

**CITY OF LOCKESBURG, ARKANSAS
WATER AND SEWER SYSTEM
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**



CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM
DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lockesburg, Arkansas Water and Sewer System
Lockesburg, Arkansas

Opinion

We have audited the accompanying financial statements of the Lockesburg, Arkansas Water and Sewer System (the System), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lockesburg, Arkansas Water and Sewer System as of December 31, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted on the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lockesburg, Arkansas Water and Sewer System 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the water and sewer department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Lockesburg, Arkansas, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lockesburg, Arkansas Water and Sewer System'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.

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 4-7 and Required Supplemental Information for Cost-Sharing Employer Plans on pages 29-30 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of the Lockesburg, Arkansas Water and Sewer System'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 Lockesburg, Arkansas Water and Sewer System'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 Lockesburg, Arkansas Water and Sewer System's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
September 28, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

This section of the City of Lockesburg, Arkansas Water and Sewer System ("the System") annual financial report presents the analysis of the System's financial performance during the calendar year ended December 31, 2022. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System ended the year December 31, 2022 with a net position balance of \$2,072,505.
- The change in net assets or net loss of the System was a decrease of \$13,033.
- The System did not add any capital assets during the year.
- The Statement of Cash Flows identifies sources and uses of cash activity for the calendar year. For calendar year 2022, cash, cash equivalents and restricted cash increased by \$42,413. Cash provided from the day to day operations totaled \$75,547. Cash provided by investing activities totaled \$896. Cash used by capital and related financing activities totaled \$113,866, entirely for debt service. Furthermore, cash provided by noncapital & related financing activities consisted \$80,836 in cash transfers received from the City's General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and the Financial Statements. The financial statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the System report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identifies the System's revenues and expenses for the fiscal year ended December 31, 2022. This statement provides information on the System's operations over the past fiscal year and can be used to determine whether the System has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the System's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current fiscal year.

**CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CONDENSED FINANCIAL INFORMATION

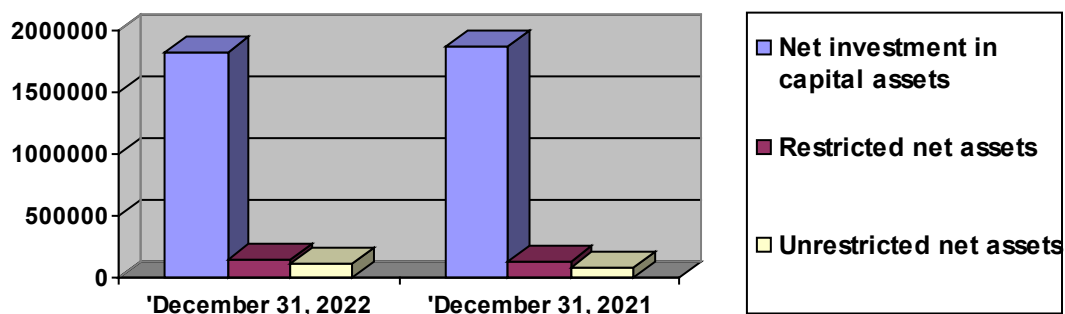
Condensed financial information from the statement of net assets as of December 31, 2022 and 2021 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	December 31,	
	2022	2021
Current assets	\$ 366,707	\$ 319,471
Capital assets, net	<u>3,372,723</u>	<u>3,494,634</u>
Total assets	<u>3,739,430</u>	<u>3,814,105</u>
Deferred outflows	<u>36,930</u>	<u>13,641</u>
Current liabilities	113,102	109,615
Noncurrent liabilities	<u>1,589,472</u>	<u>1,580,238</u>
Total liabilities	<u>1,702,574</u>	<u>1,689,853</u>
Deferred inflows	<u>1,281</u>	<u>52,355</u>
Net position:		
Invested in capital assets, net of related debt	1,821,497	1,877,328
Restricted	141,992	129,583
Unrestricted	<u>109,016</u>	<u>78,627</u>
Total net position	\$ <u><u>2,072,505</u></u>	\$ <u><u>2,085,538</u></u>
Operating revenues	\$ <u>294,197</u>	\$ <u>282,413</u>
Operating expenses, excluding depreciation	220,201	205,728
Depreciation	<u>121,911</u>	<u>128,141</u>
Total operating expenses, including depreciation	<u>342,112</u>	<u>333,869</u>
Operating loss	(47,915)	(51,456)
Nonoperating expenses (excluding transfers	(45,954)	(30,373)
Transfers from other funds	<u>80,836</u>	<u>86,105</u>
Change in net position	(13,033)	4,276
Beginning of year net position	<u>2,085,538</u>	<u>2,081,262</u>
End of year net position	\$ <u><u>2,072,505</u></u>	\$ <u><u>2,085,538</u></u>

