

SEARCY WATER UTILITIES
FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

Searcy, Arkansas
Years Ended June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Public Utilities
Searcy Water Utilities
Searcy, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Searcy Water Utilities, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Searcy Water Utilities' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Searcy Water Utilities, as of June 30, 2022 and 2021, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 Searcy Water Utilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Searcy Water Utilities' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Searcy Water Utilities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Searcy Water Utilities' 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 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures

to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Searcy Water Utilities' basic financial statements. The accompanying supporting schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2022, on our consideration of Searcy Water Utilities' 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 Searcy Water Utilities' 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 Searcy Water Utilities' internal control over financial reporting and compliance.

Hamilton, Cheng, Spradlin & Marshall, Ltd.

Searcy, Arkansas
December 30, 2022

Searcy Water Utilities

Management's Discussion and Analysis

Our discussion and analysis of Searcy Water Utilities' (Utilities) financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2022 and 2021. This overview should be read in conjunction with the Utilities' financial statements, which begin on page 8.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements and footnotes and supplementary information. The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position (on pages 8-9) provide information about the financial activities of the Utilities. The footnotes and supplementary information provide additional narrative concerning selected financial statement items.

Financial Highlights

	2022	2021
Assets		
Total current assets	\$ 11,090,303	\$ 8,248,733
Total restricted assets	3,023,520	4,047,415
Net capital assets	<u>66,722,327</u>	<u>64,059,236</u>
Total assets	80,836,150	76,355,384
Liabilities		
Total current liabilities	1,895,878	1,795,683
Total long-term liabilities	<u>9,950,957</u>	<u>7,562,701</u>
Total liabilities	11,846,835	9,358,384
Net Position		
Invested in capital assets, net of related debt	56,630,593	56,450,060
Restricted	2,010,439	3,050,196
Unrestricted	<u>10,348,283</u>	<u>7,496,744</u>
Total net position	68,989,315	66,997,000
Revenues		
Total operating revenues	10,821,303	10,543,322
Total other revenues	<u>59,865</u>	<u>53,103</u>
Total revenues	10,881,168	10,596,425
Expenses		
Depreciation expense	2,141,657	2,100,680
Other operating expenses	6,365,255	6,047,249
Other expenses	<u>727,904</u>	<u>720,772</u>
Total expenses	9,234,816	8,868,701
Change in net position before contributions	1,646,352	1,727,724
Contributed capital	345,963	611,376
Change in net position	1,992,315	2,339,100
Net position - beginning of year	66,997,000	64,657,900
Net position - end of year	\$ 68,989,315	\$ 66,997,000

Statements of Net Assets

Financial ratios are used to analyze relationships between different pieces of financial information. Ratio analysis can present information about an entity's operating performance and financial position. Short-term liquidity can be demonstrated using the Current Ratio and Quick Ratio. The Current Ratio is calculated by dividing Current Assets by Current Liabilities. The Quick Ratio is similar to the Current Ratio but excludes inventory because inventory is normally the least liquid current asset. A number greater than one indicates current assets in excess of current needs that can be applied to future periods. The Current Ratios for the years ended June 30, 2022 and 2021 were 5.85 and 4.59, respectively. Using 2022, for example, this means that for every \$5.85 in current assets, the Utilities has \$1.00 in current liabilities. When excluding inventory, for the years ending June 30, 2022 and 2021, the Quick Ratio is 5.58 and 4.38, respectively.

Working capital, like the Current Ratio, represents the excess of Current Assets over Current Liabilities. Working Capital is expressed in dollars while the Current Ratio is expressed as a ratio. As of June 30, 2022, the Working Capital on hand was \$9.1 million. As of June 30, 2021, the Working Capital on hand was \$6.4 million.

Efficiency can also be demonstrated by calculating the average collection period. Because other agencies are included in the monthly water bill, i.e. Searcy Sanitation, their balances are subtracted from Accounts Receivable so that a comparison can be made between water and sewer receivables and water and sewer revenues. Next, Unbilled Revenue is subtracted to arrive at the actual billed receivables balance. Receivables Turnover is calculated by dividing Total Operating Revenue by Total Water and Sewer Accounts Receivable. Then 365 days is divided by the Receivables Turnover to arrive at the Average Collection Period of 27.76 days and 29.71 days as of June 30, 2022 and 2021, respectively.

Another important ratio is the debt utilization ratio. The debt utilization ratio is calculated by dividing total debt by total assets and is 12.4 and 9.7 for 2022 and 2021, respectively. This ratio indicates that total debt is 12.4% of total assets.

Statements of Revenues, Expenses and Changes in Net Assets

Water operating revenue for 2022 decreased .3% from 2021. This decrease was due primarily to customers using slightly less water during wetter weather conditions.

Sewer operating revenue for 2022 increased 9% from 2021. This increase was due primarily to the increase in sewer rates.

- Sewer pretreatment surcharges for 2022 decreased .5% from 2021 amounts. This decrease reflects some industries discharging less volume of conventional pollutants as compared to the year before.
- Penalty charges for 2022 decreased .5% from 2021 amounts. Generally, penalty charges track to water revenue, so when revenue is down slightly, then so are penalty charges.
- Connection fees for 2022 increased 121.4% from 2021 amounts. This increase was due to an increase in new building activity in the community.

