

CITY OF MONTICELLO ENTERPRISE FUNDS
FINANCIAL STATEMENTS
December 31, 2022

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council
City of Monticello Enterprise Funds
Monticello, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Monticello Enterprise Funds, (the "Organization"), a component unit of the City of Monticello, Arkansas, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Organization'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, the statement of revenues, expenses and changes in net position, and cash flows of the Organization as of and for the year then ended December 31, 2022, 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 Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 Organization'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 Organization'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 Organization'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 Schedule of Proportionate Share of Net Pension Liability and the Schedule of Contributions 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.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2024, on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.



Searcy & Associates, LLC
Monticello, Arkansas
September 30, 2024

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF NET POSITION
December 31, 2022

<u>Assets</u>	<u>City Water</u>	<u>City Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
<u>Current assets</u>				
Cash and cash equivalents (Note 2)	\$ 3,448,720	\$ 746,632	\$ 418,362	\$ 4,613,714
Accounts receivable (net)	160,003	64,910	79,287	304,200
Total current assets	3,608,723	811,542	497,649	4,917,914
<u>Restricted cash and investments</u>				
Cash and cash equivalents (Note 2 & 3)	282,910	0	0	282,910
Total restricted assets	282,910	0	0	282,910
<u>Fixed Assets</u>				
Property, plant, and equipment, net (Note 4)	3,456,657	1,945,813	221,470	5,623,940
Land	1,915,610	252,818	0	2,168,428
Total fixed assets	5,372,267	2,198,631	221,470	7,792,368
<u>Noncurrent Assets</u>				
Deferred outflow of resources	105,061	114,066	81,048	300,175
Total noncurrent assets	105,061	114,066	81,048	300,175
Total assets	\$ 9,368,961	\$ 3,124,239	\$ 800,167	\$ 13,293,367

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

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF NET POSITION
December 31, 2022

<u>Liabilities and Net Position</u>	<u>City Water</u>	<u>City Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
<u>Current liabilities</u>				
Accounts payable	\$ 53,764	\$ 9,009	\$ 100,575	\$ 163,348
Health Dept Fees	(5,913)	0	0	(5,913)
Accrued payroll	4,882	4,632	3,298	12,812
Accrued retirement	1,664	2,050	1,340	5,054
Accrued paid time off	3,558	4,323	5,614	13,495
Customer deposits	322,166	0	0	322,166
Other accrued expenses	10,572	0	7,668	18,240
Total current liabilities	<u>390,693</u>	<u>20,014</u>	<u>118,495</u>	<u>529,202</u>
<u>Long term liabilities</u>				
Deferred inflow of resources	4,002	4,345	3,088	11,435
Accrued pension liabilities	313,202	340,048	241,613	894,863
Total long term liabilities	<u>317,204</u>	<u>344,393</u>	<u>244,701</u>	<u>906,298</u>
<u>Net position</u>				
Invested in capital assets, net of related debt	5,372,267	2,198,631	221,470	7,792,368
Temporarily restricted	282,910	0	0	282,910
Unrestricted	3,005,887	561,201	215,501	3,782,589
Total net position	<u>8,661,064</u>	<u>2,759,832</u>	<u>436,971</u>	<u>11,857,867</u>
Total liabilities and net position	<u>\$ 9,368,961</u>	<u>\$ 3,124,239</u>	<u>\$ 800,167</u>	<u>\$ 13,293,367</u>

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

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
December 31, 2022

	<u>City Water</u>	<u>City Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
<u>Operating revenues</u>				
Sales	\$ 1,791,782	\$ 743,287	\$ 868,815	\$ 3,403,884
Charges of services	36,745	0	0	36,745
Other operating revenue	71,545	0	186,075	257,620
Total operating revenue	<u>1,900,072</u>	<u>743,287</u>	<u>1,054,890</u>	<u>3,698,249</u>
<u>Operating expenses</u>				
Salaries and employee benefits	407,293	468,965	339,503	1,215,761
Material and supplies	539,586	76,584	62,692	678,862
Contractual	241,164	74,039	627,980	943,183
Equipment maintenance	28,158	31,477	94,623	154,258
Structural maintenance	43,665	87,038	4,101	134,804
Depreciation and amortization	475,417	118,562	26,564	620,543
Employee benefits	3,357	2,491	2,274	8,122
Other	4,884	20,050	10,537	35,471
Total operating expenses	<u>1,743,524</u>	<u>879,206</u>	<u>1,168,274</u>	<u>3,791,004</u>
Operating income (loss)	156,548	(135,919)	(113,384)	(92,755)
<u>Non-operating Revenue (Expense)</u>				
Investment income	6,334	1,912	1,680	9,926
Pension revenue/(expense)	28,163	23,498	61,061	112,722
Other income	0	15,395	7,888	23,283
Total non-operating revenue (expense)	<u>34,497</u>	<u>40,805</u>	<u>70,629</u>	<u>145,931</u>
Change in fund net position	191,045	(95,114)	(42,755)	53,176
<u>Other financing sources (uses)</u>				
Transfers in / (out)	589,764	177,846	(24,565)	743,045
Total fund net position, beginning	<u>7,880,255</u>	<u>2,677,100</u>	<u>504,291</u>	<u>11,061,646</u>
Total fund net position, ending	<u>\$ 8,661,064</u>	<u>\$ 2,759,832</u>	<u>\$ 436,971</u>	<u>\$ 11,857,867</u>

