Total Restricted Assets	957,610
Capital Assets, Net	5,570,575
Deferred Outflows	
Pension Plan	425,548
Total Assets	\$ 14,846,159

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, 2023**

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable and accrued liabilities	\$ 151,449
Customer meter deposits	358,631
Accrued service fees	2,685
Accrued Interest payable	2,014
Accrued employee benefits	225,194
Current Portion of Long-term debt	76,702
Total Current Liabilities	816,675
Long Term Liabilities	
Long-term debt, net of current portion	1,195,002
Net Pension Liability	1,379,366
Total Long Term Liabilites	2,574,368
Deferred Inflows	
Pension Plan	275,590
Net Position	
Net investment in capital assets	4,345,573
Unrestricted	6,833,953
Total Net Position	11,179,526
Total Liabilities and Net Position	\$ 14,846,159

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, 2023**

Operating Revenues:	
Water Revenues	\$ 2,768,666
Wastewater Revenues	1,066,820
Other Revenues	42,000
Total Operating Revenues	<u>3,877,486</u>
Operating Expenses:	
Accounting and Billing	105,744
Depreciation	440,845
Fuel	54,343
Insurance	354,160
Lab Fees	60,714
Miscellaneous	28,399
Operating Maintenance and Supplies	583,919
Office supplies and postage	1,907
Retirement	118,407
Salaries and benefits	1,273,732
Utilities	543,287
Total Operating Expenses	<u>3,565,457</u>
OPERATING INCOME (LOSS)	<u>312,029</u>
Non-operating Revenues (Expenses)	
ARPA Grant Income	491,077
Interest Income	199,930
Service Fees	(9,357)
Interest Expense	(7,018)
Total Non-operating Revenues (Expenses)	<u>674,632</u>
Change in Net Position	<u>986,661</u>
Net Position	
Beginning of year	<u>10,192,865</u>
End of year net position	<u>\$ 11,179,526</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, 2023**

Cash Flows from Operating Activities	
Receipts from Customers	\$ 3,842,686
Payments to Suppliers	(1,871,387)
Payments to Employees	(1,219,919)
Net Cash Provided by (Used In) Operating Activities	<u>751,380</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of Equipment	(1,087,699)
Cash Proceeds from ARPA Grant	491,077
Interest Paid	(18,035)
Cash Proceeds from Bond Issue	368,688
Cash Payments to long-term debt	(37,852)
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>(283,821)</u>
Cash Flows from Investing Activities	
Interest Income	199,930
Transfers (to) from Restricted Accounts	(181,319)
Net Cash Provided by (Used In) Investing Activities	<u>18,611</u>
Increase (Decrease) in Cash and Cash Equivalents	486,170
Cash and Cash Equivalents, Beginning of Year	2,343,762
Cash and Cash Equivalents, End of Year	<u>\$ 2,829,932</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income- (Loss)	\$ 312,029
Depreciation and Amortization	440,845
Net Change in Pension Liability	(46,652)
(Increase) Decrease in Accounts Receivable	(33,805)
(Increase) Decrease in Inventory	(9,594)
(Increase) Decrease in Prepaid Expense	57,859
Increase (Decrease) in Accounts Payable	(22,120)
Increase (Decrease) in Accrued Employee Benefits	53,813
Increase (Decrease) in Customer Deposits	(995)
Total Adjustments	<u>439,351</u>
Net Cash Provided by Operating Activities	<u>\$ 751,380</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, 2023**

**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 collateralized by customer deposits. Accounts receivable are presented net of an allowance for doubtful accounts as of December 31, 2023, of \$137,157. The allowance is based on age analysis of accounts and results of collection efforts. Accounts deemed uncollectible after collection efforts and the offset of any customer deposits are charged to the allowance for uncollectible accounts

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 do 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, 2023**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNFICANT 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 consist 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, 2023**

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

At December 31, 2023, cash deposits categorized by level of risk are as follows:

Carrying Amount	Category		
	1	2	3
\$ 7,991,158	\$ 500,000	\$ 6,841,261	\$ 649,927

**NOTE C – RESTRICTED ACCOUNTS**

Restricted Accounts at December 31, 2023 consists of the following

Certificates of Deposit

Repair and Replacement	\$ 957,610
Total Restricted Accounts	<u>\$ 957,610</u>

**NOTE D – LONG-TERM DEBT:**

1.75% ADFA / ANRC Bond Payable, approx. \$53,633 semi-annual payments starting 10/15/2023 thru 2043;	\$ 1,271,704
0.75% Interest & 1.00% Service Fee	
Less Current Portion	<u>76,702</u>
Long- Term Debt, net of Current Portion	<u>\$ 1,195,002</u>

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE D – LONG-TERM DEBT (CONT'D):**

A summary of Long-Term Debt activity is as follows:

Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023
\$ 940,868	\$ 368,688	\$ 37,852	\$ 1,271,704