- Other operating income for 2022 decreased 20.6% from 2021 amounts. This decrease was due primarily to adjustments.
- Interest revenue for 2022 decreased 37.7% from 2021 amounts. This decrease was due to less return on interest-bearing accounts.
- Source of supply - Actual expenses for 2022 were 21.6% less than those for 2021. This variance of \$21,523 was due, in part, to less work being budgeted for the plants.
- Power and pumping - Actual expenses for 2022 were 14.6% greater than those for 2021. This variance of \$185,798 was due, in part, to an increase in pump repairs and electrical and control work at the plants.
- Purification and treatment - Actual expenses for 2022 were 4.1% lower than those for 2021. This variance of \$57,112 was due in part to less spending on the purchasing of chemicals for the water plant.
- Transmission and distribution - Actual expenses for 2022 were .9% higher than those for 2021. The variance of \$12,705 was due, in part, to an increase in the number of new meters being installed in the system.
- Customer accounting and collection - Actual expenses for 2022 were 3.7% higher than those for 2021. This variance of \$16,214 was due, in part, to more expenses associated with computer and software vendors.
- Administrative and general - Actual expenses for 2022 were 12% higher than those for 2021. This variance of \$181,924 was due, in part, to more engineering expense being charged to this account.

The Rate Covenant requirement in the Bond Issue Master Indenture is that the Utilities maintain a Net Revenue balance at least equal to 130% of the aggregate average annual principal and interest requirements on all the Utilities' bonds. For 2022, the required 130% Net Revenue balance amounts to approximately \$1,797,679. Actual Net Revenues for the Utilities for the year ended June 30, 2022, which exclude depreciation expense, bond interest expense and amortization expense, amount to approximately \$4,030,547.

Capital Assets

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

Construction in Progress

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

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

Capital Projects

The Utility has begun a collection system flow study and assessment project at an estimated total cost of \$1,396,825 to be completed over an eight-year period. Recommendations along with estimated cost to repair will be provided annually as the project progresses. The project is currently in the initial phase and the Utility paid \$134,114 and \$125,655 to a contractor for those costs during the years ended June 30, 2022 and 2021, respectively.

The Utility has continued work on a sewer system rehab project begun in 2020 that was approximately 95% complete as of June 30, 2022.

The Utility intends to commence work on the Pioneer Road sewer interceptor line project in the near future.

Water Rate Increase

The Searcy City Council approved a modest water and sewer rate increase effective December 1, 2013. The purpose of this rate increase was to compensate for inflationary expense increases since the 2010 rate increase. An annual increase linked to the CPI was also approved. The latest increase took effect July 1, 2021.

Bond Issues

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

The City of Searcy issued Water and Sewer Refunding Revenue Bonds, Series 2010B, in November 2010 totaling \$5,990,000. The Bonds were issued to refund the City's Water and Sewer Revenue Bonds, Series 2004 and its Water and Sewer Revenue Bonds, Series 2005. The Series 2010B Refunding Revenue Bonds matured in August 2020 with a final principal payment of \$495,000.

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

SEARCY WATER UTILITIES
STATEMENTS OF NET POSITION
As of June 30, 2022 and 2021

	2022	2021
	<hr/>	<hr/>
ASSETS		
UTILITY PLANT IN SERVICE		
Water plant -property and equipment	\$ 63,408,549	\$ 62,863,189
Sewer plant -property and equipment	36,762,079	36,530,389
Construction in progress	4,663,753	774,743
	<hr/>	<hr/>
	104,834,381	100,168,321
Less: Accumulated depreciation	(38,112,054)	(36,109,085)
	<hr/>	<hr/>
Total Utility Plant in Service	66,722,327	64,059,236
	<hr/>	<hr/>
SPECIAL PURPOSE FUND CASH AND CERTIFICATES OF DEPOSIT		
Depreciation	882,175	695,190
Bond and interest	198,379	1,628,360
Customers' meter deposit	1,048,234	1,069,133
Construction	894,732	654,732
	<hr/>	<hr/>
Total Special Purpose Fund Cash and Certificates of Deposit	3,023,520	4,047,415
	<hr/>	<hr/>
CURRENT ASSETS		
Cash in banks	9,274,240	6,114,323
Accounts receivable	1,176,114	1,650,826
Supplies	513,734	376,826
Prepaid insurance	126,215	106,758
	<hr/>	<hr/>
Total Current Assets	11,090,303	8,248,733
	<hr/>	<hr/>
TOTAL ASSETS	\$ 80,836,150	\$ 76,355,384
	<hr/> <hr/>	<hr/> <hr/>

	2022	2021
LIABILITIES AND NET POSITION		
LONG-TERM DEBT		
Bonds payable	\$ 10,091,734	\$ 7,478,730
Less: Unamortized bond issue costs	-	(12,222)
Bonds payable, net	10,091,734	7,466,508
Less: Current maturities	(1,153,858)	(901,026)
Total Long-Term Debt	8,937,876	6,565,482
SPECIAL PURPOSE FUND LIABILITIES		
Customers' meter deposits	1,013,081	997,219
CURRENT LIABILITIES		
Accounts payable	586,073	503,581
Accrued construction costs	-	142,668
Garbage collections	155,947	248,408
Current maturities -long-term debt	1,153,858	901,026
Total Current Liabilities	1,895,878	1,795,683
NET POSITION		
Invested in capital assets, net of related debt	56,630,593	56,450,060
Restricted	2,010,439	3,050,196
Unrestricted	10,348,283	7,496,744
Total Net Position	68,989,315	66,997,000
TOTAL LIABILITIES AND NET POSITION	\$ 80,836,150	\$ 76,355,384

See accompanying notes to financial statements.

