

Yoakum, Lovell & Co., PLC
CERTIFIED PUBLIC ACCOUNTANTS

Financial Statements

Sardis Water Association Public Water Authority

December 31, 2022 and 2021

Table of Contents

Required Supplementary Information

Management's Discussion and Analysis	1-3
--------------------------------------	-----

Independent Auditors' Report	4-6
------------------------------	-----

Financial Statements

Balance Sheets	7
----------------	---

Statements of Revenues, Expenses, and Changes in Net Position	8
---	---

Statements of Cash Flows	9
--------------------------	---

Notes to Financial Statements	10-18
-------------------------------	-------

Required Supplementary Information

Schedule of the Association's Proportionate Share of the Net Pension Liability	19
--	----

Schedule of Contributions	20
---------------------------	----

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
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Supplement to the State of Arkansas	23
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Management's Discussion and Analysis

Within this section of Sardis Water Association Public Water Authority's annual financial report, the Association's management provides narrative discussion and analysis of the financial activities of the Association for the years ended December 31, 2022 and 2021. The Association's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The Association's assets exceeded its liabilities by \$10,764,567 (net position) for the year ended December 31, 2022. This compares to the previous year when assets exceeded liabilities by \$10,285,134.
- The total net position is comprised of the following:
 - (1) Net investment in capital assets is \$9,099,747. This includes property and equipment, net of accumulated depreciation, reduced by outstanding debt used to purchase or for the construction of capital assets.
 - (2) Restricted for debt service is \$517,340. This includes assets restricted for the future payment of outstanding debt reduced by the amount of accrued interest payable.
 - (3) Unrestricted net position of \$1,147,480 represents the portion of net position available to maintain the Association's continuing obligations to customers and creditors.
- Total liabilities and deferred inflows of resources for 2022 were \$9,583,414 as compared to \$9,956,263 in the previous year. This decrease of \$372,849 was primarily due to paying the scheduled debt payments in the current year.

Overview of the Financial Statements

The annual report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes, which explain in detail some of the information included in the basic financial statements.

Required Financial Statements

The financial statements of the Association report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles generally accepted in the United States. The balance sheets include information on the Association's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Association creditors (liabilities). The statements of revenues, expenses, and changes in net position identify the Association's revenues and expenses for the years ended December 31, 2022 and 2021. This statement provides information on the Association's operations over the past two years and can be used to determine whether the Association has recovered all of its costs through user fees and other charges. The third financial statement is the statements of cash flows. This statement provides information on the Association's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the statements of cash flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance for each of the last two years.

Financial Analysis

Summary of Net Position

	2022	2021	2020
Current and Other Assets	\$ 2,781,361	\$ 2,723,070	\$ 5,190,333
Deferred Outflows of Resources	273,612	118,791	150,939
Capital Assets, Net	<u>17,293,008</u>	<u>17,399,536</u>	<u>14,875,930</u>
Total Assets	<u>20,347,981</u>	<u>20,241,397</u>	<u>20,217,202</u>
Current Liabilities	582,543	717,943	572,505
Deferred Inflows of Resources	18,185	419,686	43,307
Long-Term Liabilities	<u>8,982,686</u>	<u>8,818,634</u>	<u>9,714,896</u>
Total Liabilities	<u>9,583,414</u>	<u>9,956,263</u>	<u>10,330,708</u>
Net Position			
Net Investment in Capital Assets	9,099,747	8,795,242	5,869,899
Restricted for Debt Service	517,340	514,147	527,414
Unrestricted	<u>1,147,480</u>	<u>975,745</u>	<u>3,489,181</u>
Total Net Position	<u>\$ 10,764,567</u>	<u>\$ 10,285,134</u>	<u>\$ 9,886,494</u>

As the above table indicates, total assets have increased \$130,779 or 1% over the past three years from \$20,217,202 to \$20,347,981. This increase is primarily from the bond proceeds from the new issuance of debt used to update and expand the water system and replace all of the meters in the system.

The total liabilities have decreased \$747,294 or 7% over the past three years from \$10,330,708 to \$9,583,414. This decrease is primarily due to paying scheduled debt payments.