**NOTE E - PROPERTY AND EQUIPMENT**

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

	12/31/2022	Additions	Deletions	12/31/2023
Not Subject to Depreciation:				
Land	\$ 272,640			\$ 272,640
Construction in Progress	933,866	\$ 866,762		1,800,628
Subject to Depreciation:				
General Plant and Equipment	3,205,898	112,767		3,318,665
Other Plant Assets	1,002,629			1,002,629
Madison System	71,861	8,589		80,450
Source of Supply	4,094,251			4,094,251
Transmission and Distribution	5,225,563	4,706		5,230,269
Water Disposal System	10,980,411	41,881		11,022,292
Other Plant and Equipment	151,082	52,994		204,076
	25,938,201	1,087,699	-	27,025,900
Less Accumulated Depreciation	(21,014,480)	(440,845)		(21,455,325)
Net Capital Assets	\$ 4,923,721	\$ 646,854	\$ -	\$ 5,570,575



**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE F – INVENTORY**

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

**NOTE G – RELATED PARTIES**

At December 31, 2023, Accounts payable includes \$15,000 due to the City of Forrest City, Arkansas.

**NOTE H – SUBSEQUENT EVENTS**

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

**NOTE I – 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 official 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, 2023**

**NOTE I – RETIREMENT PLAN**

**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

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE I – RETIREMENT PLAN (CONT'D):**

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.

**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 11.65% of compensation for the fiscal year ended June 30, 2023. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

**APERS Fiduciary Net Position**

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

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

The collective Net Pension Liability of \$2,914,186,564 was measured as of June 30, 2023, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE I – 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	\$ 77,862	
Changes of Assumptions	64,847	
Changes in proportion and differences between employer contributions and proportionate share of contributions	830	
Differences between expected and actual experience		\$ 7,578
Net difference between projected and actual investment earnings on pension plan investments	171,682	
Changes of Assumptions		
Changes in proportion and differences between employer contributions and proportionate share of contributions		268,012
	\$ 315,221	\$ 275,590

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; for fiscal year 2022, it was 3.7989 years; for fiscal year 2023, it was 3.7241 years.

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE I – RETIREMENT PLAN (CONT'D):**

**Actuarial Assumptions**

The total pension liability in the June 30, 2023 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	7.00%
Wage inflation rate	3.25%
Salary Increases	3.30 – 9.85% including inflation
Mortality Table	Based on the RP 2006 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.

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE I – 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 are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2023 to 2032 were based upon capital market assumptions provided by the plan's investment consultant(s). For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2023, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
Total	<u>100%</u>	
Total Real Rate of Return		4.94%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		<u>0.00%</u>
Net Expected Return		7.44%

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**NOTE I – RETIREMENT PLAN (CONT'D):**

**Discount Rate**

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

**Sensitivity of the 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 7.00%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Lower than Current Rate - 6.00%	Current Rate 7.00%	1% Higher than Current Rate - 8.00%
Net Pension Liability	\$ 2,198,585	\$ 1,379,366	\$ 704,407

**NOTE J – CONSTRUCTION IN PROGRESS**

At year end, construction in progress includes costs incurred for utility plant updates, expected to be completed during fiscal year 2024. Total estimated costs of the projects are approximately \$1,909,081.

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

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, 2023 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 23, 2024.

**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 (2023-01).



## **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 23, 2024

**FORREST CITY WATER AND SEWER UTILITY  
CITY OF FORREST CITY, ARKANSAS  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2023**

# 2023-01 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, 2023**

	Actual	Budget	Variance
Operating Revenues:			
Water Revenues	\$ 2,768,666	\$ 2,838,000	\$ (69,334)
Wastewater Revenues	1,066,820	1,091,000	(24,180)
Other Revenues	42,000	47,000	(5,000)
Total Operating Revenues	<u>3,877,486</u>	<u>3,976,000</u>	<u>(98,514)</u>
Operating Expenses:			
Accounting and Billing	105,744	227,000	121,256
Depreciation	440,845		(440,845)
Fuel	54,343	68,000	13,657
Insurance	354,160	443,000	88,840
Lab Fees	60,714	70,000	9,286
Miscellaneous	28,399	129,800	101,401
Operating Maintenance and Supplies	583,919	664,720	80,801
Office supplies and postage	1,907	3,000	1,093
Retirement	118,407	210,000	91,593
Salaries and benefits	1,273,732	1,395,000	121,268
Utilities	543,287	679,000	135,713
Total Operating Expenses	<u>3,565,457</u>	<u>3,889,520</u>	<u>324,063</u>
OPERATING INCOME (LOSS)	<u>312,029</u>	<u>86,480</u>	<u>225,549</u>
Non-Operating Revenues (Expenses)			
ARPA Grant Income	491,077		491,077
Interest Income	199,930	15,000	184,930
Service Fees	(9,357)		(9,357)
Interest Expense	(7,018)	(56,000)	48,982
Total Non-operating Revenues (Expenses)	<u>674,632</u>	<u>(41,000)</u>	<u>715,632</u>
Change in Net Position	<u>\$ 986,661</u>	<u>\$ 45,480</u>	<u>\$ 941,181</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, 2023**

<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	\$ 1,149,633	141%	78.31%	192,986	\$ 192,986
6/30/2023	0.04733280%	\$ 1,379,366	\$ 1,065,958	129%	77.94%	160,721	\$ 160,721

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.