SEARCY WATER UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2022 and 2021

	2022	2021
OPERATING REVENUE		
Water revenue	\$ 6,621,933	\$ 6,642,195
Sewer revenue	3,536,096	3,243,485
Pretreatment surcharge	58,879	59,170
Penalties	159,546	160,431
Connection fees	150,180	67,820
Other operating income	294,669	371,221
Total Operating Revenue	10,821,303	10,544,322
OPERATING EXPENSES		
Operations	6,365,255	6,047,249
Depreciation	2,141,657	2,100,680
Total Operating Expenses	8,506,912	8,147,929
OPERATING INCOME	2,314,391	2,396,393
NON-OPERATING REVENUES (EXPENSES)		
Gain/Loss on disposal	26,800	-
Interest revenue	33,065	53,103
Interest expense and service fees	(230,316)	(210,299)
Amortization of bond discount	(12,222)	(4,432)
In lieu of taxes to:		
-School district payments	(12,124)	(1,124)
-City of Searcy payments	(405,362)	(399,467)
-City of Searcy provided services	(67,880)	(106,450)
Total Non-Operating Revenues/(Expenses)	(668,039)	(668,669)
Change in net position before contributions	1,646,352	1,727,724
Contributed capital	345,963	611,376
Change in net position	1,992,315	2,339,100
Net position - beginning of year	66,997,000	64,657,900
Net position - end of year	\$ 68,989,315	\$ 66,997,000

See accompanying notes to financial statements.

SEARCY WATER UTILITIES
STATEMENTS OF CHANGES IN FUND EQUITY
For the Years Ended June 30, 2022 and 2021

	Contributed Capital	Retained Earnings	Total Equity
	<hr/>	<hr/>	<hr/>
Balance, July 1, 2020	\$ 15,929,366	\$ 48,728,534	\$ 64,657,900
Additions, FYE 6/30/2021	611,376		611,376
Net income, FYE 6/30/2021		1,727,724	1,727,724
Depreciation of fixed assets acquired by contributions	(540,704)	540,704	
	<hr/>	<hr/>	<hr/>
Balance, June 30, 2021	16,000,038	50,996,962	66,997,000
Additions, FYE 6/30/2022	345,963		345,963
Net income, FYE 6/30/2022		1,646,352	1,646,352
Depreciation of fixed assets acquired by contributions	(552,932)	552,932	
	<hr/>	<hr/>	<hr/>
Balance, June 30, 2022	<u>\$ 15,793,069</u>	<u>\$ 53,196,246</u>	<u>\$ 68,989,315</u>

See accompanying notes to financial statements.

SEARCY WATER UTILITIES
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 11,159,409	\$ 10,298,316
Cash paid to suppliers of goods or services	(4,597,446)	(4,132,685)
Cash paid to employees for services	(2,282,903)	(2,229,050)
Interest received	33,065	53,103
Net Cash Provided by Operating Activities	4,312,125	3,989,684
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in special purpose funds	1,039,757	11,796
Capital expenditures	(4,574,653)	(1,550,282)
Net Cash Provided (Used) By Investing Activities	(3,534,896)	(1,538,486)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	3,574,104	425,896
Principal payments on long-term debt	(961,100)	(1,504,804)
Interest on long-term debt	(230,316)	(215,487)
Net Cash Provided (Used) By Financing Activities	2,382,688	(1,294,395)
NET INCREASE (DECREASE) IN CASH	3,159,917	1,156,803
CASH IN BANKS AT BEGINNING OF YEAR	6,114,323	4,957,520
CASH IN BANKS AT END OF YEAR	\$ 9,274,240	\$ 6,114,323
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net income	\$ 1,646,352	\$ 1,727,724
Interest expense considered capital financing activity	230,316	209,299
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	2,153,879	2,105,112
Gain on disposal of property	(26,800)	-
Accounts receivable	474,712	(67,709)
Supplies	(136,908)	(9,936)
Prepaid insurance	(19,457)	(14,830)
Accounts payable	82,492	43,090
Garbage collections	(92,461)	(3,066)
Total Adjustments	2,665,773	2,261,960
Net Cash Provided by Operating Activities	\$ 4,312,125	\$ 3,989,684

Capital expenditures are net of developers' non-cash contributions in aid of construction of \$345,963 and \$611,376 for 2022 and 2021.

See accompanying notes to financial statements.

SEARCY WATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

One customer of the Utility was responsible for over 5% of the Utility's operating revenues. The three largest customers of the Utility (based upon the fiscal year ending June 30, 2022) are:

<u>Name</u>	<u>Revenue</u>	<u>Percentage of Total Operating Revenues</u>
Southwest White County Water Assn., Inc.	\$658,431	6.0%
Northeast White County Waterworks PFB	462,428	4.2%
North White County Rural Water PFB	444,948	4.1%

The Utility is accounted for as an enterprise fund, which is considered a proprietary fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises or for which periodic determination of revenues, expenses, and operating income is desirable. These funds render services to the general public on a user-charge basis. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of the overall revenues and expenses of the Utility.

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

NOTES TO FINANCIAL STATEMENTS - CONT'D.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D.

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

Retirements and replacements are funded by the Depreciation Reserve Fund, except for major replacements which are generally funded by grants and/or borrowings. On a monthly basis the Utilities transfers a portion of its net operating revenue to the Depreciation Fund bank account. Transfers of \$240,000 and \$240,000 were made to the Depreciation Fund for each of the fiscal years ended June 30, 2022 and 2021, respectively.

The depreciation provision charged as an operating expense for the years ended June 30, 2022 and 2021 was \$2,141,657 and \$2,100,680, respectively. These amounts include depreciation on assets acquired by the Utilities as well as those contributed to the Utilities as follows:

	<u>2022</u>	<u>2021</u>
Assets acquired	\$1,588,725	\$1,559,976
Assets contributed	<u>552,932</u>	<u>540,704</u>
	<u>\$2,141,657</u>	<u>\$2,110,680</u>

The annual depreciation applicable to assets contributed to the Utilities has been charged against "Contributed Capital" and added back to "Retained Earnings" on the Statement of Changes in Fund Equity.

Debt discounts and issuance expenses are deferred and amortized over the life of the related bond issue.

Supplies consisting primarily of piping, connections and meters are stated at the lower of average cost or market.

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

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

NOTES TO FINANCIAL STATEMENTS - CONT'D.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONT'D.