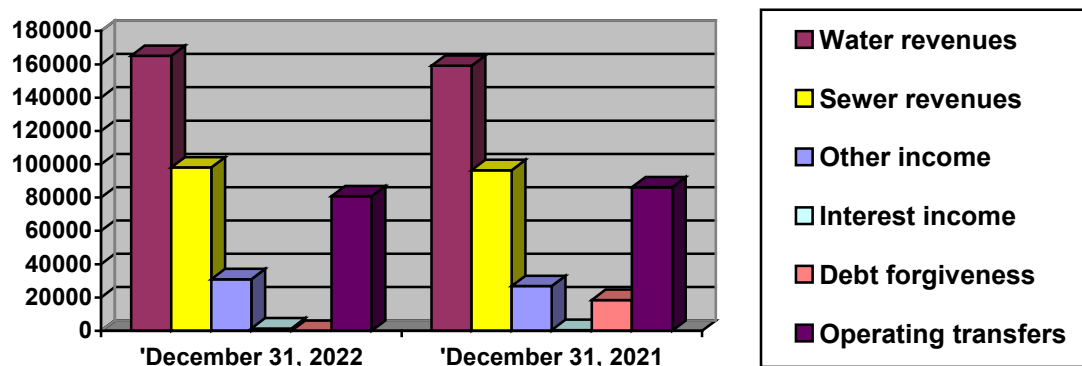
CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

CONDENSED FINANCIAL INFORMATION (CONTINUED)

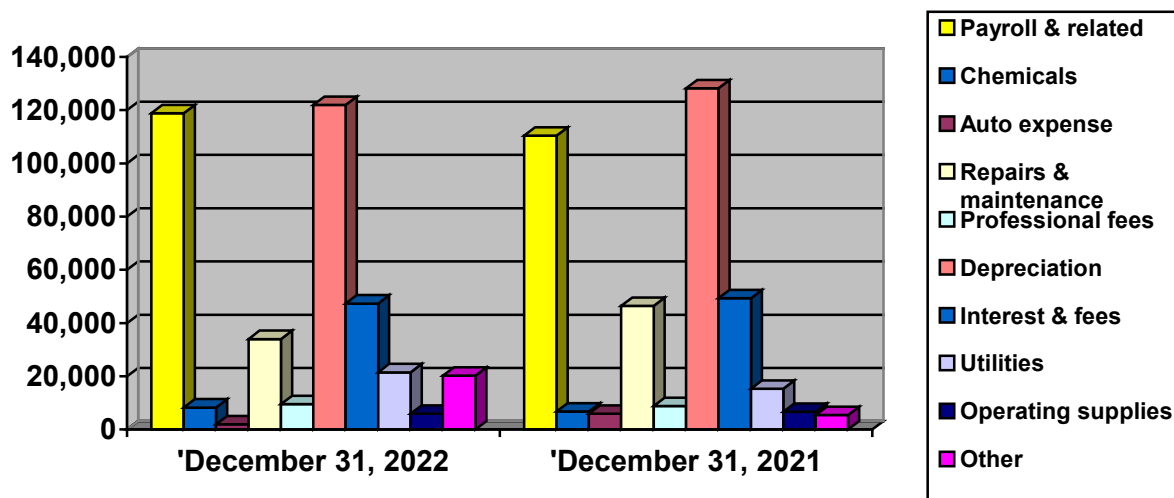
Classifications of net position presented in a graph format



Revenues of the System presented in a graph format



Expenses of the System presented in a graph format



**CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CAPITAL ASSETS

The System's capital assets as of December 31, 2022 and 2021 amounted to \$5,010,800. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment. There were no additions to the System during the year.