Summary of Changes in Net Position

	2022	2021	2020
Operating Revenues			
Water Revenue	\$ 2,765,935	\$ 2,579,178	\$ 2,495,247
Services Revenue	<u>216,363</u>	<u>241,135</u>	<u>238,636</u>
Total Operating Revenues	2,982,298	2,820,313	2,733,883
Interest	<u>12,014</u>	<u>14,159</u>	<u>32,913</u>
Total Revenue	<u>2,994,312</u>	<u>2,834,472</u>	<u>2,766,796</u>
Operating Expenses			
Personnel Expenses	739,471	642,916	743,627
Water System Operations Expense	1,047,011	974,472	852,442
Depreciation	<u>935,317</u>	<u>786,762</u>	<u>619,240</u>
Total Operating Expenses	2,721,799	2,404,150	2,215,309
Bond Issue Costs			99,252
Interest	<u>191,275</u>	<u>200,872</u>	<u>157,980</u>
Total Expenses	<u>2,913,074</u>	<u>2,605,022</u>	<u>2,472,541</u>
Capital Contributions	<u>398,195</u>	<u>169,190</u>	<u>143,314</u>
Change in Net Position	479,433	398,640	437,569
Net Position – Beginning of Year	<u>10,285,134</u>	<u>9,886,494</u>	<u>9,448,925</u>
Net Position – End of Year	<u>\$ 10,764,567</u>	<u>\$ 10,285,134</u>	<u>\$ 9,886,494</u>

The Association's operating revenues increased \$248,415 or 9% over the past three years from \$2,733,883 to \$2,982,298. This increase is due to growth in the service area and an increase in rates over the past three years.

The operating expenses increased \$506,490 or 23% over the past three years from \$2,215,309 to \$2,721,799. The increase is due to an increase in personnel, water systems operations, and depreciation over the past three years.

Capital Assets

	2022	2021	2020
Non-depreciable Assets			
Land	\$ 311,012	\$ 311,012	\$ 311,012
Construction in Process			4,854,518
Depreciable Assets			
Building	237,416	237,416	237,416
Water System	29,598,470	28,781,683	20,686,477
Equipment	554,885	542,883	518,323
Vehicles	454,195	454,195	409,075
Less: Accumulated Depreciation	(13,862,970)	(12,927,653)	(12,140,891)
Total	<u>\$ 17,293,008</u>	<u>\$ 17,399,536</u>	<u>\$ 14,875,930</u>

Capital assets, net of accumulated depreciation increased \$2,417,078 or 16% over the past three years. The increase is due to the beginning of two new projects in 2019. The Association changed out all of the meters in the system and also built a new water treatment facility and two new wells in the ICO community in Grant County, Arkansas.

Debt Obligation

	2022	2021	2020
Revenue Bonds	\$ 8,155,958	\$ 8,566,907	\$ 8,968,560
Total Long-Term Debt	<u>\$ 8,155,958</u>	<u>\$ 8,566,907</u>	<u>\$ 8,968,560</u>

Total long-term debt decreased \$812,602 or 9% over the past three years from \$8,968,560 to \$8,155,958. This decrease is due to paying the scheduled debt payments over the past three years. The revenue bonds will fully mature in 2039. Additional information on the Association's long-term debt is provided in Note 3 of the financial statements.

Yoakum, Lovell & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
Sardis Water Association
Public Water Authority
Mabelvale, Arkansas

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Sardis Water Association Public Water Authority which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Sardis Water Association Public Water Authority as of December 31, 2022 and 2021, and the changes in its net positions and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sardis Water Association Public Water Authority and to meet our 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 Sardis Water Association Public Water Authority'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 misstatements, 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 judgement 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 Sardis Water Association Public Water Authority'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sardis Water Association Public Water Authority'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 on pages 1 through 3 and pension schedules on pages 19 and 20 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Supplement to the State of Arkansas but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2023, on our consideration of Sardis Water Association Public Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Sardis Water Association Public Water Authority'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 Sardis Water Association Public Water Authority's internal control over financial reporting and compliance.