Restricted assets include cash and investments that are legally restricted as to their use by bond requirements and also by the Board of Public Utilities for future capital expenditures and repayment of consumer deposits. Restricted asset balances as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Bond requirements	\$ 198,379	\$ 1,628,360
Future capital expenditures	1,776,907	1,349,922
Customer deposits	1,048,234	1,069,133
	<u>\$ 3,023,520</u>	<u>\$ 4,047,415</u>

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

Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds attributable to the acquisition, construction, or improvement of these assets. This classification also includes construction fund balances.

Restricted net assets - Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) by Board resolution.

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

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

The book values of cash, trade accounts receivable, accounts payable, and other financial instruments approximate their fair values principally because of the short-term maturities of these instruments. The fair value of long-term debt is estimated based on current rates for debt of similar terms and maturities. Under this method, the fair value of long-term debt was not significantly different from the stated value at June 30, 2022 and 2021.

NOTE B - STATUTORY MORTGAGE LIEN

By virtue of the authority of Act 131 of the State of Arkansas for the year 1933, as amended, there is granted and created a statutory mortgage lien on the improvements to the waterworks system and the real property of the Utilities for so long a time as bonded indebtedness remains outstanding.

NOTES TO FINANCIAL STATEMENTS - CONT'D.

NOTE C - LONG TERM LIABILITIES

Changes in long-term liabilities for the years ended June 30, 2022 and 2021 consisted of the following:

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022	Amounts Due Within One Year	Amounts Due In Excess of One Year
Bonds payable						
Revenue bonds	\$7,478,730	\$3,574,104	\$ 961,100	\$10,091,734	\$1,153,858	\$ 8,937,876
Less unamortized bond issuance costs	<u>(12,222)</u>	<u> </u>	<u>(12,222)</u>	<u> </u>	<u> </u>	<u> </u>
Bonds payable, net	7,466,508	3,574,104	948,878	10,091,734	1,153,858	8,937,876
Customer deposits	<u>997,219</u>	<u>63,262</u>	<u>47,400</u>	<u>1,013,081</u>	<u> </u>	<u>1,013,081</u>
Total long-term liabilities	<u>\$8,463,727</u>	<u>\$3,637,366</u>	<u>\$ 996,278</u>	<u>\$11,104,815</u>	<u>\$1,153,858</u>	<u>\$ 9,950,957</u>
	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Amounts Due Within One Year	Amounts Due In Excess of One Year
Bonds payable						
Revenue bonds	\$8,557,638	\$ 425,896	\$1,504,804	\$ 7,478,730	\$ 901,026	\$ 6,577,704
Less unamortized bond issuance Costs	<u>(16,654)</u>	<u> </u>	<u>(4,432)</u>	<u>(12,222)</u>	<u> </u>	<u>(12,222)</u>
Bonds payable, net	8,540,984	425,896	1,500,372	7,466,508	901,026	6,565,482
Customer deposits	<u>1,021,471</u>	<u>106,156</u>	<u>130,408</u>	<u>997,219</u>	<u> </u>	<u>997,219</u>
Total long-term liabilities	<u>\$9,562,455</u>	<u>\$ 532,052</u>	<u>\$1,630,780</u>	<u>\$ 8,463,727</u>	<u>\$ 901,026</u>	<u>\$ 7,562,701</u>

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE C - LONG TERM LIABILITIES - CONT'D.

Bonds payable at June 30, 2022 were as follows:

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

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

The following schedule shows the annual debt service of the revenue bonds outstanding at June 30, 2022:

Year Ending June 30,	Principal	Interest	Service Fee	Total
2023	\$ 1,153,858	\$ 147,167	\$ 96,051	\$ 1,397,076
2024	1,186,599	128,768	88,063	1,403,430
2025	1,220,294	107,022	76,113	1,403,429
2026	1,254,968	84,637	63,824	1,403,429
2027	1,290,654	61,591	51,186	1,403,431
2028-2032	1,974,542	116,185	142,617	2,233,344
2033-2037	1,039,582	64,256	85,672	1,189,510
2038-2042	1,134,218	23,699	31,598	1,189,515
	<u>\$10,254,715</u>	<u>\$ 733,325</u>	<u>\$ 635,124</u>	<u>\$11,623,164</u>

The Utility paid approximately \$230,316 and \$209,299 in interest and service fees for the years ended June 30, 2022 and 2021, respectively. No interest amounts were capitalized for the years ended June 30, 2022 and 2021.

NOTES TO FINANCIAL STATEMENTS – CONT'D.

NOTE D - RETIREMENT PLAN

The Utility participates in two retirement plans which cover the employees of the Utility. The Searcy Board of Public Utilities amended and restated the Searcy Board of Public Utilities Money Purchase Pension Plan into the Searcy Board of Public Utilities Profit Sharing Plan (the "Plan") effective July 1, 2006. The Plan is a defined contribution pension plan which provides for the Utilities to make an annual contribution to the Trust equal to 7% of each participant's compensation. Only employees that were participants in the Money Purchase Pension Plan may be participants in the Plan. The Plan provides for a graduated vesting schedule over 6 years. The Utilities contributed \$53,186 and \$54,575 to the Plan for the years ended June 30, 2022 and 2021, respectively.

The Searcy Board of Public Utilities adopted The Searcy Board of Public Utilities 457 Retirement Savings Plan (the "457 Plan") on July 1, 2006. The 457 Plan is a defined contribution pension plan which provides for an employee participant to defer an amount from 1% to 50% of covered wages. The Utilities may make nonelective matching contributions to the 457 Plan of an amount up to 3% of an employee participant's covered wages. Employee participants contributed \$62,033 and \$57,859 of deferred wages and the Utilities contributed \$43,835 and \$41,404 of matching amounts to the 457 Plan for the years ended June 30, 2022 and 2021, respectively.