LONG-TERM DEBT

As of December 31, 2022, the System had \$1,551,245 in outstanding debt compared to \$1,617,415 as of December 31, 2021. The System paid \$66,170 in principal plus interest of \$47,696 on the existing loans with Arkansas Natural Resources Commission and Rural Development during the year.

CHANGE IN NET POSITION

For the year ended December 31, 2022, the Department's change of net position was a decrease of \$13,033. Operating revenues of \$294,197 increased by \$11,784 (4.2%) from prior year. Operating expenses of \$342,112 increased by \$8,243 (2.5%) mainly due to an increase in pension expense, an uncontrolled cost. Nonoperating revenues of \$34,877 decreased by \$20,850 mainly due to debt forgiveness revenue of \$18,500 in 2021 on a balance owed to the Tax Fund.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the System's customers, investors and other interested parties with an overview of the System's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact the Lockesburg Water and Sewer Department, P.O. Box 14, Lockesburg, Arkansas 71846.

FINANCIAL STATEMENTS

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 103,350	\$ 71,944
Certificate of deposits	57,565	57,106
Restricted checking and savings accounts	165,662	154,655
Restricted certificate of deposit	10,326	10,291
Accounts receivable, net	29,804	25,475
Total Current Assets	366,707	319,471
Noncurrent Assets		
Capital Assets		
Utility plant - sewer	4,072,529	4,072,529
Utility plant - water	285,822	285,822
Furniture & fixtures	400	400
Equipment - water	100,826	100,826
Equipment - sewer	198,780	198,780
Sewer pond	352,443	352,443
Total	5,010,800	5,010,800
Less accumulated depreciation	(1,638,077)	(1,516,166)
Net Capital Assets	3,372,723	3,494,634
Total Assets	3,739,430	3,814,105
Deferred Outflows of Resources		
Deferred outflows of resources related to pension	36,930	13,641
Total Deferred Outflows of Resources	36,930	13,641
Total Assets and Deferred Outflows of Resources	\$ 3,776,360	\$ 3,827,746

See accompanying notes to financial statements.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2022	2021
Liabilities and Net Position		
Current Liabilities		
Trade accounts payable	\$ 6,637	\$ 2,686
Payroll tax payable	2,116	1,639
Accrued interest	7,985	8,337
Customer meter deposits	28,540	31,153
Current portion of long-term debt	67,824	65,800
Total Current Liabilities	113,102	109,615
Noncurrent liabilities:		
Long-term debt	1,483,421	1,551,615
Net pension liability	106,051	28,623
Total Noncurrent Liabilities	1,589,472	1,580,238
Total Liabilities	1,702,574	1,689,853
Deferred Inflows of Resources		
Deferred inflows of resources related to pension	1,281	52,355
Total Deferred Inflows of Resources	1,281	52,355
Net Position		
Net investment in capital assets	1,821,497	1,877,328
Restricted	141,992	129,583
Unrestricted	109,016	78,627
Total Net Position	2,072,505	2,085,538
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 3,776,360	\$ 3,827,746

See accompanying notes to financial statements.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Operating Revenue		
Water revenues	\$ 165,098	\$ 159,086
Sewer revenues	98,104	96,429
Other income	30,995	26,898
Total Operating Revenue	294,197	282,413
Operating Expenses		
Auto expenses	1,930	5,938
Chemicals	8,279	6,768
Conferences	1,144	1,129
Depreciation expense	121,911	128,141
Memberships and licenses	3,374	1,620
Insurance	-	1,500
Legal and accounting	9,500	8,844
Miscellaneous expense	614	1,602
Operating supplies	5,957	6,631
Payroll	110,881	102,690
Payroll taxes	7,889	7,670
Pension expense (benefit)	15,083	(609)
Small equipment and tools	39	195
Repairs and maintenance	34,012	46,397
Utilities	21,499	15,353
Total Operating Expenses	342,112	333,869
Net Loss From Operations	(47,915)	(51,456)
Nonoperating Revenue (Expenses)		
Interest income	1,390	439
Tax Fund debt forgiveness	-	18,500
Operating transfers from government funds	80,836	86,105
Interest expense	(47,344)	(49,312)
Total Net Nonoperating Revenue	34,882	55,732
Change in Net Position	(13,033)	4,276
Net Position at Beginning of Year	2,085,538	2,081,262
Net Position at End of Year	\$ 2,072,505	\$ 2,085,538