Benton, Arkansas
January 26, 2023

Upakum, Howell & Co., P.C.
Certified Public Accountants

Sardis Water Association Public Water Authority
Balance Sheets
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources		
	<u>2022</u>	<u>2021</u>
Current Assets		
Cash	\$ 1,359,521	\$ 1,371,698
Accounts Receivable, Less Allowance for Doubtful Accounts; 2022-\$40,017, 2021-\$21,812	292,270	238,898
Inventory	108,758	114,745
Prepaid Insurance	2,709	2,709
Accrued Interest Receivable	248	248
Total Current Assets	<u>1,763,506</u>	<u>1,728,298</u>
Noncurrent Assets		
Restricted Funds	1,017,529	994,446
Capital Assets, Net	17,293,008	17,399,536
Other Assets	326	326
Total Noncurrent Assets	<u>18,310,863</u>	<u>18,394,308</u>
Deferred Outflows of Resources		
Deferred Pension Outflows	<u>273,612</u>	<u>118,791</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,347,981</u>	<u>\$ 20,241,397</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts Payable	\$ 42,921	\$ 194,825
Current Portion of Long-Term Debt	420,419	411,031
Accrued Interest Payable	35,913	37,682
Accrued Expenses	83,290	74,405
Total Current Liabilities	<u>582,543</u>	<u>717,943</u>
Noncurrent Liabilities		
Customer Meter Deposits	464,277	442,618
Long-Term Debt, Net of Current Maturities	7,735,539	8,155,876
Net Pension Liability	782,870	220,140
Total Noncurrent Liabilities	<u>8,982,686</u>	<u>8,818,634</u>
Deferred Inflows of Resources		
Deferred Pension Inflows	<u>18,185</u>	<u>419,686</u>
Net Position		
Net Investment in Capital Assets	9,099,747	8,795,242
Restricted for Debt Service	517,340	514,147
Unrestricted	1,147,480	975,745
Total Net Position	<u>10,764,567</u>	<u>10,285,134</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 20,347,981</u>	<u>\$ 20,241,397</u>

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

Sardis Water Association Public Water Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Water Revenue, Net	\$ 2,765,935	\$ 2,579,178
Connection Fee	60,691	46,010
Plumbing Inspections	25,541	29,435
Capital Improvement Fees	79,897	77,877
Service Charges	25,007	28,124
Lease Income		2,100
Other Income	25,227	57,589
Total Operating Revenue	<u>2,982,298</u>	<u>2,820,313</u>
Operating Expenses		
Salaries	602,392	607,336
Retirement Program	93,830	(4,293)
Taxes & Licenses	43,249	39,873
Bad Debt	18,205	
Depreciation	935,317	786,762
Bank Charges	494	1,684
Chemicals	37,264	24,784
Vehicle Expense	21,305	16,289
Fuel Expense	30,122	24,517
Computer Services	36,867	31,486
Contract Labor	16,389	21,050
Distribution Supplies	23,693	16,123
Education	2,893	4,918
Grounds Maintenance	37,530	34,223
Hardware	8,124	8,447
Insurance	152,491	146,635
Laboratory Services	27,842	29,759
Locating Services	3,148	1,943
NSF Checks		1,252
Meter Portal Fee	74,910	44,802
Miscellaneous	18,080	23,266
Office Supplies	21,361	19,432
Postage	21,804	13,103
Legal & Professional Fees	25,489	21,940
Repairs & Maintenance	157,387	128,415
Telephone	19,575	21,114
Travel	3,050	3,150
Uniforms	1,220	1,673
Utilities	161,418	156,859
Water Purchased	126,350	177,608
Total Operating Expenses	<u>2,721,799</u>	<u>2,404,150</u>
Operating Income (Loss)	<u>260,499</u>	<u>416,163</u>
Non-operating Revenues (Expenses)		
Interest Income	12,014	14,159
Interest Expense	(191,275)	(200,872)
Total Non-operating Revenues (Expenses)	<u>(179,261)</u>	<u>(186,713)</u>
Net Income (Loss) Before Capital Contributions	81,238	229,450
Capital Contributions	398,195	169,190
Changes in Net Position	479,433	398,640
Net Position at Beginning of Year	<u>10,285,134</u>	<u>9,886,494</u>
Net Position at End of Year	<u>\$ 10,764,567</u>	<u>\$ 10,285,134</u>