NOTE E - UNAMORTIZED BOND ISSUANCE COSTS

The difference between the reacquisition prices and the net carrying amounts at the date of refunding of the 2004 and 2005 Water and Sewer Bonds of \$141,774 is included as unamortized bond issuance costs. Also, bond issuance cost of \$25,000 and \$113,858 were incurred on the sale of the 2010A Water and Sewer Revenue Bonds and 2010B Water and Sewer Refunding Revenue Bonds, respectively. These amounts are being amortized over the lives of the bonds. Amortization was \$12,222 and \$4,432 for the years ended June 30, 2022 and 2021, respectively.

NOTE F - CASH ON DEPOSIT -CREDIT RISK

The Bank balances as of June 30, 2022 are not entirely insured by Federal Depository Insurance Funds. The bank balances as of June 30, 2022 total \$12,402,546. These Bank balances are classified in the following categories of credit risk:

Deposit Covered by	Category			Bank Balance	Collateral Market Value
	1	2	3		
FDIC					
Insurance	\$1,403,506			\$ 1,403,506	\$ 1,403,506
Collater-					
alized		10,999,040		10,999,040	12,298,831
Uncollater-					
alized					
	<u>\$1,403,506</u>	<u>\$10,999,040</u>	<u>\$ 0</u>	<u>\$12,402,546</u>	<u>\$13,702,337</u>

NOTES TO FINANCIAL STATEMENTS - CONT'D.

NOTE F - CASH ON DEPOSIT -CREDIT RISK - CONT'D.

The collateral for the Utility's deposits is categorized to give an indication of the level of risk assumed by the Utility at year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the Utilities or its agent in the Utility's name. Category 2 includes uninsured and unregistered deposits for which the securities are held by the counterparty's trust department or agent in the Utility's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty's trust department or agent, but not in the Utility's name.

NOTE G - RISK MANAGEMENT

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

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

NOTE H- CONCENTRATION OF CREDIT RISK

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

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

NOTE I- CASH AND INVESTMENTS

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. Additional information about deposit risk is presented at Note F.

The Utility's investment policy allows investments only in:

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

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE J - PROPERTY AND EQUIPMENT

Capital asset balances and activity by major functional classification for the years ended June 30, 2022 and 2021 consisted of the following:

	<u>Balance At</u> <u>6/30/21</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance At</u> <u>6/30/22</u>
Land & Land Rights -Water	\$ 653,819	\$	\$	\$ 653,819
Structures -Water	34,942,519	26,998		34,969,517
Mains and Lines -Water	21,358,919	428,444		21,787,363
Vehicles - Water	454,473	24,651		479,124
Equipment - Water	4,945,930	65,267		5,011,197
Office Furniture - Water	507,529			507,529
Plant - Sewer	27,473,377	233,191	138,688	27,567,880
Plant & Line - Sewer	9,057,011	137,188		9,194,199
Construction in Progress	774,744	3,889,009		4,663,753
Total Property				
and Equipment	100,168,321	4,804,748	(138,688)	104,834,381
Accumulated Depreciation	(36,109,085)	(2,141,657)	138,688	(38,112,054)
Property and				
Equipment - Net	\$ <u>64,059,236</u>	\$ <u>2,663,091</u>	\$ <u>-</u>	\$ <u>66,722,327</u>

	<u>Balance At</u> <u>6/30/20</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance At</u> <u>6/30/21</u>
Land & Land Rights -Water	\$ 653,818	\$	\$	\$ 653,818
Structures -Water	34,917,494	25,025		34,942,519
Mains and Lines -Water	20,992,281	366,638		21,358,919
Vehicles -Water	398,027	69,221	12,775	454,473
Equipment -Water	4,807,427	138,503		4,945,930
Office Furniture -Water	416,436	91,093		507,529
Plant -Sewer	26,900,346	946,412	373,381	27,473,377
Plant & Line -Sewer	8,995,242	61,769		9,057,011
Construction in Progress	163,278	611,466		774,744
Total Property				
and Equipment	98,244,350	2,310,127	(386,156)	100,168,321
Accumulated Depreciation	(34,388,760)	(2,100,680)	380,355	(36,109,085)
Property, Plant and				
Equipment - Net	\$ <u>63,855,590</u>	\$ <u>209,447</u>	\$ <u>(5,801)</u>	\$ <u>64,059,236</u>

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE K - RATES

The Searcy city council approved a water rate increase effective December 1, 2013. This increase is to cover rising costs. An annual increase linked to the CPI was also approved.

The current rate structure for water service is as follows:

Customer charge (per month)	\$9.63
All water	\$2.21/1,000 gallons

Wholesale rates vary according to customer from \$2.21 to \$2.31 per 1,000 gallons increasing to \$3.08 per 1,000 gallons after reaching a predetermined usage which also varies according to customer.

The current rate structure for sewer services is as follows:

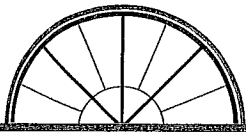
Residential customer charge (per month)	\$10.15
Commercial/industrial customer charge (per month)	20.57
All sewer, as per water consumed	\$3.15/1,000 gallons

NOTE L - COMPENSATED ABSENCES

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 30, 2022, which is the date the financial statements were available to be issued.



HAMILTON, CHERRY,
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Mitchell Hamilton, CPA | Jay W. Cherry, CPA | David L. Spradlin, CPA | Matthew B. Mandrell, CPA

Casey R. Wells, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPORTING SCHEDULES

To the Board of Public Utilities
of Searcy Water Utilities

We have audited the financial statements of Searcy Water Utilities as of and for the years ended June 30, 2022 and 2021, and our report thereon dated December 30, 2022, which expressed an unmodified opinion on those financial statements appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hamilton, Cherry, Spradlin & Mandrell, Ltd.

