



Searcy Water Utilities (an Enterprise Fund of the City of Searcy, Arkansas)

Independent Auditor's Reports, Financial Statements and Additional Information

For the Fiscal Year Ended June 30, 2023



Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Contents
June 30, 2023

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Financial Section



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Independent Auditor's Report.

Searcy Board of Public Utilities
Searcy Water Utilities
Searcy, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Searcy Water Utilities (the Utility), an enterprise fund of the City of Searcy, Arkansas, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of June 30, 2023, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 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 opinion.

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 Utility's ability to continue as a going concern for 12 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Utility's basic financial statements. The analysis of operating revenues and expenses, bond and interest requirements, net revenue coverage of bond payments, departmental revenues and expenses, and comparative analysis of operating revenues and expenses schedules are presented for purposes of additional analysis and are not a required part of the basic 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 GAAS. In our opinion, the analysis of operating revenues and expenses, bond and interest requirements, net revenue coverage of bond payments, departmental revenues and expenses, and comparative analysis of operating revenues and expenses schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Utility's basic financial statements for the year ended June 30, 2022 (not presented herein), were audited by other auditors whose report thereon dated December 30, 2022, expressed an unmodified opinion on the financial statements of the Utility. The report of the other auditors dated December 30, 2022, stated that the analysis of operating revenues and expenses, bond and interest requirements, net revenue coverage of bond payments, departmental revenues and expenses, and comparative analysis of operating revenues and expenses schedules for the year ended June 30, 2022 were subjected to the auditing procedures applied in the audit of the 2022 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, were fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2022.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023, on our consideration of the 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 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 the Utility's internal control over financial reporting and compliance.

FORVIS, LLP

Rogers, Arkansas
December 15, 2023

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Management's Discussion and Analysis
June 30, 2023

Our discussion and analysis of Searcy Water Utilities' (Utilities) financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2023 and 2022. This overview should be read in conjunction with the Utilities' financial statements, which begin on page 8.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements and footnotes and supplementary information. The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide information about the financial activities of the Utilities. The footnotes and supplementary information provide additional narrative concerning selected financial statement items.

Financial Highlights

	2023	2022
Assets		
Current assets	\$ 13,884,986	\$ 11,090,303
Restricted assets	3,485,406	3,023,520
Net capital assets	66,161,286	66,722,327
Total assets	<u>83,531,678</u>	<u>80,836,150</u>
Liabilities		
Current liabilities	2,354,813	1,895,878
Long-term liabilities	9,887,337	9,950,957
Total liabilities	<u>12,242,150</u>	<u>11,846,835</u>
Net position		
Net investment in capital assets	56,110,427	56,630,593
Restricted	2,715,420	2,010,439
Unrestricted	12,463,681	10,348,283
Total net position	<u>71,289,528</u>	<u>68,989,315</u>
Revenues		
Operating revenues	12,097,164	10,821,303
Other revenues	105,215	59,865
Total revenues	<u>12,202,379</u>	<u>10,881,168</u>
Expenses		
Depreciation expense	2,322,744	2,141,657
Other operating expenses	6,887,725	6,365,255
Other expenses	691,697	727,904
Total expenses	<u>9,902,166</u>	<u>9,234,816</u>
Change in net position before contributions	2,300,213	1,646,352
Contributed capital	-	345,963
Change in net position	2,300,213	1,992,315
Net position - beginning of year	68,989,315	66,997,000
Net position - end of year	<u>\$ 71,289,528</u>	<u>\$ 68,989,315</u>

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Management's Discussion and Analysis
June 30, 2023

Statements of Net Position

Financial ratios are used to analyze relationships between different pieces of financial information. Ratio analysis can present information about an entity's operating performance and financial position. Short-term liquidity can be demonstrated using the Current Ratio and Quick Ratio. The Current Ratio is calculated by dividing Current Assets by Current Liabilities. The Quick Ratio is similar to the Current Ratio but excludes inventory because inventory is normally the least liquid current asset. A number greater than one indicates current assets in excess of current needs that can be applied to future periods. The Current Ratios for the years ended June 30, 2023 and 2022 were 5.90 and 5.85, respectively. Using 2023, for example, this means that for every \$5.90 in current assets, the Utilities has \$1.00 in current liabilities. When excluding inventory, for the years ending June 30, 2023 and 2022, the Quick Ratio is 5.59 and 5.96, respectively.

Working capital, like the Current Ratio, represents the excess of Current Assets over Current Liabilities. Working Capital is expressed in dollars while the Current Ratio is expressed as a ratio. As of June 30, 2023, the Working Capital on hand was \$11.5 million. As of June 30, 2022, the Working Capital on hand was \$9.2 million.