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

Sardis Water Association Public Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Cash Receipts from Customers	\$ 2,910,721	\$ 2,845,694
Cash Paid to Suppliers	(1,041,949)	(968,496)
Cash Paid to Employees	(724,178)	(738,180)
Net Cash Provided by Operating Activities	<u>1,144,594</u>	<u>1,139,018</u>
Cash Flows from Capital and Related Financing Activities		
Interest Paid on Loans	(192,960)	(202,514)
Principal Paid on Loans	(411,033)	(401,737)
Purchase of Property and Equipment	(563,368)	(3,020,648)
Net Cash Used by Capital and Related Financing Activities	<u>(1,167,361)</u>	<u>(3,624,899)</u>
Cash Flows from Investing Activities		
Interest Received	12,014	14,159
Change in Restricted Funds	(1,424)	1,219,706
Net Cash Provided by Investing Activities	<u>10,590</u>	<u>1,233,865</u>
Net Increase (Decrease) in Cash	(12,177)	(1,252,016)
Cash - Beginning of Year	<u>1,371,698</u>	<u>2,623,714</u>
Cash - End of Year	<u><u>\$ 1,359,521</u></u>	<u><u>\$ 1,371,698</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 260,499	\$ 416,163
Items Not Requiring Cash:		
Depreciation	935,317	786,762
Net Change in Pension Liability	6,408	(99,823)
(Increase) Decrease in:		
Accounts Receivable	(53,372)	25,381
Inventory	5,987	(6,804)
Increase (Decrease) in:		
Accounts Payable	(19,130)	12,780
Accrued Expenses	8,885	4,559
Net Cash Provided by Operating Activities	<u><u>\$ 1,144,594</u></u>	<u><u>\$ 1,139,018</u></u>

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

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

- A. **Organization** - Sardis Water Association Public Water Authority is a nonprofit corporation organized to provide water to Association members in rural Saline County, Arkansas. On December 4, 2001, Sardis Water Association was issued a certificate of existence changing its legal status to a public water authority. Operating income includes revenues and expenses related to the primary, continuing operations of the Association. The primary sources of operating revenues are charges from the sale of water and related services to its members. The primary operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.
- B. **Basis of Presentation** – The financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).
- C. **Basis of Accounting** – The financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when they are earned and expenses are recognized when they are incurred.
- D. **Cash and Investments** – Cash consists of all cash deposited in banks. Investments are certificates of deposits with original maturities greater than three months. Investments are carried at cost which approximates market.
- E. **Property and Equipment** – All property and equipment accounts are stated at cost except for donated property which is recorded at fair market value. Maintenance and repairs are charged directly against income as incurred. Renewals and betterments, which extend the useful lives of the assets, are charged to the property and equipment accounts. Depreciation has been provided for on the straight-line method. Estimated useful lives are 25–40 years for the water system and upgrade projects and 3-10 years for office equipment and vehicles. Land and construction in process are non-depreciable assets.
- F. **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- G. **Cash Deposits with Financial Institutions** – All cash deposited with banks is insured by the Federal Deposit Insurance Corporation. If the cash on deposit per account exceeds the \$250,000 FDIC limit, the financial institution has pledged government securities with a third party custodian to cover the excess over the \$250,000 limit.
- H. **Inventory** – Inventory consists of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expense at the time individual inventory items are used.

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies – Cont'd

- I. **Net Position** – The Association must report its net position as restricted, unrestricted, or net investment in capital assets. These components of net position are defined below:

Net Investment in Capital Assets – This component of net position consists of the historical costs of capital assets, less accumulated depreciation, and less any debt that remains outstanding that was used to finance those assets, plus deferred outflows of resources, less deferred inflows of resources related to those assets.

Restricted – This component of net position consists of constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of the remaining balance in net position that does not meet the definition of restricted or net investment in capital assets.

Note 2: Accounting Prouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB 87 – Leases. This guidance requires an entity to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as expenses when paid. The GASB also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, and timing of the leases. The Association has implemented GASB 87. There were no material leases for the Association, therefore, there was no effect on the net assets in connection with the implementation of GASB 87.