Searcy, Arkansas
December 30, 2022

SEARCY WATER UTILITIES
ANALYSIS OF OPERATING REVENUES AND EXPENSES
For the Years Ended June 30, 2022 and 2021

	2022	2021	Increase/ (Decrease)
OPERATING REVENUE			
Water revenue	\$ 6,621,933	\$ 6,642,195	\$ (20,262)
Sewer revenue	3,536,096	3,243,485	292,611
Pretreatment surcharge	58,879	59,170	(291)
Penalties	159,546	160,431	(885)
Connection fees	150,180	67,820	82,360
Other operating income	294,669	371,221	(76,552)
	<u>10,821,303</u>	<u>10,544,322</u>	<u>276,981</u>
OPERATING EXPENSES			
Source of supply	78,020	99,543	(21,523)
Power and pumping	1,457,253	1,271,455	185,798
Purification and treatment	1,317,457	1,374,569	(57,112)
Transmission and distributio	1,370,384	1,357,679	12,705
Customer accounting and collection	454,682	438,468	16,214
Administrative and general	1,687,459	1,505,535	181,924
	<u>6,365,255</u>	<u>6,047,249</u>	<u>318,006</u>
TOTAL OPERATING EXPENSES			
	<u>6,365,255</u>	<u>6,047,249</u>	<u>318,006</u>
ELEMENTS OF EXPENSES			
Salaries and wages	2,155,670	2,094,333	61,337
Materials and supplies	1,614,871	1,703,638	(88,767)
Repairs and maintenance	299,623	215,235	84,388
Power purchased	865,823	781,005	84,818
Vehicle and tractor expense	107,217	82,920	24,297
Office supplies and postage	151,170	163,063	(11,893)
Bad debts	68,726	70,847	(2,121)
Professional fees	275,482	147,189	128,293
EPA testing	42,483	44,388	(1,905)
Insurance	493,201	452,317	40,884
Payroll taxes	163,756	157,597	6,159
Retirement plan	127,233	134,717	(7,484)
	<u>\$ 6,365,255</u>	<u>\$ 6,047,249</u>	<u>\$ 318,006</u>
TOTAL OPERATING EXPENSES			
	<u>\$ 6,365,255</u>	<u>\$ 6,047,249</u>	<u>\$ 318,006</u>

SEARCY WATER UTILITIES
BOND AND INTEREST REQUIREMENTS - 2010A BOND ISSUE
Fiscal Year Ending June 30, 2022

Fiscal Year Ending <u>June 30</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Principal</u>	<u>Bonds Outstanding</u>
2022				\$ 6,254,715
2023	\$ 120,205	\$ 60,102	\$ 985,221	5,269,494
2024	100,353	50,176	1,014,999	4,254,495
2025	79,900	39,950	1,045,677	3,208,818
2026	58,830	29,415	1,077,282	2,131,536
2027	37,123	18,561	1,109,844	1,021,692
2028	<u>14,759</u>	<u>7,380</u>	<u>1,021,692</u>	<u>0</u>
 Total Debt Service	 <u>\$ 411,170</u>	 <u>\$ 205,584</u>	 <u>\$6,254,715</u>	

SEARCH WATER UTILITIES
BOND AND INTEREST REQUIREMENTS - 2020 BOND ISSUE
Fiscal Year Ending June 30, 2022

Fiscal Year Ending <u>June 30</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Principal</u>	<u>Bonds Outstanding</u>
2022				\$ 4,000,000
2023	\$ 26,962	\$ 35,949	\$ 168,637	3,831,363
2024	28,415	37,887	171,600	3,659,763
2025	27,122	36,163	174,617	3,485,146
2026	25,807	34,409	177,686	3,307,460
2027	24,468	32,625	180,810	3,126,650
2028	23,106	30,809	183,988	2,942,662
2029	21,720	28,961	187,222	2,755,440
2030	20,310	27,080	190,512	2,564,928
2031	18,875	25,167	193,860	2,371,068
2032	17,415	23,220	197,268	2,173,800
2033	15,929	21,238	200,735	1,973,065
2034	14,417	19,222	204,263	1,768,802
2035	12,878	17,171	207,853	1,560,949
2036	11,312	15,083	211,506	1,349,443
2037	9,720	12,958	215,225	1,134,218
2038	8,098	10,797	219,008	915,210
2039	6,448	8,597	222,857	692,353
2040	4,769	6,359	226,774	465,579
2041	3,061	4,081	230,759	234,820
2042	1,323	1,764	234,820	0
	<u>\$ 322,155</u>	<u>\$ 429,540</u>	<u>\$ 4,000,000</u>	

SEARCY WATER UTILITIES
NET REVENUE COVERAGE OF BOND PAYMENTS
Fiscal Year Ended June 30, 2022

REVENUES	
Operating	\$10,821,303
Other	<u>59,865</u>
Total	10,881,168
EXPENSES	
Operating	\$ 6,365,255
Other *	<u>485,366</u>
Total	<u>6,850,621</u>
NET REVENUES	<u>\$ 4,030,547</u>
AVERAGE ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS ON OUTSTANDING UTILITIES BONDS	<u>\$ 1,382,830</u>
COVERAGE	<u>291%</u>

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

SEARCY WATER UTILITIES
DEPARTMENTAL REVENUES AND EXPENSES
For the Years Ended June 30, 2022 and 2021