Efficiency can also be demonstrated by calculating the average collection period. Because other agencies are included in the monthly water bill, i.e., Searcy Sanitation, their balances are subtracted from Accounts Receivable so that a comparison can be made between water and sewer receivables and water and sewer revenues. Next, Unbilled Revenue is subtracted to arrive at the actual billed receivables balance. Receivables Turnover is calculated by dividing Total Operating Revenue by Total Water and Sewer Accounts Receivable. Then 365 days is divided by the Receivables Turnover to arrive at the Average Collection Period of 25.20 days and 22.52 days as of June 30, 2023 and 2022, respectively.

Another important ratio is the debt utilization ratio. The debt utilization ratio is calculated by dividing total debt by total assets and is 12.0 and 12.5 for 2023 and 2022, respectively. This ratio indicates that total debt is 12.0% of total assets.

Statements of Revenues, Expenses and Changes in Net Position

Water operating revenue for 2023 increased 10.65% from 2022. This increase was due primarily to customers using slightly more water during drier weather conditions and the increase in water rates effective July 1, 2022.

Sewer operating revenue for 2023 increased 9.70% from 2022. This increase was due primarily to the increase in sewer rates effective July 1, 2022. Additionally, sewer consumption generally tracks to water consumption, so when water revenue is higher so is sewer revenue.

- Sewer pretreatment surcharges for 2023 increased 52.67% from 2022 amounts. This increase reflects some industries discharging more volume of conventional pollutants as compared to the year before.
- Penalty charges for 2023 increased 40.57% from 2022 amounts. Generally, penalty charges track to water and sewer revenue, so when revenue is higher, then so are penalty charges. Additionally, the penalty amount increased from prior year.
- Connection fees for 2023 increased 117.36% from 2022 amounts. This increase was due to an increase in volume and additionally an increase in water meter connection fees during 2023.
- Other operating income for 2023 decreased 13.94% from 2022 amounts. This decrease was due primarily to a decrease in miscellaneous income.
- Source of supply – Actual expenses for 2023 were 375.06% greater than those for 2022. This variance of \$292,621 was due, in part, to inflation and an increased cost for parts and materials.
- Power and pumping – Actual expenses for 2023 were 19.60% less than those for 2022. This variance of \$285,567 was due, in part, to a decrease in pump repairs and electrical and control work at the plants.

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Management's Discussion and Analysis
June 30, 2023

- Purification and treatment – Actual expenses for 2023 were 21.65% greater than those for 2022. This variance of \$285,292 was due in part to an increase in chemical costs.
- Transmission and distribution – Actual expenses for 2023 were 8.09% greater than those for 2022. The variance of \$110,822 was due, in part, to an increase in repairs expense and labor expense for this department.
- Administrative and general - Actual expenses for 2023 were 5.57% greater than those for 2022. This variance of \$119,302 was due, in part, to an increase in labor, insurance and benefits expense.

Capital Assets

The accounts of the Utilities are accounted for as an enterprise fund, which is considered a proprietary fund type using the accrual basis of accounting. Depreciation is recorded on all fixed assets. During the year, no changes were made in the method of recording fixed assets, nor were there any changes made to any of the standard service lives of those assets. There were no significant changes in the condition of infrastructure assets. There is no significant difference between the estimated annual amounts to maintain the infrastructure compared to the amounts actually spent.

Construction in Progress

The Utility is currently in the process of constructing assets to be used in providing water and sewer services as follows:

The Utility is participating in the ANRC clean water revolving loan fund program.

Capital Projects

The Utility has begun a collection system flow study and assessment project at an estimated total cost of \$1,396,825 to be completed over an eight-year period. Recommendations along with estimated cost to repair will be provided annually as the project progresses. The project is currently in the initial phase and the Utility pays approximately \$200,000 to a contractor for those costs each year.

The Utility completed work on a sewer system rehab project begun in 2020 as of June 30, 2023.

Bond Issues

The City of Searcy authorized the issuance of Water and Sewer Revenue Bonds, Series 2010A, in September 2010, totaling \$14,250,000. The Bonds were authorized in order to finance extensions, betterments and improvements to the water facilities of the City's water and sewer utilities.

The City of Searcy issued Water and Sewer Revenue Bonds, Series 2020, in March 2021, totaling \$4,000,000. The Bonds were authorized in order to finance betterments and improvements to the sewer facilities of the City's water and sewer system.

The City of Searcy issued Water and Sewer Revenue Bonds, Series 2022, in September 2022, totaling \$950,000. The Bonds were authorized in order to finance betterments and improvements to the sewer facilities of the City's water and sewer system.