Note 3: Long-Term Debt

Long-term debt consisted of the following at December 31:

	Balance 12/31/20	Additions	Reductions	Balance 12/31/21	Current Maturities
Water Revenue Bonds	\$ 9,006,031	\$	\$ 401,737	\$ 8,604,294	\$ 411,031
	<u>\$ 9,006,031</u>	<u>\$</u>	<u>\$ 401,737</u>	<u>\$ 8,604,294</u>	<u>\$ 411,031</u>
	Balance 12/31/21	Additions	Reductions	Balance 12/31/22	Current Maturities
Water Revenue Bonds	\$ 8,604,294	\$	\$ 411,033	\$ 8,193,261	\$ 420,419
	<u>\$ 8,604,294</u>	<u>\$</u>	<u>\$ 411,033</u>	<u>\$ 8,193,261</u>	<u>\$ 420,419</u>

Revenue Bonds

	2022	2021
1.5% revenue bond (dated 11-16-05) payable semi-annually starting 04-15-06 (principal and interest) \$74,440, maturing October 2035	\$ 1,739,126	\$ 1,860,551
1.5% revenue bond (dated 11-16-05) payable semi-annually starting 04-15-06 (principal and interest) \$8,216, maturing April 2035	189,659	203,095
2.75% revenue bond (dated 10-15-07) payable semi-annually starting 10-15-08 (principal and interest) \$14,701, maturing April 2028	149,124	173,912

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 3: Long-Term Debt – Cont'd

2.5% revenue bond (dated 6-25-15) payable semi-annually starting 04-15-17 (principal and interest) \$47,882, maturing October, 2036	1,125,352	1,191,736
2.54% revenue bond (dated 10-31-19) interest payable semi-annually starting 04-15-2020, principal paid annually starting 10-15-2020, maturing October, 2035	2,775,000	2,955,000
2.25% & 2.375% revenue bond (dated 08-27-2020) interest payable semi-annually starting 10-15-2021, principal paid annually starting 10-15-2022, maturing October 2039	<u>2,215,000</u>	<u>2,220,000</u>
Long-Term Debt	8,193,261	8,604,294
Less: Original Issue Discount	<u>37,303</u>	<u>37,387</u>
Long-Term Debt, Net of Discount	8,155,958	8,566,907
Less: Current Maturities	<u>420,419</u>	<u>411,031</u>
Total Long-Term Debt	<u>\$ 7,735,539</u>	<u>\$ 8,155,876</u>

Original Issue Discount – The 2020 revenue bond issue was issued at a discount of \$37,471. This discount is being amortized as interest expense over the life of the bonds utilizing the interest method based on the effective interest rate. The amortization was \$84 in both 2022 and 2021.

Listed below is the maturity schedule for long-term debt as of December 31:

Revenue Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 420,419	\$ 182,113	\$ 602,532
2024	429,898	172,823	602,721
2025	439,469	163,313	602,782
2026	449,137	153,593	602,730
2027	458,903	143,650	602,553
2028-2032	2,449,756	562,985	3,012,741
2033-2037	2,730,679	255,608	2,986,287
2038-2039	<u>815,000</u>	<u>5,463</u>	<u>820,463</u>
Total Revenue Bonds	<u>\$ 8,193,261</u>	<u>\$ 1,639,548</u>	<u>\$ 9,832,809</u>

Note 4: Capital Contributions

Capital contributions consist of the cost of property donated by developers or customers from meter connections and line extensions required for new housing additions. One year after being connected to the Association, ownership and control of the water line extensions transfer to the Association.

Note 5: Pledges of Collateral

Accounts receivable, inventory, and plant and equipment are pledged as collateral for long-term debt.