	<u>Water Department</u>		
	<u>2022</u>	<u>2021</u>	<u>Variance</u>
OPERATING REVENUE			
Customer charges	\$ 6,621,933	\$ 6,642,195	\$ (20,262)
Pretreatment surcharge	-	-	-
Penalties	159,546	160,431	(885)
Connection fees	137,780	61,950	75,830
Other operating income	185,173	235,836	(50,663)
	<u>7,104,432</u>	<u>7,100,412</u>	<u>4,020</u>
OPERATING EXPENSES			
Salaries and wages	874,708	892,213	(17,505)
Materials and supplies	1,117,782	1,287,450	(169,668)
Repairs and maintenance	123,064	42,368	80,696
Power purchased	388,411	459,273	(70,862)
Vehicle and tractor expense	49,971	38,598	11,373
Office supplies and postage	136,668	134,513	2,155
Bad debts	34,363	34,402	(39)
Professional services	220,199	84,644	135,555
EPA testing	-	-	-
Insurance	410,925	388,937	21,988
Payroll taxes	68,970	68,487	483
Retirement plan	57,147	63,424	(6,277)
Depreciation expense	1,325,131	1,301,962	23,169
	<u>4,807,339</u>	<u>4,796,271</u>	<u>11,068</u>
OPERATING INCOME	<u>2,297,093</u>	<u>2,304,141</u>	<u>(7,048)</u>
NON-OPERATING REVENUES/ (EXPENSES)			
Gain on disposal of fixed assets	-	-	-
Interest revenue	33,065	53,103	(20,038)
Interest paid on bonds	(204,388)	(226,153)	21,765
Amortization of bond discount	(6,111)	(2,216)	(3,895)
In lieu of taxes to:			
Searcy School District	(6,062)	(562)	(5,500)
City of Searcy payments	(264,602)	(271,034)	6,432
City of Searcy provided services	(29,275)	(44,764)	15,489
	<u>(477,373)</u>	<u>(491,626)</u>	<u>14,253</u>
NET INCOME	<u>\$ 1,819,720</u>	<u>\$ 1,812,515</u>	<u>\$ 7,205</u>

Sewer Department			Total Company		
<u>2022</u>	<u>2021</u>	<u>Variance</u>	<u>2022</u>	<u>2021</u>	<u>Variance</u>
\$ 3,536,096	\$ 3,243,485	\$ 292,611	\$ 10,158,029	\$ 9,885,680	\$ 272,349
58,879	59,170	(291)	58,879	59,170	(291)
-	-	-	159,546	160,431	(885)
12,400	5,870	6,530	150,180	67,820	82,360
109,496	135,385	(25,889)	294,669	371,221	(76,552)
<u>3,716,871</u>	<u>3,443,910</u>	<u>272,961</u>	<u>10,821,303</u>	<u>10,544,322</u>	<u>276,981</u>
1,280,962	1,202,120	78,842	2,155,670	2,094,333	61,337
497,089	416,188	80,901	1,614,871	1,703,638	(88,767)
176,559	172,867	3,692	299,623	215,235	84,388
477,412	321,732	155,680	865,823	781,005	84,818
57,246	44,322	12,924	107,217	82,920	24,297
14,502	28,550	(14,048)	151,170	163,063	(11,893)
34,363	36,445	(2,082)	68,726	70,847	(2,121)
55,283	62,545	(7,262)	275,482	147,189	128,293
42,483	44,388	(1,905)	42,483	44,388	(1,905)
82,276	63,380	18,896	493,201	452,317	40,884
94,786	89,110	5,676	163,756	157,597	6,159
70,086	71,293	(1,207)	127,233	134,717	(7,484)
816,526	798,718	17,808	2,141,657	2,100,680	40,977
<u>3,699,573</u>	<u>3,351,658</u>	<u>347,915</u>	<u>8,506,912</u>	<u>8,147,929</u>	<u>358,983</u>
17,298	92,252	(74,954)	2,314,391	2,396,393	(82,002)
26,800	-	26,800	26,800	-	26,800
-	-	-	33,065	53,103	(20,038)
(25,928)	15,854	(41,782)	(230,316)	(210,299)	(20,017)
(6,111)	(2,216)	(3,895)	(12,222)	(4,432)	(7,790)
(6,062)	(562)	(5,500)	(12,124)	(1,124)	(11,000)
(140,760)	(128,433)	(12,327)	(405,362)	(399,467)	(5,895)
(38,605)	(61,686)	23,081	(67,880)	(106,450)	38,570
<u>(190,666)</u>	<u>(177,043)</u>	<u>(13,623)</u>	<u>(668,039)</u>	<u>(668,669)</u>	<u>630</u>
<u>\$ (173,368)</u>	<u>\$ (84,791)</u>	<u>\$ (88,577)</u>	<u>\$ 1,646,352</u>	<u>\$1,727,724</u>	<u>\$ (81,372)</u>

SEARCY WATER UTILITIES
COMPARATIVE ANALYSIS OF OPERATING REVENUE AND EXPENSES
For the Years Ended June 30, 2022 and 2021

	Year Ended June 30, 2022		
	Number of Connections June 30	Consumption in 1000 Gallons	Revenue and Expenses
OPERATING REVENUE			
Water Revenue			
Residential	9,899	729,484	\$ 2,961,295
Commercial	1,354	336,570	930,489
Industrial	15	82,690	184,546
Wholesale	7	1,113,957	2,506,161
Gas Industry	31	652	2,527
Adjustments	-	-	36,915
	<u>11,306</u>	<u>2,263,353</u>	<u>6,621,933</u>
Sewer Revenue:			
Residential	7,227	354,599	2,208,587
Commercial	1,007	237,348	1,050,133
Industrial	10	81,888	260,560
Adjustments	-	-	16,816
	<u>8,244</u>	<u>673,835</u>	<u>3,536,096</u>
Pretreatment Surcharge			58,879
Penalties			159,546
Connection Fees			150,180
Other operating income			294,669
TOTAL OPERATING REVENUE			<u>\$10,821,303</u>
OPERATING EXPENSES			
Source of supply			\$ 78,020
Power and pumping			1,457,253
Purification and treatment			1,317,457
Transmission and distribution			1,370,384
Customer accounting and collection			454,682
Administrative and general			1,687,459
TOTAL OPERATING EXPENSES			<u>\$ 6,365,255</u>
ELEMENTS OF EXPENSES			
Salaries and wages			\$ 2,155,670
Materials and supplies			1,614,871
Repairs and maintenance			299,623
Power purchased			865,823
Vehicle and tractor expense			107,217
Office supplies and postage			151,170
Bad debts			68,726
Professional fees			275,482
EPA testing			42,483
Insurance			493,201
Payroll taxes			163,756
Retirement plan			127,233
TOTAL OPERATING EXPENSES			<u>\$ 6,365,255</u>