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

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
December 31, 2022

	<u>City Water</u>	<u>City Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 1,877,192	\$ 1,086,568	\$ 1,054,890	\$ 4,018,650
Payments for operating and administrative expenses	(1,524,895)	40,737	(711,601)	(2,195,759)
Payments for salaries and benefits	(412,538)	(471,456)	(341,777)	(1,225,771)
Net cash provided by (used for) operating activities	<u>(60,241)</u>	<u>655,849</u>	<u>1,512</u>	<u>597,120</u>
<u>Cash flows from investing activities</u>				
Purchase of property, plant and equipment	(12,353)	(849,628)	(18,301)	(880,282)
Investment income	6,334	17,307	9,568	33,209
Net cash provided by (used for) investing activities	<u>(6,019)</u>	<u>(832,321)</u>	<u>(8,733)</u>	<u>(847,073)</u>
<u>Cash flows from financing activities</u>				
Change in customer deposits	11,700	0	0	11,700
Net cash provided by (used for) financing activities	<u>11,700</u>	<u>0</u>	<u>0</u>	<u>11,700</u>
<u>Non Cash Financing Activities</u>				
Transfers to other funds	589,764	177,846	(24,565)	743,045
<u>Net increase (decrease) in cash and cash equivalent</u>	535,204	1,374	(31,786)	504,792
<u>Cash and cash equivalents, beginning of year</u>	3,196,426	745,258	450,148	4,391,832
<u>Cash and cash equivalents, end of year</u>	<u>\$ 3,731,630</u>	<u>\$ 746,632</u>	<u>\$ 418,362</u>	<u>\$ 4,896,624</u>

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

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended December 31, 2022

**Reconciliation of operating income to
net cash from operating activities:**

Operating income (loss)	\$ 156,548	\$ (135,919)	\$ (113,384)	\$ (92,755)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	475,417	118,562	26,564	620,543
Pension expense	28,163	23,498	61,061	112,722
(Increase) decrease in:				
Accounts receivable	(22,880)	343,281	0	320,401
Increase (decrease) in:				
Accounts payable	(678,010)	329,925	80,664	(267,421)
Accrued expenses	(30,051)	(23,498)	(61,061)	(114,610)
Other accrued expenses	10,572	0	7,668	18,240
Net cash provided by (used for) operating activities	\$ (60,241)	\$ 655,849	\$ 1,512	\$ 597,120

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

**CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Water and Sewer System (the “Organization”) is a component unit of the City of Monticello, Arkansas. The Organization is governed by the City Council. The Organization provides water and sewer services to the City of Monticello and certain surrounding areas. The City Council approves the rate changes of the Organization’s services. The debt of the Organization is maintained in the name of the City of Monticello.

B. Fund Type

The Organization is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Organization. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Organization.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Organization applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

D. Use of Estimate

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 1 (continued)

E. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

Accounts Receivable

Accounts receivable relate to water and sewer service billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of the past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water System	20-40 years
Sewer System	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$5,000.

Compensated Absences

The Organization's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Vacation and sick leave benefits are recognized as an expense when incurred. Any portion of the incurred benefit not paid at the end of the accounting period is recorded as a liability in the financial statements. Accrued compensated absences as of December 31, 2022, were \$13,495.

Deferred Outflow / Inflow of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources(expense) until then. The Organization has qualifying items for reporting in this category. Deferred outflows of resources include those related to pension changes for the Organization.

CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 1 (continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an increase to net position that applies to a future period and is recognized as an inflow of resources (revenue) until that time. The Organization has qualifying items for reporting in this category. Deferred inflows of resources include those related to pension changes for the Organization.