Financial Statements

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Statement of Net Position
June 30, 2023

Assets

Current Assets

Cash and cash equivalents	\$ 9,373,737
Certificates of deposit	2,287,291
Accounts receivable	1,344,048
Supplies	726,996
Prepaid insurance	152,914
Total current assets	<u>13,884,986</u>

Noncurrent Assets

Restricted cash and cash equivalents	
Depreciation	885,502
Bond and Interest	378,730
Customer meter deposits	1,066,602
Construction	1,154,572
Capital Assets	
Water plant - property and equipment	63,773,252
Sewer plant - property and equipment	42,789,705
Construction in progress	33,127
Less: depreciation	(40,434,798)
Total capital assets	<u>66,161,286</u>
Total noncurrent assets	<u>69,646,692</u>
Total assets	<u>83,531,678</u>

Liabilities

Current Liabilities

Accounts payable	815,977
Accrued interest	50,367
Garbage collections	281,933
Current maturities of long-term liabilities	1,206,536
Total current liabilities	<u>2,354,813</u>

Long-term Liabilities

Bonds payable, net	10,050,858
Less: current maturities	(1,206,536)
Customers' meter deposits	1,043,015
Total long-term liabilities	<u>9,887,337</u>
Total liabilities	<u>12,242,150</u>

Net Position

Net investment in capital assets	56,110,427
Restricted	2,715,420
Unrestricted	12,463,681
Total net position	<u>\$ 71,289,528</u>

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Statement of Revenues, Expenses and Changes in Net Position
June 30, 2023

Operating Revenues

Water revenue	\$ 7,327,493
Sewer revenue	3,878,937
Pretreatment surcharge	89,893
Penalties	224,279
Connection fees	326,428
Other operating income	<u>250,134</u>
Total operating revenues	<u>12,097,164</u>

Operating Expenses

Operations	6,887,725
Depreciation	<u>2,322,744</u>
Total operating expenses	<u>9,210,469</u>

Operating Income

2,886,695

Nonoperating Revenues (Expenses)

Interest revenue	105,215
Interest expense and service fees	(285,399)
Payment in lieu of taxes to:	
School district payments	(1,000)
City of Searcy payments	<u>(405,298)</u>
Net nonoperating expense	<u>(586,482)</u>

Change in Net Position

2,300,213

Net Position, Beginning of Year

68,989,315

Net Position, End of Year

\$ 71,289,528

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Statement of Cash Flows
June 30, 2023

Cash Flows From Operating Activities	
Cash received from customers	\$ 11,929,230
Cash paid to suppliers of goods or services	(3,603,103)
Cash paid to employees for services	<u>(3,168,693)</u>
Net cash provided by operating activities	<u>5,157,434</u>
Cash Flows From Noncapital Financing Activities	
Intergovernmental payments	<u>(406,298)</u>
Net cash used in noncapital financing activities	<u>(406,298)</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from issuance of long-term liabilities	950,000
Principal payments on long-term liabilities	(990,876)
Interest on long-term liabilities	(235,032)
Purchase of capital assets	<u>(1,761,703)</u>
Net cash used in capital and related financing activities	<u>(2,037,611)</u>
Cash Flows From Investing Activities	
Investment income	105,215
Purchases of certificates of deposit	(995,640)
Proceeds from sale of certificates of deposit	1,731,869
Increase in meter deposits	<u>29,934</u>
Net cash provided by investing activities	<u>871,378</u>
Net Increase in Cash and Cash Equivalents	3,584,903
Cash and Cash Equivalents - Beginning of Year	<u>9,274,240</u>
Cash and Cash Equivalents - End of Year	<u>12,859,143</u>
Cash and Cash Equivalents, as Presented on the "Statements of Net Position" is as Follows:	
Cash and cash equivalents	9,373,737
Restricted cash	<u>3,485,406</u>
	<u>12,859,143</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	2,886,695
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation	2,322,744
Accounts receivable	(167,934)
Supplies	(213,262)
Prepaid insurance	(26,699)
Accounts payable	229,904
Garbage collections	<u>125,986</u>
Total adjustments	<u>2,270,739</u>
Net Cash Provided by Operating Activities	<u>\$ 5,157,434</u>

Note 1. Summary of Significant Accounting Policies

The Searcy Water Utilities (Utility) is an enterprise fund of the City of Searcy, Arkansas (City) that provides water and sewer services to the City and the surrounding area. The City's financial report is prepared by state legislative audit.

The Utility serves substantially all of the industries and households in the City and some outside the City. Water is supplied to the City of Kensett, City of Judsonia, Southeast White County Water Association Public Water Authority, Four Mile Hill Rural Water Public Facilities Board, North White County Rural Water Public Facilities Board, Southwest White County Water Association, and Northeast White County Waterworks Public Facilities Board. Northeast White County Waterworks Public Facilities Board sells water wholesale to the City of Bald Knob, Arkansas, the Town of Russell, Arkansas and the Bald Knob North Water Association, Inc.

