

**FORREST CITY WATER
AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396**

FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

Members of the Forrest City Council
Forrest City, Arkansas 72335

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Forrest City Water and Sewer Utility as of December 31, 2017, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

We did not observe the taking of the physical inventories at December 31, 2017 (stated at \$ 115,731) since this date was prior to the time we were engaged as auditors for the Utility. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 2017, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Forrest City Water and Sewer Utility as of December 31, 2017, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4 through 6 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses

to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note A, the accompanying financial statements of the Forrest City Water and Sewer Utility are intended to present the financial position, and the changes in financial position and the cash flows of the City that are attributable to the transactions of the Forrest City Water and Sewer Utility. They do not purport to, and do not, present fairly the financial position of the City of Forrest City, Arkansas, as of December 31, 2017, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2018 on our consideration of the Forrest City Water and Sewer Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Forrest City Water and Sewer Utility's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

July 31, 2018

**FORREST CITY WATER AND SEWER UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Within this section of the Forrest City Water and Sewer Utility's financial report, the Utility's management provides narrative discussion and analysis of the financial activities of the Utility for the year ended December 31, 2017. The Utility's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Utility as a whole and present a longer term view of the Utility's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year ended December 31, 2017. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Forrest City Water and Sewer Utility as a whole

Our analysis of the Utility as a whole follows in the next section. The Utility operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better off as a result of this period's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Utility as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net position and the changes which have occurred in the period. You can think of the Utility's net position (the difference between its assets and liabilities) as one way to measure the Utility's financial health. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Utility.

**FORREST CITY WATER AND SEWER UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2017**

Financial Highlights:

	12/31/2017	12/31/2016	12/31/2015
Beginning Net Position	\$ 10,065,680	\$ 9,861,377	\$ 9,587,728
Increase (decrease) in Net Position	<u>(268,971)</u>	<u>204,303</u>	<u>273,649</u>
Ending Net Position	<u><u>\$ 9,796,709</u></u>	<u><u>\$ 10,065,680</u></u>	<u><u>\$ 9,861,377</u></u>

Assets, liabilities, and net position for selected dates are as follows:

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Current and other assets	\$ 5,799,203	\$ 5,401,618	\$ 4,462,054
Restricted assets	911,816	911,040	910,296
Capital assets	5,166,560	5,586,978	6,161,928
Deferred Outflows	<u>504,836</u>	<u>482,503</u>	<u>240,285</u>
Total assets	<u><u>\$ 12,382,415</u></u>	<u><u>\$ 12,382,139</u></u>	<u><u>\$ 11,774,563</u></u>
Current liabilities	\$ 973,323	\$ 852,499	\$ 738,215
Long Term Liabilities	<u>1,612,383</u>	<u>1,463,960</u>	<u>1,174,971</u>
Total Liabilities	<u><u>2,585,706</u></u>	<u><u>2,316,459</u></u>	<u><u>1,913,186</u></u>
Net Position			
Unrestricted	4,630,149	4,478,702	3,699,449
Restricted for debt service	-	-	-
Net investment in capital assets	<u>5,166,560</u>	<u>5,586,978</u>	<u>6,161,928</u>
Total net position	<u><u>\$ 9,796,709</u></u>	<u><u>\$ 10,065,680</u></u>	<u><u>\$ 9,861,377</u></u>

The following schedule presents a summary of revenues and expenses for the years ended December 31, 2017, 2016, and 2015.

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Operating Revenues	\$ 3,742,473	\$ 3,949,095	\$ 3,789,836
Operating Expenses	<u>4,015,185</u>	<u>3,748,430</u>	<u>3,519,821</u>
Operating Income	(272,712)	200,665	270,015
Other Income (Expenses)	<u>3,741</u>	<u>3,638</u>	<u>3,634</u>
	<u><u>\$ (268,971)</u></u>	<u><u>\$ 204,303</u></u>	<u><u>\$ 273,649</u></u>

**FORREST CITY WATER AND SEWER UTILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2017, the Utility had \$ 5,166,560 invested in capital assets. This represents a net decrease of \$ 574,492 which is the result of depreciation expense recognized of \$ 645,189 and additions of \$ 224,772.

Debt

As of December 31, 2017, the Utility had no outstanding notes payable.

There was no new debt issued during the current period.