Pension

The Organization maintains one cost-sharing, multiple employer, defined benefit retirement plan. The plan is sponsored by the Arkansas Public Employee Retirement System.

For purposes of measuring the net pension asset or liability, deferred outflow of resources and deferred inflow of resources related to pension, and pension expense have been determined on the same basis as they are reported by the actuary. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plan. However, certain administrative functions are performed by employees of the Organization and are not reimbursed by the plan.

Net Position Classifications

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.
- Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

F. Date of Management’s Review

The Organization evaluated its December 31, 2022, financial statements for subsequent events through September 30, 2024, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it.

CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2022

NOTE 2 (continued)

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2022.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust Organization in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust Organization or agent in the Organization's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$3,219,532	\$ 500,000	\$2,719,532	\$ 0
Bank B	1,629,824	500,000	1,129,824	0
Bank C	65,196	250,000	0	0
Total	<u>\$4,914,552</u>	<u>\$ 1,250,000</u>	<u>\$ 3,849,356</u>	<u>\$ 0</u>

The amounts shown are bank ledger balances of the referenced bank's deposits and may differ from the Organization's general ledger balances.

NOTE 3 – INTERFUND TRANSFERS

The Organization received \$743,045 for the sewer project from the General Fund for the year ended December 31, 2022.

NOTE 4 – CHANGES IN FIXED ASSETS

	City Water	City Sewer	Solid Waste	Total
Balance, Dec. 31, 2021	\$ 11,817,706	\$ 7,470,428	\$ 1,746,310	\$ 21,034,444
Additions	12,353	27,997	18,301	58,651
	11,830,059	7,498,425	1,764,611	21,093,095
Accumulated Depreciation	(8,373,402)	(6,374,243)	(1,543,141)	(16,290,786)
	3,456,657	1,124,182	221,470	4,802,309
Construction in progress	0	821,631	0	821,631
Land	1,915,610	252,818	0	2,168,428
Balance, Dec., 2022	<u>\$ 5,372,267</u>	<u>\$ 2,198,631</u>	<u>\$ 221,470</u>	<u>\$ 7,792,368</u>

**CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

December 31, 2022

NOTE 5 – PENSION

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information. APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, 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, and four additional board positions that were added in Act 686 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other by the Senate.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-Contributory	1.72%

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

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

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service. Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year. Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

**CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

December 31, 2022

NOTE 5 (continued)

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. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 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.

Deferred outflows of resources and deferred inflows of resources related to pensions for your employer are as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 93,390	\$ (46,974)
Changes in proportion and differences between employer contributions and proportionate share of contributions	125,065	(2,745)
Changes of assumptions	0	0
Contributions subsequent to measurement date	265,903	0
Net difference between projected and actual earnings on pension plan investments	820,752	0
Total for City	\$ 1,305,110	\$ (49,719)
Department pro-rata allocation	23%	23%
Total for Department	\$ 300,175	\$ (11,435)

CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2022

NOTE 5 (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

	2023	2024	2025	2026	2027	Thereafter
Total for City	\$ 236,872	\$152,246	\$ 27,985	\$ 572,385	\$ -	\$ -
Department pro-rata allocation	23%	23%	23%	23%	23%	23%
Total for Department	\$ 54,481	\$ 35,017	\$ 6,437	\$ 131,649	\$ -	\$ -

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
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.7989

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.

CITY OF MONTICELLO ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2022

NOTE 5 (continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022 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%
Total	100%	
 Total Real Rate of Return		4.93%
Plus: Price Inflation- Actuary Assumption		2.50%
Net Expected Return		7.43%

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:

	Sensitivity of Discount Rate		
	1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
Total for City	\$6,185,524	\$ 3,890,714	\$1,996,142
Department pro-rata allocation	23%	23%	23%
Total for Department	\$1,422,671	\$ 894,864	\$ 459,113

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL – WATER FUND
For the Year Ended December 31, 2022