The financial statements of the Utility are prepared in accordance with accounting principles generally accepted in the United States of American (U.S. GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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. All revenues and expenses not meeting this definition are reported as other revenue (expense) but remain a major component of the overall revenues and expenses of the Utility.

Estimates and assumptions are used in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash includes cash on hand, amounts due from banks, and cash held in bank trust department safekeeping accounts in the Searcy Water Utilities' name. Any short-term investments and certificates of deposit purchased with original maturities of three months or less are considered cash equivalents.

Generally accepted accounting principles prescribed by GASB require that the Utility's investments be measured at fair value and non-negotiable CDs be measured at cost. Fair value measurements are categorized according to a hierarchy that is based on valuation inputs used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable.

Detailed information about the Utility's investments and their respective fair value measurements is provided in *Note 2* to the financial statements.

Purchases and sales of investments are reported on a trade-date basis. Realized gains and losses resulting from investment sales, as well as unrealized gain and losses resulting from changes in the fair values of investments held are reported as investment income on the statements of revenues, expenses and changes in net position. Dividends and capital gain distributions are recorded as investment income on the ex-dividend date.

Searcy Water Utilities
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Notes to Financial Statements
June 30, 2023

Enterprise Fund service delivery levels are determined by the extent of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with the changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons have not been included.

Inventories consist of repair materials and spare parts for water and wastewater treatment and distribution. Inventories are valued at average cost or market whichever is lower.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

Capital assets are valued at cost for the water system. The sewer system is stated in accordance with an appraisal of existing plant at June 30, 1948, made by Mehlburger Engineers, Inc., plus additions at cost since the appraisal date. Depreciation of property and equipment is provided using the straight-line method at rates based on the following estimated useful lives:

	<u>Years</u>
Machinery and equipment	5 - 50
Furniture and fixtures	5 - 10
Buildings	40 - 50
Water tanks and basins	50
Mains and lines	100

Additions installed in place by customers and developers and contributed to the Utilities are valued at acquisition value, substantially the cost to the developers. Such costs are amortized over 20 to 100 years estimated useful lives on a straight-line basis.

The depreciation provision charged as an operating expense for the years ended June 30, 2023 was \$2,322,744. These amounts include depreciation on assets acquired by the Utilities as well as those contributed to the Utilities.

Accounts receivable consists of credit extended to users in the normal course of business. Management reviews accounts quarterly and if amounts are considered uncollectible, they are charged to operations. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, they have concluded that realization losses, if any, on balances outstanding at year-end will be immaterial.

As a special purpose governmental utility, the Utilities is exempt from federal and state income taxes.

Equity is classified as net position and displayed in three components:

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 attributable to the acquisition, construction, or improvement of these assets. This classification also includes construction fund balances.

Restricted net position – Consists of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – All other net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Searcy Water Utilities
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Notes to Financial Statements
June 30, 2023

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted funds first, then the unrestricted resources as needed.

The book values of cash, trade accounts receivable, accounts payable, and other financial instruments approximate their fair values principally because of the short-term maturities of these instruments. The fair value of long-term debt is estimated based on current rates for debt of similar terms and maturities. Under this method, the fair value of long-term debt was not significantly different from the stated value at June 30, 2023.

Note 2. Deposits and Investments

The Utility's investment policy allows investments only in:

- 1) Obligations of the United States or its agencies and instrumentalities;
- 2) Certificates of deposit or time deposits of banks to the extent insured by the FDIC or collateralized with obligations of the United States or its agencies and instrumentalities.

Concentration Of Credit Risk

Financial instruments which potentially subject the Utility to concentrations of credit risk consist primarily of trade receivables with a variety of customers and cash and cash investments deposited with financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the Utility's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Utility performs ongoing credit evaluations of its customers but generally does not require collateral to support accounts receivable.

Cash on Deposit – Credit Risk

The bank balances, including certificates of deposit, of \$15,468,450 at June 30, 2023 were not fully protected by Federal Deposit Insurance Coverage and/or pledged collateral. The Utility has had no loss related to credit risk.