See accompanying notes to financial statements.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Cash Flows From Operating Activities		
Cash receipts from customers and other sources	\$ 287,255	\$ 282,320
Cash payments to (advances from) suppliers for goods and services	(102,304)	(118,442)
Cash payments to employees for services	(110,404)	(102,733)
Net Cash Provided By Operating Activities	74,547	61,145
Cash Flows From Noncapital and Related Financing Activities		
Operating transfers	80,836	86,105
Net Cash Provided By Noncapital and Related Financing Activities	80,836	86,105
Cash Flows From Investing Activities		
Reinvestment of certificate of deposit earnings	(494)	(267)
Interest income	1,390	439
Net Cash Provided By Investing Activities	896	172
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(66,170)	(64,198)
Interest paid on long-term debt	(47,696)	(49,732)
Net Cash Used By Capital and Related Financing Activities	(113,866)	(113,930)
Net Increase In Cash, Cash Equivalents, and Restricted Cash	42,413	33,492
Cash, Cash Equivalents, and Restricted Cash At Beginning of Year	226,599	193,107
Cash, Cash Equivalents, and Restricted Cash At End of Year	\$ 269,012	\$ 226,599
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 103,350	\$ 71,944
Restricted checking and savings accounts	165,662	154,655
Total Cash, Cash Equivalents, and Restricted Cash	\$ 269,012	\$ 226,599

See accompanying notes to financial statements.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net loss from operations	\$ (47,915)	\$ (51,456)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	121,911	128,141
(Increase) decrease in:		
Accounts receivable	(4,329)	(2,211)
Deferred outflows of resources related to pension	(23,289)	12,408
Increase (decrease) in:		
Trade accounts payable	3,951	(1,922)
Payroll tax payable	477	(43)
Customer deposits	(2,613)	2,118
Net pension liability	77,428	(74,824)
Deferred inflows of resources related to pension	(51,074)	48,934
Net Cash Provided By Operating Activities	\$ 74,547	\$ 61,145
Supplemental Disclosure of Non-Cash Financing Activities		
Tax Fund debt forgiveness	\$ -	\$ 18,500

See accompanying notes to financial statements.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Nature of Business

The City of Lockesburg Water and Sewer System (the System) is a proprietary type fund and is a component unit of the City of Lockesburg, Arkansas. The purpose of the System is to provide and maintain water and sewer services to the residents of the City of Lockesburg. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the fund.

1. Summary of Significant Accounting Policies

Basis of Presentation

The System's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The System accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The System is considered to be a component unit of the City of Lockesburg. These financial statements reflect only the Water and Sewer System Enterprise Fund of the City of Lockesburg, Arkansas and, accordingly, do not reflect other activities, funds and account groups of the City.

Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the System. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Income Tax Status

The System is exempt from income taxes as a governmental agency.

Cash Equivalents

For purposes of the Statement of Cash Flows, the System considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents including restricted cash.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consists of water and sewer fees and surcharges billed to residential and commercial/industrial customers based on consumption. The System does not charge interest on past due accounts but does charge a late fee for late payments. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for doubtful accounts is estimated based on historical collection experience and management's evaluation of the collectability of outstanding receivables and was \$14,845 and \$9,129 on December 31, 2022 and 2021, respectively.

Capital Assets and Depreciation

Capital assets are stated at cost. Depreciation is computed using the straight-line methods over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	Life
Utility plant - sewer	5 - 50 years
Utility plant - water	7 - 50 years
Furniture & fixtures	10 years
Equipment - water	5-10 years
Equipment - sewer	7-20 years
Sewer pond	10 - 50 years

It is the System's policy to capitalize asset purchases greater than \$2,500 and expense asset purchases less than \$2,500.