	Final Budget	Actual Amounts Budgetary Basis (1)	Budget to GAAP Over (Under)	Actual Amounts GAAP Basis
Revenues				
Water fees	\$ 1,768,902	\$ 1,768,902	\$ 22,880	\$ 1,791,782
Charges for services	43,086	36,745	0	36,745
Miscellaneous	33,854	46,802	24,743	71,545
Total revenue	<u>1,845,842</u>	<u>1,852,449</u>	<u>47,623</u>	<u>1,900,072</u>
Expenses				
Salaries, wages and benefits	410,655	410,650	0	410,650
Materials and supplies	436,235	436,547	103,039	539,586
Sundries	4,615	4,884	0	4,884
Contractual	241,165	241,164	0	241,164
Equipment maintenance	40,512	40,511	(12,353)	28,158
Structure maintenance	71,664	71,662	(27,997)	43,665
Depreciation	0	0	475,417	475,417
Total expenses	<u>1,204,846</u>	<u>1,205,418</u>	<u>538,106</u>	<u>1,743,524</u>
Revenues in Excess (Deficit) of Expenditures	640,996	647,031	(490,483)	156,548
Non-operating Income (Expense)				
Transfers	(1,252,200)	0	589,764	589,764
Pension Expense	0	0	28,163	28,163
Interest	3,476	6,520	(186)	6,334
Interest (expense)	0	0	0	0
Total non-operating income (expense)	<u>(1,248,724)</u>	<u>6,520</u>	<u>617,741</u>	<u>624,261</u>
Change in fund net position	<u>\$ (607,728)</u>	<u>\$ 653,551</u>	<u>\$ 127,258</u>	<u>\$ 780,809</u>

(1) The City of Monticello prepares the budget on the cash basis of accounting, including amounts for the purchase of capital assets.

See independent auditor's report.

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL – SEWER FUND
For the Year Ended December 31, 2022

	Final Budget	Actual Amounts Budgetary Basis (1)	Budget to GAAP Over (Under)	Actual Amounts GAAP Basis
Revenues				
Sewer fees	\$ 742,845	\$ 743,287	\$ 0	\$ 743,287
Total revenue	<u>742,845</u>	<u>743,287</u>	<u>0</u>	<u>743,287</u>
Expenses				
Salaries, wages and benefits	471,459	471,456	0	471,456
Materials and supplies	76,685	76,584	0	76,584
Sundries	19,950	20,050	0	20,050
Contractual	145,306	145,306	(71,267)	74,039
Equipment maintenance	31,478	31,477	0	31,477
Structure maintenance	87,039	87,038	0	87,038
Depreciation	0	0	118,562	118,562
Total expenses	<u>831,917</u>	<u>831,911</u>	<u>47,295</u>	<u>879,206</u>
Revenues in Excess (Deficit) of Expenditures	(89,072)	(88,624)	(47,295)	(135,919)
Non-operating Income (Expense)				
Transfers	(813,100)	0	177,846	177,846
Other	16,637	16,197	(802)	15,395
Interest	1,911	1,912	0	1,912
Pension Expense	0	0	23,498	23,498
Total non-operating income (expense)	<u>(794,552)</u>	<u>18,109</u>	<u>200,542</u>	<u>218,651</u>
Change in fund net position	<u><u>\$(883,624)</u></u>	<u><u>\$ (70,515)</u></u>	<u><u>\$ 153,247</u></u>	<u><u>\$ 82,732</u></u>

(1) The City of Monticello prepares the budget on the cash basis of accounting, including amounts for the purchase of capital assets.

See independent auditor's report.

CITY OF MONTICELLO ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL – SOLID WASTE FUND
For the Year Ended December 31, 2022

	Final Budget	Actual Amounts Budgetary Basis (1)	Budget to GAAP Over (Under)	Actual Amounts GAAP Basis
Revenues				
Solid Waste fees	\$ 850,357	\$ 868,815	\$ 0	\$ 868,815
Grants	0	0	0	0
Miscellaneous	212,224	186,075	0	186,075
Total revenue	<u>1,062,581</u>	<u>1,054,890</u>	<u>0</u>	<u>1,054,890</u>
Expenses				
Salaries, wages and benefits	341,781	341,777	0	341,777
Materials and supplies	516,703	80,993	(18,301)	62,692
Sundries	3,362	10,537	0	10,537
Contractual	130,748	564,256	63,724	627,980
Equipment maintenance	94,625	94,623	0	94,623
Structure maintenance	9,079	4,101	0	4,101
Depreciation	0	0	26,564	26,564
Total expenses	<u>1,096,298</u>	<u>1,096,287</u>	<u>71,987</u>	<u>1,168,274</u>
Revenues in Excess (Deficit) of Expenditures	(33,717)	(41,397)	(71,987)	(113,384)
Non-operating Income (Expense)				
Transfers	-	0	(24,565)	(24,565)
Pension Expense	0	0	61,061	61,061
Other income	212,224	7,692	196	7,888
Interest	1,680	1,680	0	1,680
Total non-operating income (expense)	<u>213,904</u>	<u>9,372</u>	<u>36,692</u>	<u>46,064</u>
Change in fund net position	<u>\$ 180,187</u>	<u>\$ (32,025)</u>	<u>\$ (35,295)</u>	<u>\$ (67,320)</u>

(1) The City of Monticello prepares the budget on the cash basis of accounting, including amounts for the purchase of capital assets.