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 6: Property and Equipment

The following is a summary of property and equipment at December 31:

	<u>12/31/20</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>12/31/21</u>
Land	\$ 311,012	\$	\$	\$ 311,012
Construction in Process	4,854,518	2,943,220	(7,797,738)	
Water Systems	20,686,477	297,468	7,797,738	28,781,683
Office Building	237,416			237,416
Equipment	518,323	24,560		542,883
Vehicles	409,075	45,120		454,195
Total Property and Equipment	27,016,821	3,310,368		30,327,189
Less: Accumulated Depreciation	(12,140,891)	(786,762)		(12,927,653)
Net Property and Equipment	<u>\$ 14,875,930</u>	<u>\$ 2,523,606</u>	<u>\$</u>	<u>\$ 17,399,536</u>

	<u>12/31/21</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>12/31/22</u>
Land	\$ 311,012	\$	\$	\$ 311,012
Water Systems	28,781,683	816,787		29,598,470
Office Building	237,416			237,416
Equipment	542,883	12,002		554,885
Vehicles	454,195			454,195
Total Property and Equipment	30,327,189	828,789		31,155,978
Less: Accumulated Depreciation	(12,927,653)	(935,317)		(13,862,970)
Net Property and Equipment	<u>\$ 17,399,536</u>	<u>\$ (106,528)</u>	<u>\$</u>	<u>\$ 17,293,008</u>

During the year ended December 31, 2019, the Association started two projects that are classified as construction in process. One of the projects is to change out all the meters in the system. The other project is to build a new water treatment facility and two new wells in the ICO community in Grant County, Arkansas. These projects were completed during the year ended December 31, 2021.

Note 7: Cash and Investments

	<u>2022</u>	<u>2021</u>
Non-restricted Funds		
Revenue Fund	\$ 943,558	\$ 884,060
Operations and Maintenance Fund	343,992	453,613
Savings/Money Market	21,153	21,509
Capital Improvement Fund	50,818	12,516
Total Non-restricted Funds	<u>1,359,521</u>	<u>1,371,698</u>
Restricted Funds		
Escrow Bond Funds	58,388	58,295
Customer Meter Deposits	464,277	442,618
Debt Service Fund	266,818	265,487
Depreciation Fund	228,046	228,046
Total Restricted Funds	<u>1,017,529</u>	<u>994,446</u>
Total Cash and Investments	<u>\$ 2,377,050</u>	<u>\$ 2,366,144</u>

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 7: Cash and Investments – Cont'd

Restricted funds are amounts set aside to meet certain requirements. These requirements are as follows:

Escrow Bond Funds – Under the terms of the bonds, these funds are to be escrowed with monthly payments for semi-annual debt service payments on the water revenue bonds.

Customer Meter Deposits – Customers' meter deposits must be available to any customer who leaves the Association. A bank account and various certificates of deposits have been established to hold these funds.

Debt Service Fund – Under the terms of the bonds, these funds were established for the principal and interest payments on the notes.

Depreciation Fund – Under the terms of the notes payable originally issued through the Arkansas Natural Resources Commission, these funds are reserved for the replacement of the distribution system, any and all uses of this fund must be approved in writing by the Commission. This fund shall not be used for ordinary maintenance.

Note 8: Allowance for Doubtful Accounts

The following is a summary of the changes in the allowance for doubtful accounts for the year ending December 31:

	<u>2022</u>	<u>2021</u>
Balance at Beginning of Year	\$ 21,812	\$ 41,597
Increase in Allowance	18,205	
Amounts Charged Off		<u>(19,785)</u>
Balance at End of Year	<u>\$ 40,017</u>	<u>\$ 21,812</u>

Note 9: Retirement Plan

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS) 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 nine 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, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 9: Retirement Plan – Cont'd

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 at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 10 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of living adjustment of 3% of the current benefit is added each year.

Contributions Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches 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.

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>.

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 9: Retirement Plan – Cont'd

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

The collective Net Pension Liability of \$2,696,383,467 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.

At December 31, 2022, the Association reported deferred outflows of resources and deferred inflows of resources as of June 30, 2022, related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,791	\$ (9,452)
Changes of assumptions		
Net Difference between projected and actual earnings on pension plan investments	165,148	
Changes in proportion and differences between employer contributions and share of contributions	47,195	(8,733)
Contributions subsequent to measurement date	<u>42,478</u>	
	<u>\$ 273,612</u>	<u>\$ (18,185)</u>

Contributions made subsequent to the measurement date will be reversed in fiscal year ending June 30, 2023, and will not be amortized in the schedule below. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Water Department's financial statements as follows:

Years ended December 31:

2023	\$ 48,804
2024	45,744
2025	3,230
2026	115,171
2027	-
Thereafter	\$ -

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

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 9: Retirement Plan – Cont'd
Actuarial Assumptions – Cont'd