Compensated Absences

Employees earn vacation and sick pay in varying amounts based upon length of service with the System. No more than 5 days of unused vacation can be carried forward six months into the following calendar year without written approval. Employees can carryforward a maximum of 60 unused sick days. Upon termination from the System, employees are paid their accumulated unused vacation. Employees are not paid unused accumulated sick days. The System did not have an accrual for compensated absences at December 31, 2022 and 2021 because the amounts were not material to the financial statements.

Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. These deposits are refundable to customers when the System no longer services the customer. The System uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The System recognizes deferred outflows of resources related to pensions.

In addition to liabilities, the Statement of Net Position has a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System recognizes deferred inflows of resources related to pensions.

Net Position

Net position of the System are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), 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 net position that does not meet the definition of "restricted" or "net invested in capital assets".

The System does not have a policy addressing whether it considers restricted or unrestricted to have been spent when expenditures are incurred for purposes when both are available. System personnel decide which resources to use at the time the expenditures are incurred. For classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the System consist of water sales, sewage fees and fees for miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following new accounting standards that became effective during the Authority's fiscal year:

GASB Statement No. 87, *Leases*. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of a right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice.

GASB Statement No. 92, *Omnibus 2020*. The purpose of this statement is to enhance comparability in accounting and financial reporting to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain pension and other post employment retirement plans as fiduciary component units in fiduciary fund financial statements ; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans.

GASB Statement No. 98, *the Annual Comprehensive Financial Report*. The purpose of this statement is to establish the term annual comprehensive financial report and its acronym ACFR to replace the term comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

Implementation of these standards did not have any impact on the financial statements. The Authority had a capital lease to finance the purchase of some equipment. Under the new lease standard, this does not qualify as a lease, but is considered a financed purchase. The 2022 financial statements have been "restated" to reflect this financing agreement with its other debt (see Note 5).

2. Deposits with Financial Institutions

The System does not have formal deposit and investment policies, but follows state laws and bond ordinances regarding the investment of public funds. State statutes generally require that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds maybe invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States Government.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be recovered. The System follows the provisions of state law which requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S Treasury, U.S. agencies or instrumentalities or the state of Arkansas.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits with Financial Institutions (continued)

At December 31, 2022 and 2021, the System had no deposits that were uninsured. The bank balances and carrying amount of the System's deposits held were as follows:

Description	At December 31, 2022		At December 31, 2021	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 340,925	\$ 336,903	\$ 295,686	\$ 293,996
Total	\$ 340,925	\$ 336,903	\$ 295,686	\$ 293,996

Deposits as reported in the following Statement of Net Position captions:

As Of December 31,	2022	2021
Cash and cash equivalents	\$ 103,350	\$ 71,944
Certificate of deposits	57,565	57,106
Restricted checking and savings accounts	165,662	154,655
Restricted certificate of deposit	10,326	10,291
Total	\$ 336,903	\$ 293,996

Interest Rate Risk

Interest rate risk is the risk the changes in interest of debt investments will adversely affect the fair value of an investment. The System minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Type of Investment	Fair Value	Maturity (in Years)	
		Less than 1	1 - 2 Years
Certificates of deposit	\$ 57,565	\$ 57,565	\$ -
Restricted certificate of deposit	10,326	10,326	-
Total	\$ 67,891	\$ 67,891	\$ -

Fair Value Measurements

The System's investments are categorized using fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categories are as follows:

Level 1 - Quoted prices for identical investments in active markets.

Level 2 - Quoted prices for identical investments in markets that are not active.

Level 3 - Unobservable inputs

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits with Financial Institutions (continued)

Fair Value Measurements (continued)

The following table represents the System's investments that are measured at fair value on a recurring basis at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 67,891	\$ -	\$ -	\$ 67,891
Total	\$ 67,891	\$ -	\$ -	\$ 67,891

3. Restricted Funds And Required Accounts

Restricted cash, cash equivalents and restricted investments are restricted by various council ordinances of the City Council, bond ordinances and laws. Expenditures from these accounts are restricted to improvements and betterments to the distribution system, paying the principal and interest on the loans and bonds and the trustee's and paying agent's fees, and customer meter deposits.