Note 3. Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use by bond requirements and also by the Board of Public Utilities for future capital expenditures and repayment of consumer deposits. Restricted asset balances as of June 30, 2023 consisted of the following:

Bond requirements	\$ 378,730
Future capital expenditures	2,040,074
Customer deposits	<u>1,066,602</u>
Total:	<u><u>\$ 3,485,406</u></u>

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Notes to Financial Statements
June 30, 2023

Note 4. Capital Assets

Capital asset balances and activity by major functional classification for the years ended June 30, 2023, consisted of the following:

	Property and Equipment				
	Balance at 06/30/22	Increases	Decreases	Transfers	Balance at 06/30/23
Land & Land Rights - Water	\$ 653,819	\$ -	\$ -	\$ -	\$ 653,819
Structures - Water	34,969,517	137,160	-	-	35,106,677
Mains & Lines - Water	21,787,363	8,042	-	-	21,795,405
Vehicles - Water	479,124	-	-	-	479,124
Equipment - Water	5,011,197	219,489	-	-	5,230,686
Office Furniture - Water	507,529	-	-	-	507,529
Plant - Sewer	27,567,880	246,011	-	5,781,627	33,595,518
Plant & Line - Sewer	9,194,199	-	-	-	9,194,199
Construction in Process	4,663,753	1,151,001	-	(5,781,627)	33,127
Total Property and Equipment	104,834,381	1,761,703	-	-	106,596,084
Accumulated Depreciation	(38,112,054)	(2,322,744)	-	-	(40,434,798)
Total Property and Equipment, Net	<u>\$ 66,722,327</u>	<u>\$ (561,041)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,161,286</u>

Note 5. Long-term Liabilities

Changes in long-term liabilities for the years ended June 30, 2023, consisted of the following:

	Balance at 06/30/22	Increases	Decreases	Balance at 06/30/23	Due Within One Year	Due in Excess of One Year
Revenue bonds	\$ 10,091,734	\$ 950,000	\$ 990,876	\$ 10,050,858	\$ 1,206,536	\$ 8,844,322
Customer Deposits	1,013,081	66,838	36,904	1,043,015	-	1,043,015
Total long-term liabilities	<u>\$ 11,104,815</u>	<u>\$ 1,016,838</u>	<u>\$ 1,027,780</u>	<u>\$ 11,093,873</u>	<u>\$ 1,206,536</u>	<u>\$ 9,887,337</u>

Bonds payable at June 30, 2023 were as follows:

2010A Water and Sewer Revenue Bonds – The City of Searcy authorized the issuance of \$14,250,000 of bonds to finance the cost of construction of improvements to the water plant. The 2010A Series Bonds are special obligations of the Issuer payable solely from the net revenues of the Utilities and other amounts available under the Indenture. Principal payments are due semiannually on April 15 and October 15 beginning in 2014 with the final payment scheduled in 2028. Interest payments on the outstanding balance are due semiannually on April 15 and October 15 beginning in 2011 at a rate of 2% plus a 1% service fee.

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Notes to Financial Statements
June 30, 2023

2020 Water and Sewer Revenue Bonds – The City of Searcy authorized the issuance of \$4,000,000 of bonds to finance the cost of constructing betterments and improvements to the sewer facilities of the water and sewer system of the City. The 2020 Series Bonds are special obligations of the Issuer payable solely from the revenues derived from the operation of the System. Principal payments are due semiannually on April 15 and October 15 beginning in October 2022 with final payment scheduled in April 2042. Interest payments on the outstanding balance are due semiannually on April 15 and October 15 beginning in April 2021 at a rate of .75% plus a 1% service fee.

2022 Water and Sewer Revenue Bonds – The City of Searcy authorized the issuance of \$950,000 of bonds to finance the cost of constructing betterments and improvements to the sewer facilities of the water and sewer system of the City. The 2022 Series Bonds are special obligations of the Issuer payable solely from the revenues derived from the operation of the System. Principal payments are due semiannually on April 15 and October 15 beginning in April 2024 with final payment scheduled in October 2043. Interest payments on the outstanding balance are due semiannually on April 15 and October 15 beginning in April 2024 at a rate of 1.75% plus a 1% service fee.

The following schedule shows the annual debt service of the revenue bonds outstanding at June 30, 2023:

Year Ending June 30,	Principal	Interest	Service Fee	Total
2024	\$ 1,206,536	\$ 146,457	\$ 99,876	\$ 1,452,869
2025	1,260,696	128,048	92,376	1,481,120
2026	1,296,081	105,358	79,681	1,481,120
2027	1,332,488	82,002	66,630	1,481,120
2028	1,369,944	57,963	53,213	1,481,120
2029 - 2033	1,778,541	125,026	161,827	2,065,394
2034 - 2038	1,302,617	72,601	96,802	1,472,020
2039 - 2043	503,955	16,490	26,861	547,306
	<u>\$ 10,050,858</u>	<u>\$ 733,945</u>	<u>\$ 677,266</u>	<u>\$ 11,462,069</u>

The Utility incurred \$238,496 in interest and service fees for the year ended June 30, 2023.

Compensated Absences

The Utility provides paid vacation for all full-time employees. All full-time employees may take vacation after they have completed one year of full-time employment with the Utility. Unused accrued vacation is paid at the end of the year following the year in which it accrues. Compensated absences amount to \$80,781 as of June 30, 2023.