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)
Inflation	3.25% wage inflation, 2.5% price inflation
Salary Increases	3.25% to 9.85% including inflation
Investment Rate of Return	7.15%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in APERS' target asset allocation as of June 30, 2022 are summarized in the table below:

Sardis Water Association Public Water Authority
Notes to Financial Statements

Note 9: Retirement Plan – Cont'd

Asset Class	Current 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	<u>100%</u>	
Total Real Rate of Return		4.93%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		<u>0.00%</u>
Net Expected Return		<u>7.43%</u>

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	Discount Rate	1% Higher
6.15%	7.15%	8.15%
<u>\$ 1,244,621</u>	<u>\$ 782,870</u>	<u>\$ 401,654</u>

Note 10: Subsequent Events

Subsequent events were evaluated through January 26, 2023, which is the date the financial statements were available to be issued.

Sardis Water Association Public Water Authority
Schedule of the Association's Proportionate
Share of the Net Pension Liability
December 31, 2022

	2022	2021	2020	2019
Association's Proportion of the Net Pension Liability	0.03%	0.03%	0.03%	0.03%
Association's Proportionate Share of the Net Pension Liability	\$ 782,870	\$ 220,140	\$ 728,490	\$ 648,648
Association's Covered - Employee Payroll	\$ 570,601	\$ 615,928	\$ 534,436	\$ 507,691
Association's Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	137.20%	35.74%	136.31%	127.76%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	78.31%	93.57%	75.38%	78.55%
Association's Proportion of the Net Pension Liability	2018	2017	2016	2015*
	0.03%	0.03%	0.02%	0.02%
Association's Proportionate Share of the Net Pension Liability	\$ 574,044	\$ 695,256	\$ 580,832	\$ 419,238
Association's Covered - Employee Payroll	\$ 503,152	\$ 485,016	\$ 470,107	\$ 419,733
Association's Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	114.09%	143.35%	123.55%	99.88%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	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, 2015, therefore only eight years are shown.

Sardis Water Association Public Water Authority
Schedule of Contributions
December 31, 2022

	2022	2021	2020	2019
Contractually Required Contribution	\$ 87,416	\$ 94,360	\$ 81,876	\$ 76,203
Contributions in Relation to the Contractually Required Contribution	<u>(87,416)</u>	<u>(94,360)</u>	<u>(81,876)</u>	<u>(76,203)</u>
Contribution Deficiency (Excess)	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
Association's Covered-Employee Payroll	\$ 570,601	\$ 615,928	\$ 534,436	\$ 507,691
Contributions as a Percentage of Covered-Employee Payroll	15.32%	15.32%	15.32%	15.01%
Contractually Required Contribution	2018	2017	2016	2015*
	\$ 75,631	\$ 70,910	\$ 68,309	\$ 61,411
Contributions in Relation to the Contractually Required Contribution	<u>(75,631)</u>	<u>(70,910)</u>	<u>(68,309)</u>	<u>(61,411)</u>
Contribution Deficiency (Excess)	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
Association's Covered-Employee Payroll	\$ 503,152	\$ 485,016	\$ 470,107	\$ 419,733
Contributions as a Percentage of Covered-Employee Payroll	15.03%	14.62%	14.53%	14.63%

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

Yoakum, Lovell & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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

Board of Directors
Sardis Water Association
Public Water Authority
Sardis, 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, the financial statements of Sardis Water Association Public Water Authority, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues, expenses, and change 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 January 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sardis Water Association Public Water Authority'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 Sardis Water Association Public Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sardis Water Association Public Water Authority'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 may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sardis Water Association Public Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Joakum, Lovell & Co., P.C.
Certified Public Accountants

Benton, Arkansas
January 26, 2023

Sardis Water Association Public Water Authority
Supplement to the State of Arkansas

- 1 – Sardis Water Association Public Water Authority
23820 North Sardis Road
Mabelvale, Arkansas 72103
- 2 – Phone number – (501) 602-5393
- 3 – Board of Directors President – Larry Johnson
- 4 – Contact person – Roger Moren (General Manager)
- 5 – Cost of audit – \$8,600.00