As Of December 31,	2022	2021
Restricted checking and savings:		
Depreciation reserve	\$ 80,632	\$ 75,734
ADFA - debt service escrow a	15,869	15,639
Rural development - debt service	17,454	15,426
Rural development - depreciation reserve	25,408	20,635
Water project depreciation	10,616	10,486
Water meter deposit	10,651	10,486
Water meter reserve account	4,923	6,140
Construction account - water	109	109
Total restricted checking and savings	\$ 165,662	\$ 154,655
Restricted certificates of deposit:		
Water meter deposit fund	\$ 10,326	\$ 10,291
Total restricted certificates of deposit	\$ 10,326	\$ 10,291

4. Asset Retirement Obligation

The System follows GASB Statement No. 83, Certain Asset Retirement Obligations. As asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under the new accounting standard, the System must recognize an ARO when the liability is both incurred and reasonably estimable. A liability incurred is based on the existence of external laws, regulations, contracts or court judgements and the occurrence of an internal event that obligates the

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

4. Asset Retirement Obligation (continued)

System to perform asset retirement activities. The System owns and operates a wastewater treatment plant, and the existence of laws and regulations to decommission the plant falls with the scope of GASB 83.

The System's current wastewater treatment plant has been in existence since the 1960's. The plant was partially refurbished in 2016 and 2018 at a cost totaling approximately \$3.5 million. The System is not reporting an ARO on the Statement of Net Position because the System does not have an estimate of the cost to close the wastewater treatment plant, and with the recent refurbishment of the plant, does not a good estimate of the plant's remaining useful life. An ARO will be recorded if future events warrant a change.

5. Long-Term Debt

Long-term debt of the System consists of:

As of December 31,	2022	2021
Rural Development - Water and Sewer Revenue bonds dated 4/9/15 in the amount of \$480,000. Payments are made monthly in the amount of \$1,676 including interest at 2.75%. The note is secured by property and equipment of the system and is scheduled to mature June 2055.	\$ 429,514	\$ 437,692
Arkansas Natural Resources Commission - Water and Sewer Revenue Bonds dated 12/15/14 in the amount of \$1,091,800. Payments are made semi-annually in the amount of \$37,334 and includes interest at 3.25%. The note is secured by revenues of the System and is scheduled to mature April 2037.	857,896	903,565
Arkansas Natural Resources Commission - Water and Sewer Revenue Bonds dated 8/16/17 allowing for borrowings up to \$300,000. Payments of interest at 1.5% and service fee of 1.0% due until project is complete. After completion, semi-annual payments of \$9,576 including interest and service fees will commence on April 15, 2020. The note is secured by revenues of the System and is scheduled to mature October 2039.	263,835	276,158
Total debt	1,551,245	1,617,415
Less current maturity	67,824	65,800
Long-term debt	\$ 1,483,421	\$ 1,551,615

The Arkansas Natural Resources Commission loan contains a provision that the System maintain specific restricted cash accounts and to meet various other general requirements. The System is in compliance with all such significant financial covenants and restrictions at December 31, 2022 and 2021.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

5. Long-Term Debt (continued)

The System's outstanding notes from direct borrowings and direct placements contain different provisions for loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the System on behalf of the issuer until all defaults have been cured; enforce any and all other rights and remedies by law.

Debt is scheduled to be repaid as follows:

December 31,	Principal	Interest	Total
2023	\$ 67,824	\$ 45,794	\$ 113,618
2024	69,910	43,708	113,618
2025	72,062	41,556	113,618
2026	74,280	39,338	113,618
2027	76,568	37,050	113,618
2028-2032	419,719	148,372	568,091
2033-2037	451,248	79,512	530,760
2038-2042	101,109	36,188	137,297
2043-2047	73,487	25,506	98,993
2048-2052	84,306	14,687	98,993
2053-2055	60,732	3,004	63,736
Total	\$ 1,551,245	\$ 514,715	\$ 2,065,960

6. Activity of Long-Term Liabilities

The activity of long-term liabilities is summarized below:

As of	January 1, 2022	Debt Additions	Debt Retirements	December 31, 2022	Due Within One Year
Arkansas Natural Resources Comm.	\$ 1,179,723	\$ -	\$ 57,992	\$ 1,121,731	\$ 59,799
Rural Development	437,692	-	8,178	429,514	8,025
Net pension liability	28,623	77,428	-	106,051	-
Total	\$ 1,646,038	\$ 77,428	\$ 66,170	\$ 1,657,296	\$ 67,824