Note 6. Retirement Plan

The Utility participates in two retirement plans which cover the employees of the Utility. The Searcy Board of Public Utilities amended and restated the Searcy Board of Public Utilities Money Purchase Pension Plan into the Searcy Board of Public Utilities Profit Sharing Plan (the "Plan") effective July 1, 2006. The Plan is a defined contribution pension plan which provides for the Utilities to make an annual contribution to the Trust equal to 7% of each participant's compensation. Only employees that were participants in the Money Purchase Pension Plan may be participants in the Plan. The Plan provides for a graduated vesting schedule over 6 years. The Utilities contributed \$54,499 to the Plan for the year ended June 30, 2023.

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Notes to Financial Statements
June 30, 2023

The Searcy Board of Public Utilities adopted The Searcy Board of Public Utilities 457 Retirement Savings Plan (the "457 Plan") on July 1, 2006. The 457 Plan is a defined contribution pension plan which provides for an employee participant to defer an amount from 1% to 50% of covered wages. The Utilities may make nonelective matching contributions to the 457 Plan of an amount up to 3% of an employee participant's covered wages. Employee participants contributed \$76,226 of deferred wages and the Utilities contributed \$48,686 of matching amounts to the 457 Plan for the year ended June 30, 2023.

Note 7. Risk Management

The Utility is exposed to potential loss due to accident or casualty for property, general liability, automobile, theft and workers compensation claims. Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. Under state law the Utility is protected by tort immunity.

The Utility provides for employee medical and dental coverage with optional dependent coverage paid by the employee.

Note 8. Rates

The Searcy city council approved an annual water and sewer rate increase linked to the CPI which is effective every July 1.

The current rate structure for water service is as follows:

Rates	
Water Service	
Customer charge (per month)	\$ 10.22
All water	\$2.35/1,000 Gallons
**Wholesale rates vary according to customer from \$2.35 to \$2.45 per 1,000 gallons increasing to \$3.08 per 1,000 gallons after reaching a predetermined usage which also varies according to customer.	
Sewer Service	
Residential customer charge (per month)	\$ 10.83
Commercial/industrial customer charge (per month)	\$ 22.15
All sewer, as per water consumed	\$3.61/1,000 Gallons

Supplementary Information

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Analysis of Operating Revenues and Expenses
June 30, 2023 and 2022

	2023	2022
Operating revenues		
Water revenue	\$ 7,327,493	\$ 6,621,933
Sewer revenue	3,878,937	3,536,096
Pretreatment surcharge	89,893	58,879
Penalties	224,279	159,546
Connection fees	326,428	150,180
Other operating income	250,134	294,669
Total operating revenues	12,097,164	10,821,303
Operating expenses		
Source of supply	370,641	78,020
Power and pumping	1,171,686	1,457,253
Purification and treatment	1,602,749	1,317,457
Transmission and distribution	1,481,206	1,370,384
Administrative and general	2,261,443	2,142,141
Total operating expenses	6,887,725	6,365,255
Excess of revenues over expenses	\$ 5,209,439	\$ 4,456,048
Elements of expenses		
Salaries and wages	\$ 2,442,815	\$ 2,155,670
Materials and supplies	1,762,285	1,614,871
Repairs and maintenance	482,788	299,623
Power purchased	727,369	865,823
Vehicle and tractor expense	135,565	107,217
Office supplies and postage	160,311	151,170
Bad debts	22,356	68,726
Professional fees	258,040	275,482
EPA testing	42,546	42,483
Insurance	582,087	493,201
Payroll taxes	168,378	163,756
Retirement plan	103,185	127,233
Total operating expenses	\$ 6,887,725	\$ 6,365,255

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Bond and Interest Requirements
June 30, 2023 and 2022

Bond and Interest Requirements - 2010A Bond Issue

Fiscal Year Ending June 30,	Interest	Service Fee	Principal	Bonds Outstanding
2023	\$ -	\$ -	\$ -	\$ 5,269,495
2024	114,479	57,239	1,014,998	4,254,497
2025	94,026	47,013	1,045,677	3,208,820
2026	72,956	36,478	1,077,282	2,131,538
2027	51,248	25,624	1,109,844	1,021,694
2028	28,886	14,443	1,021,694	-
Total Debt Service	<u>\$ 361,595</u>	<u>\$ 180,797</u>	<u>\$ 5,269,495</u>	