Year Ended June 30, 2021			Increase or (Decrease)		
Number of Connections June 30	Consumption in 1000 Gallons	Revenue and Expenses	Number of Connections June 30	Consumption in 1000 Gallons	Revenue and Expenses
9,769	668,150	\$ 2,721,352	130	61,334	\$ 239,943
1,303	310,392	833,239	51	26,178	97,250
16	85,852	187,805	(1)	(3,162)	(3,259)
7	1,349,895	3,122,362	0	(235,938)	(616,201)
22	595	1,847	9	57	680
-	-	(224,410)	-	-	261,325
<u>11,117</u>	<u>2,414,884</u>	<u>6,642,195</u>	<u>189</u>	<u>(151,531)</u>	<u>(20,262)</u>
7,182	416,149	2,021,509	45	(61,550)	187,078
969	229,492	895,199	38	7,856	154,934
11	84,627	238,704	(1)	(2,739)	21,856
-	-	88,073	-	-	(71,257)
<u>8,162</u>	<u>730,268</u>	<u>3,243,485</u>	<u>82</u>	<u>(56,433)</u>	<u>292,611</u>
		59,170			(291)
		160,431			(885)
		67,820			82,360
		<u>371,221</u>			<u>(76,552)</u>
		<u>\$10,544,322</u>			<u>\$ 276,981</u>
		\$ 99,543			\$ (21,523)
		1,271,455			185,798
		1,374,569			(57,112)
		1,357,679			12,705
		438,468			16,214
		<u>1,505,535</u>			<u>181,924</u>
		<u>\$ 6,047,249</u>			<u>\$ 318,006</u>
		\$ 2,094,333			\$ 61,337
		1,703,638			(88,767)
		215,235			84,388
		781,005			84,818
		82,920			24,297
		163,063			(11,893)
		70,847			(2,121)
		147,189			128,293
		44,388			(1,905)
		452,317			40,884
		157,597			6,159
		<u>134,717</u>			<u>(7,484)</u>
		<u>\$ 6,047,249</u>			<u>\$ 318,006</u>

SEARCY WATER UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Federal Grantor/ Pass Through Grantor	Federal Assistance Listing Number	Award Amount	Bonds Payable June 30, 2021
Environmental Protection Agency/ Passed Through the Arkansas Development Finance Authority - Clean Water State Revolving Fund Program:			
Water and Sewer Revenue Bonds (Series 2020)	66.458	\$4,000,000	\$425,896

Cash Received Y/E 6/30/2022	Principal Repayments in Y/E 6/30/2022	Bonds Payable June 30, 2022	Total Expenditures in Y/E 6/30/2022
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\$3,574,104

\$ 0

\$4,000,000

\$3,716,773

SEARCY WATER UTILITIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE 1 - *Basis of Presentation*

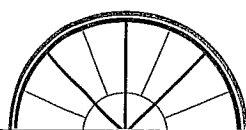
The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Searcy Water Utilities under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Searcy Water Utilities, it is not intended to and does not present the financial position, changes in net position or cash flows of Searcy Water Utilities.

NOTE 2 - *Summary of Significant Accounting Policies*

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - *Indirect Cost Rates*

Searcy Water Utilities has elected to not use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Public Utilities
Searcy Water Utilities
Searcy, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the financial statements of Searcy Water Utilities (the Utility) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated December 30, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hamilton, Chung, Spradlin & Mandell, Ltd.

Searcy, Arkansas
December 30, 2022



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Public Utilities
Searcy Water Utilities
Searcy, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Searcy Water Utilities' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Searcy Water Utilities' major federal programs for the year ended June 30, 2022. Searcy Water Utilities' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Searcy Water Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Searcy Water Utilities and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our Audit does not provide a legal determination of Searcy Water Utilities' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Searcy Water Utilities' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Searcy Water Utilities' compliance based on our audit. Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Searcy Water Utilities' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Searcy Water Utilities' compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Searcy Water Utilities' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Searcy Water Utilities' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The Purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hamilton, Cheng, Spradlin & Mandell, Ltd.

Searcy, Arkansas
December 30, 2022

SEARCY WATER UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

(1) **Summary of the Auditors' Results**

Audit of the Financial Statements

- (a) Type of auditors' report issued on whether the financial statements were prepared in accordance with U.S. generally accepted accounting principles - unmodified opinion.
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses identified? - No
 - Significant deficiencies identified? - None Reported
- (c) Noncompliance material to financial statements noted? - No

Audit of Federal Awards

- (d) Internal control deficiencies over major federal program compliance disclosed by the audit of federal awards:
 - Material weaknesses identified? - No
 - Significant deficiencies identified? - None reported
- (e) Type of auditors' report issued on compliance for major programs - unmodified opinion

<u>Name of major federal program or cluster</u>	<u>CFDA number(s)</u>
Clean Water State Revolving Fund	66.458
(f) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) - No	
(g) Dollar threshold used to distinguish between type A and type B programs - \$750,000	
(h) Audit qualified as low-risk auditee - No	

(2) **Financial Statements Findings**

None

(3) **Federal Award Findings and Questioned Costs**

None

SEARCY WATER UTILITIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2022

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.