As of	January 1, 2021	Debt Additions	Debt Retirements	December 31, 2021	Due Within One Year
Arkansas Natural Resources Comm.	\$ 1,235,964	\$ -	\$ 56,241	\$ 1,179,723	\$ 57,992
Rural Development	445,649	-	7,957	437,692.00	7,808
Due to Tax fund	18,500	-	18,500	-	-
Net pension liability	103,447	-	74,824	28,623	-
Total	\$ 1,803,560	\$ -	\$ 157,522	\$ 1,646,038	\$ 65,800

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan

Plan Description

The System participates in the Arkansas Public Employees Retirement Departments (APERS). 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 passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes: three state and three non-state employees, all appointed by the Governor, three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration, and four additional board positions that were added in Act 868 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other appointed by the Senate.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employee's Retirement System (the Plan) and additions to / deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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%

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan (continued)

Benefits Provided (continued)

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

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for both APERS plan fiscal years ended June 30, 2022 and 2021. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

Contributions made by the City were \$17,264 and \$19,062 for the years ended December 31, 2022 and 2021, respectively. The System is allocated 2/3 of the pension contributions and the City's General Fund is allocated the remaining 1/3 of the pension contributions. Therefore, the System is allocated \$11,509 and \$12,708 of contributions made by the City for the years ended December 31, 2022 and 2021, respectively.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan (continued)

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>.

Timing of the Valuation

The collective Net Pension Liability 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. Based on this information, the City's proportionate share as of June 30, 2022 was 0.00589961%. Approximately 67% of this amount was allocated to the System.

There were no changes between the measurement date of June 30, 2022 and the System's report ending date of December 31, 2022, that would have had a significant impact on the net pension liability.

Actuarial Assumptions

The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2021. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

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

All other actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2017, and were applied to all prior periods included in the measurement.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan (continued)

Long-Term Expected Return on Plan Assets

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

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
	<u>100%</u>	
Total Real Rate of Return		4.93%
Plus: Price Inflation - Actuary's Assumption		<u>2.50%</u>
Net Expected Return		<u>7.43%</u>

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the June 30, 2022 valuation, the expected rate of return on pension plan investments is 7.15%; the municipal bond rate is 3.69% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"; and the resulting single discount rate is 7.15%.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan (continued)

Single Discount Rate (continued)

The 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 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 Net Pension Liability to Changes in the Discount Rate

The following presents the participating employers' net pension liability, calculated using a single discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower (6.15%) or 1% higher (8.15%) than the current rate:

1% Decrease 6.15%	Current Single Rate Assumption 7.15%	1% Increase 8.15%
\$ 168,602	\$ 106,051	\$ 54,410

Pension Expense and Deferred Outflows / Inflows of Resources Related to Pensions

The City's proportionate share of pension expense was \$22,295 and the System's allocated share of the expense was \$15,083 for the year ended December 31, 2022. At December 31, 2022, the System reported allocated deferred outflows of resources and deferred inflows of resources related to pensions from the System from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,545	\$ 1,281
Net difference between projected and actual earnings on pension plan investments	22,371	-
Changes in proportion and differences between employer contributions and share contributions	5,353	-
System contributions subsequent to the measurement date	6,661	-
Total	\$ 36,930	\$ 1,281

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Pension Plan (continued)

Pension Expense and Deferred Outflows / Inflows of Resources Related to Pensions (continued)

\$6,661 reported as deferred outflows of resources related to pensions resulting from the System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Net Increase in Pension Expense
2023	\$ 7,090
2024	5,152
2025	1,144
2026	15,602
	\$ 28,988

8. Due to Other Funds / Interfund Transfers

Tax Fund Debt Forgiveness

In 2019, the City purchased an industrial shop for \$60,000. The cost of the shop was split between the System (66.7% or \$40,000) and the City's Street Fund (33.3% or \$20,000). The System paid \$20,000 and the City's Tax Fund advanced the System the remaining \$20,000. The System was supposed to reimburse the Tax Fund \$250 per month (\$3,000 annually) until the balance was paid in full. In 2021, the City Council approved to forgive the debt. The System recorded Tax Fund debt forgiveness revenue of \$18,500 to write off the due to balance.