Bond and Interest Requirements - 2020 Bond Issue

Fiscal Year Ending June 30,	Interest	Service Fee	Principal	Bonds Outstanding
2023	\$ -	\$ -	\$ -	\$ 3,831,363
2024	28,415	37,887	171,600	3,659,763
2025	27,122	36,163	174,617	3,485,146
2026	25,807	34,409	177,686	3,307,460
2027	24,468	32,625	180,810	3,126,650
2028	23,106	30,809	183,988	2,942,662
2029	21,720	28,961	187,222	2,755,440
2030	20,310	27,080	190,512	2,564,928
2031	18,875	25,167	193,860	2,371,068
2032	17,415	23,220	197,268	2,173,800
2033	15,929	21,238	200,735	1,973,065
2034	14,417	19,222	204,263	1,768,802
2035	12,878	17,171	207,853	1,560,949
2036	11,312	15,083	211,506	1,349,443
2037	9,720	12,958	215,225	1,134,218
2038	8,098	10,797	219,008	915,210
2039	6,448	8,597	222,857	692,353
2040	4,769	6,359	226,774	465,579
2041	3,061	4,081	230,759	234,820
2042	1,323	1,764	234,820	-
Total Debt Service	<u>\$ 295,193</u>	<u>\$ 393,591</u>	<u>\$ 3,831,363</u>	

Bond and Interest Requirements - 2022 Bond Issue

Fiscal Year Ending June 30,	Interest	Service Fee	Principal	Bonds Outstanding
2023	\$ -	\$ -	\$ -	\$ 950,000
2024	3,563	4,750	19,938	930,062
2025	6,900	9,200	40,402	889,660
2026	6,595	8,794	41,113	848,547
2027	6,286	8,382	41,834	806,713
2028	5,971	7,962	42,569	764,144
2029	5,651	7,534	43,317	720,827
2030	5,324	7,098	44,080	676,747
2031	4,992	6,656	44,854	631,893
2032	4,654	6,205	45,643	586,250
2033	4,310	5,747	46,445	539,805
2034	3,960	5,280	47,262	492,543
2035	3,604	4,806	48,092	444,451
2036	3,242	4,322	48,938	395,513
2037	2,873	3,832	49,797	345,716
2038	2,498	3,331	50,673	295,043
2039	2,116	2,822	51,564	243,479
2040	1,728	2,304	52,470	191,009
2041	1,333	1,777	53,392	137,617
2042	931	1,241	54,330	83,287
2043	521	695	55,286	28,001
2044	105	140	28,001	-
Total Debt Service	<u>\$ 77,157</u>	<u>\$ 102,878</u>	<u>\$ 950,000</u>	

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Net Revenue Coverage of Bond Payments
June 30, 2023 and 2022

Revenues	
Operating	\$ 12,097,164
Other	105,215
Total Revenues	<u>12,202,379</u>
Expenses	
Operating	6,887,725
Other*	406,298
Total Expenses	<u>7,294,023</u>
Net Revenues	<u><u>\$ 4,908,356</u></u>
Maximum annual principal and interest requirements on outstanding utilities bonds	
	<u><u>\$ 1,481,120</u></u>
Coverage	<u><u>331%</u></u>

*Other expenses shown do not include depreciation, interest paid on bonds, or amortization of bond discount.

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Departmental Revenues and Expenses
June 30, 2023 and 2022

	Water Department		Sewer Department		Total Company	
	2023	2022	2023	2022	2023	2022
Operating revenues						
Customer charges	\$ 7,327,493	\$ 6,621,933	\$ 3,878,937	\$ 3,536,096	\$ 11,206,430	\$ 10,158,029
Pretreatment surcharge	-	-	89,893	58,879	89,893	58,879
Penalties	224,279	159,546	-	-	224,279	159,546
Connection fees	311,753	137,780	14,675	12,400	326,428	150,180
Other operating income	226,714	185,173	26,884	109,496	250,134	294,669
Total operating revenues	8,090,239	7,104,432	4,010,389	3,716,871	12,097,164	10,821,303
Operating expenses						
Salaries and wages	1,000,361	874,708	1,442,454	1,280,962	2,442,815	2,155,670
Materials and supplies	1,314,643	1,117,782	447,642	497,089	1,762,285	1,614,871
Repairs and maintenance	213,879	123,064	268,909	176,559	482,788	299,623
Power purchases	245,800	388,411	481,569	477,412	727,369	865,823
Vehicle and tractor expense	60,355	49,971	75,210	57,246	135,565	107,217
Office supplies and postage	150,046	136,668	10,265	14,502	160,311	151,170
Bad debts	11,178	34,363	11,178	34,363	22,356	68,726
Professional services	167,956	220,199	39,173	55,283	207,129	275,482
EPA testing	-	-	42,546	42,483	42,546	42,483
Insurance	487,937	410,925	94,150	82,276	582,087	493,201
Payroll taxes	68,547	68,970	99,831	94,786	168,378	163,756
Retirement plan	74,259	57,147	79,837	70,086	154,096	127,233
Depreciation expense	1,439,748	1,325,131	882,996	816,526	2,322,744	2,141,657
Total operating expenses	5,234,709	4,807,339	3,975,760	3,699,573	9,210,469	8,506,912
Total operating income	2,855,530	2,297,093	34,629	17,298	2,886,695	2,314,391
Non-operating revenues/ (expenses)						
Gain on disposal of fixed assets	-	-	-	26,800	-	26,800
Interest revenue	105,215	33,065	-	-	105,215	33,065
Interest paid on bonds	(197,667)	(204,388)	(87,732)	(25,928)	(285,399)	(230,316)
Amortization of bond discount	-	(6,111)	-	(6,111)	-	(12,222)
In lieu of taxes to:						
Searcy School District	(500)	(6,062)	(500)	(6,062)	(1,000)	(12,124)
City of Searcy payments	(264,314)	(293,877)	(140,984)	(179,365)	(405,298)	(473,242)
Total non-operating revenues/(expenses)	(357,266)	(477,373)	(229,216)	(190,666)	(586,482)	(668,039)
Net income⁽¹⁾	\$ 2,498,264	\$ 1,819,720	\$ (194,587)	\$ (173,368)	\$ 2,300,213	\$ 1,646,352