See independent auditor's report.

**CITY OF MONTICELLO ENTERPRISE FUNDS
SCHEDULE OF WATER AND SEWER RATES**
For the Year Ended December 31, 2022

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
Residential Water Rates		
First 2,000 gallons	\$ 12.00	\$ 15.75
Each 1,000 gallons after	1.80	2.65
Water Association Rates - 1,000 Gallons		
Each 1,000 gallons		\$ 1.67
Residential Sewer Rates - Per 1,000 Gallons		
First 2,000 gallons	\$ 9.72	\$ 14.58
Each 1,000 gallons after	2.36	3.54

See independent auditor's report.

CITY OF MONTICELLO ENTERPRISE FUNDS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Years Ended December 31, 2022 through 2015

	2022	2021	2020	2019	2018	2017	2016	2015 *
Proportion of the net pension liability	0.033%	0.032%	0.032%	0.030%	0.031%	0.032%	0.030%	0.030%
Proportionate share of the net pension liability	\$ 894,864	\$ 246,977	\$ 915,429	\$ 731,637	\$ 687,878	\$ 826,598	\$ 711,371	\$ 546,752
Covered - employee payroll	\$ 1,215,761	\$ 1,859,374	\$ 1,152,576	\$ 665,864	\$ 609,341	\$ 669,135	\$ 614,852	\$ 600,155
Proportionate share of the net pension liability as percentage of covered - employee payroll	73.61%	13.28%	79.42%	109.88%	112.89%	123.53%	115.70%	91.10%
Plan's fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%

* Fiscal Year 2015 was the first year of implementation, and is based on actuarial valuation as of June 30, 2014, therefore only eight years are shown.

See independent auditor's report.

CITY OF MONTICELLO ENTERPRISE FUNDS
SCHEDULE OF CONTRIBUTIONS
For the Years Ended December 31, 2022 through 2015

	2022	2021	2020	2019	2018	2017	2016	2015 *
Contractually required contribution	\$ 106,277	\$ 98,273	\$ 95,559	\$ 88,909	\$ 86,153	\$ 83,594	\$ 78,152	\$ 77,743
Contributions in relation to the contractually required contribution	\$ (106,277)	\$ (98,273)	\$ (95,559)	\$ (88,909)	\$ (86,153)	\$ (83,594)	\$ (78,152)	\$ (77,743)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Department's covered - employee payroll	\$ 1,215,761	\$ 1,859,374	\$ 1,152,576	\$ 665,864	\$ 609,341	\$ 669,135	\$ 614,852	\$ 600,155
Contributions as a percentage of covered - employee payroll	8.74%	5.29%	8.29%	13.35%	14.14%	12.49%	12.71%	12.95%

* Fiscal Year 2015 was the first year of implementation, therefore only eight years are shown. Information in this schedule has been determined as of the most recent fiscal year-end.

See independent auditor's report.

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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**

To the Members of the City Council
City of Monticello Enterprise Funds

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City of Monticello Enterprise Funds, (the "Organization"), which comprise the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated September 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2024-001 that we consider to be significant deficiencies.

**CITY OF MONTICELLO ENTERPRISE FUNDS
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended December 31, 2022

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Searcy & Associates, LLC
Monticello, Arkansas
September 30, 2024

**CITY OF MONTICELLO ENTERPRISE FUNDS
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended December 31, 2022

SIGNIFICANT DEFICIENCIES

2024-001 – Inadequate reconciliation of monthly system billing report and receivable balances

Condition: The Organization did not ensure that monthly billing reports and account receivable balances were reconciling and rolling from month to month.

Criteria: The Organization should ensure that all services provided are being adequately reconciled to billing reports and collections each month.

Cause: The Organization lacked proper oversight over the billing and collections each month.

Effect: The Organization could suffer losses if amounts billed are not collected timely or followed up on for non-payments.

Recommendation: The Organization should have monthly review procedures in place to ensure that amounts billed are collected. Any non-payments should be addressed with the customers and continued non-payments should result in services being discontinued.

Management's Response: The Organization put monthly procedures in place to ensure that all amounts billed are collected and reconciled to receivable balances. Additionally, procedures are in place for continued non-payment customers to have services discontinued.