Interfund Transfers

The System received interfund transfers from the City of \$80,836 and \$86,105 during the years ended December 31, 2022 and 2021, respectively, for payroll, maintenance and repairs, and other operating expenses.

9. Concentrations of Credit Risk

Financial instruments that potentially subject the System to credit risk consist primarily of accounts receivable. The receivables are from customers located within the same geographic region.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

10. Risk Management

The System is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance through Arkansas Municipal League.

There has been no significant reduction in the System's insurance coverage from the previous year. In addition, there have been no settlements in excess of the System's coverage in any of the prior four fiscal years.

11. Subsequent Events

The System has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2022 through September 28, 2023, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

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REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED DECEMBER 31, 2022

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City of Lockesburg's proportion of the net pension liability	0.00589961%	0.00558444%	0.00541874%	0.00536300%	0.00454476%	0.00472798%	0.00555788%	0.00433941%	0.00435532%
Percent allocated to the Water and Sewer System	67%	67%	67%	67%	67%	67%	67%	67%	67%
City of Lockesburg's proportionate share of the net pension liability	\$ 159,076	\$ 42,935	\$ 155,170	\$ 129,384	\$ 100,254	\$ 122,178	\$ 132,908	\$ 79,920	\$ 61,798
Amount allocated to the Water and Sewer System	\$ 106,051	\$ 28,623	\$ 103,447	\$ 86,256	\$ 66,836	\$ 81,452	\$ 88,605	\$ 53,280	\$ 41,199
System's covered-employee payroll	\$ 78,875	\$ 73,277	\$ 68,885	\$ 64,056	\$ 56,660	\$ 56,339	\$ 66,949	\$ 49,787	\$ 51,335
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	134.45%	39.06%	150.17%	134.66%	117.96%	144.57%	132.35%	107.02%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Schedule of Required Contributions

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contribution	\$ 12,084	\$ 11,226	\$ 10,553	\$ 9,813	\$ 8,357	\$ 8,169	\$ 9,707	\$ 7,349	\$ 7,639
Contributions in relation to the contractually required contribution	(12,084)	(11,226)	(10,553)	(9,813)	(8,357)	(8,169)	(9,707)	(7,349)	(7,639)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
System's covered-employee payroll	\$ 78,875	\$ 73,277	\$ 68,885	\$ 64,056	\$ 56,660	\$ 56,339	\$ 66,949	\$ 49,787	\$ 51,335
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

See independent auditor's report.

CITY OF LOCKESBURG, ARKANSAS WATER AND SEWER SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED DECEMBER 31, 2022

Notes to Required Supplemental Information for Cost-Sharing Employer Plans

1. The schedules are intended to show 10 years - additional information will be presented as it becomes available.

2. Changes in benefits:
- None: June 30, 2014 through June 30, 2020
June 30, 2021 valuation
- Extending the maximum time allowed in the DROP from 7 to 10 years, effective March 31, 2021
 - Increasing contributory plan member contributions from 5% to 7%, in 0.25% increments, starting July 1, 2022
 - For members hired on or after July 1, 2022:
 - Change the final average compensation period from 3 to 5 years
 - COLA increases will be the lesser of 3.0% or the increase in the Consumer Price Index

3. Changes in actuarial assumptions:

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Single Discount Rate	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Investment Rate of Return	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Municipal Bond Rate	3.69%	1.92%	2.45%	3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
Source: 20-Bond GO Index									
Inflation	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.75% wage 2.75% price
Salary Increases	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.75% - 10.35%
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	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	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	Based on RP-2014 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	Based on RP-2014 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	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females

See independent auditor's report.

ADDITIONAL REPORT



**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor and City Council
City of Lockesburg, Arkansas Water and Sewer System
Lockesburg, 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 Lockesburg Water and Sewer System, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the System's financial statements, and have issued our report thereon dated September 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lockesburg Water and Sewer System'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 Lockesburg Water and Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lockesburg Water and Sewer System'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 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 Lockesburg Water and Sewer System'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 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

This 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 the 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
September 28, 2023