⁽¹⁾ Excludes contributed capital, if any

Searcy Water Utilities
(an Enterprise Fund of the City of Searcy, Arkansas)
Comparative Analysis of Operating Revenues and Expenses
June 30, 2023 and 2022

Comparative Analysis of Operating Revenues and Expenses						
	2023			2022		
	Number of Connections June 30	Consumption in 1,000 Gallons	Revenues and Expenses	Number of Connections June 30	Consumption in 1,000 Gallons	Revenues and Expenses
Operating revenues						
Water revenue						
Residential	9,975	770,860	\$ 3,130,930	9,899	729,484	\$ 2,961,295
Commercial	1,370	369,216	1,055,955	1,354	336,570	930,489
Industrial	15	87,932	201,819	15	82,690	184,546
Wholesale	11	1,238,831	2,895,858	7	1,113,957	2,506,161
Gas Industry	14	1,544	5,836	31	652	2,527
Adjustments	-	-	37,095	-	-	36,915
	11,385	2,468,383	7,327,493	11,306	2,263,353	6,621,933
Sewer revenue						
Residential	7,238	353,014	2,336,547	7,227	354,599	2,208,587
Commercial	1,005	252,155	1,217,337	1,007	237,348	1,050,133
Industrial	10	86,896	304,526	10	81,888	260,560
Adjustments	-	-	20,527	-	-	16,816
	8,253	692,065	3,878,937	8,244	673,835	3,536,096
Pretreatment surcharge	-	-	89,893	-	-	58,879
Penalties	-	-	224,279	-	-	159,546
Connection fees	-	-	326,428	-	-	150,180
Other operating revenues	-	-	250,134	-	-	294,669
Total operating revenues	19,638	3,160,448	12,097,164	19,550	2,937,188	10,821,303
Operating expenses ⁽¹⁾						
Source of supply	-	-	370,641	-	-	78,020
Power and pumping	-	-	1,171,686	-	-	1,457,253
Purification and treatment	-	-	1,602,749	-	-	1,317,457
Transmission and distribution	-	-	1,481,206	-	-	1,370,384
Administrative and general	-	-	2,261,443	-	-	2,142,141
Total operating expenses	-	-	6,887,725	-	-	6,365,255
Operating income, net	19,638	3,160,448	5,209,439	19,550	2,937,188	4,456,048
Elements of expenses ⁽¹⁾						
Salaries and wages	-	-	2,442,815	-	-	2,155,670
Materials and supplies	-	-	1,762,285	-	-	1,614,871
Repairs and maintenance	-	-	482,788	-	-	299,623
Power purchased	-	-	727,369	-	-	865,823
Vehicle and tractor expense	-	-	135,565	-	-	107,217
Office supplies and postage	-	-	160,311	-	-	151,170
Bad debts	-	-	22,356	-	-	68,726
Professional fees	-	-	258,040	-	-	275,482
EPA testing	-	-	42,546	-	-	42,483
Insurance	-	-	582,087	-	-	493,201
Payroll Taxes	-	-	168,378	-	-	163,756
Retirement Plan	-	-	103,185	-	-	127,233
Total operating expenses	\$ -	\$ -	\$ 6,887,725	\$ -	\$ -	\$ 6,365,255

⁽¹⁾ Excludes depreciation expense

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*

Independent Auditor's Report

Searcy Board of Public Utilities
Searcy Water Utilities
Searcy, Arkansas

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 (*Government Auditing Standards*), the financial statements of the Searcy Water Utilities (the Utility), which comprise the Utility's statement of financial position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility'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*.

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.

FORVIS, LLP

Rogers, Arkansas
December 15, 2023