ECONOMIC FACTORS, BUDGET AND RATES

The Utility has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Calvin Murdock, manager, Forrest City Water and Sewer Utility.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS

Current Assets	
Cash on hand and in banks	\$ 5,085,397
Accounts receivable - customers	506,299
Prepaid expenses	68,061
Inventory	139,446
Total Current Assets	<u>5,799,203</u>
Restricted Assets	
Certificate of deposit - depreciation	<u>911,816</u>
Total Restricted Assets	<u>911,816</u>
Capital Assets, Net	<u>5,166,560</u>
Deferred Outflows	
Pension Plan	<u>504,836</u>
Total Assets	<u><u>\$ 12,382,415</u></u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable and accrued liabilities	\$ 183,800
Customer meter deposits	586,218
Accrued payroll and payroll taxes	38,242
Accrued employee benefits	165,063
Total Current Liabilities	<u>973,323</u>
Long Term Liabilities	
Long-term debt, net of current portion	-
Net Pension Liability	1,580,803
Total Long Term Liabilities	<u>1,580,803</u>
Deferred Inflows	
Pension Plan	<u>31,580</u>
Net Position	
Net investment in capital assets	5,166,560
Unrestricted	4,630,149
Total Net Position	<u>9,796,709</u>
Total Liabilities and Net Position	<u>\$ 12,382,415</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Operating Revenues:	
Water Revenues	\$ 2,558,931
Wastewater Revenues	1,073,927
Other Revenues	109,615
Total Operating Revenues	<u>3,742,473</u>
Operating Expenses:	
Administration	951,061
General Operating	108,037
Customer Service	390,098
Distribution & Collection	879,599
Operation & Maint of Mains	74,574
Wastewater Collection & Operation	89,496
Wastewater Collection & Maint	103,615
Water Supply Operation/Maint	456,721
Wastewater Treatment	277,751
Depreciation & Amortization	645,189
Other Maintenance	39,044
Total Operating Expenses	<u>4,015,185</u>
OPERATING INCOME (LOSS)	<u>(272,712)</u>
Non-operating Revenues (Expenses)	
Interest Income	3,741
Total Non-operating Revenues (Expenses)	<u>3,741</u>
Change in Net Position	<u>(268,971)</u>
Net Position	
Beginning of year	10,065,680
End of year	<u>\$ 9,796,709</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Cash Flows from Operating Activities	
Receipts from Customers	\$ 3,855,626
Payments to Suppliers	(2,011,676)
Payments to Employees	(1,155,803)
Net Cash Provided by (Used In) Operating Activities	<u>688,147</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of Equipment	(224,772)
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>(224,772)</u>
Cash Flows from Investing Activities	
Interest Income	3,741
Transfers (to) from Restricted Accounts	(776)
Net Cash Provided by (Used In) Investing Activities	<u>2,965</u>
Increase (Decrease) in Cash and Cash Equivalents	466,340
Cash and Cash Equivalents, Beginning of Year	<u>4,619,057</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,085,397</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ (272,712)
Depreciation and Amortization	645,189
(Increase) Decrease in Accounts Receivable	48,589
(Increase) Decrease in Inventory	-
(Increase) Decrease in Prepaid Expenses	(2,166)
Increase (Decrease) in Accounts Payable	65,547
Increase (Decrease) in Accrued Expenses	161,468
Increase (Decrease) in Customer Deposits	42,232
Total Adjustments	<u>960,859</u>
Net Cash Provided by Operating Activities	<u>\$ 688,147</u>

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Financial Reporting Utility - Forrest City Water and Sewer Utility is a department of the City of Forrest City, Arkansas. The accompanying financial statements present only the Forrest City Water and Sewer Utility and do not include all funds, account groups, and programs controlled by the City of Forrest City. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Utility consists of a proprietary fund with the purpose of providing water and sewer services to the general public within the City and some rural residents of the surrounding area.

Basis of accounting - The Forrest City Water and Sewer Utility uses the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized when earned, and expenses are recognized when incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - The Forrest City Water and Sewer Utility considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are presented net of an allowance for doubtful accounts as of December 31, 2017, of \$105,406. Accounts receivable are collateralized by customer deposits.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE A- ORGANIZATION AND SUMMARY OF SIGNFICANT
ACCOUNTING POLICIES (CONT'D)**

Capital Assets – Capital assets consist of utility plant and equipment. These assets are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 3 - 15 years for office furniture and equipment, to 50 years for the water and sewer system.

Restricted Assets - The Forrest City Water and Sewer Utility has established and maintained certain cash balances that can only be used for specific purposes.

Risk Management - The Forrest City Water and Sewer Utility minimizes risk of loss through purchase of commercial insurance coverage.

Operating Revenues and Expenses - Operating Revenues and Expenses consists of those revenues that result from ongoing operations, and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Utility's policy to apply those expenses to restricted net assets to the extent such as are available and then to unrestricted net assets.

Sales Tax - The Forrest City Water and Sewer Utility collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

Net Position – Net Position is categorized as investments in capital assets (net of related debt), restricted for debt services (pursuant to debt agreements), or unrestricted.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Utility’s policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Utility’s deposits are categorized to give an indication of the level of risk assumed by the Utility. The categories are described as follows:

Category 1- Insured or collateralized by the Utility or by its agent in the Utility’s name.

Category 2- Collateralized with securities held by the pledging financial institution’s trust Utility or by its agent in the Utility’s name.

Category 3- Uncollateralized.

At December 31, 2017, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
\$ 5,997,213	\$ 1,000,000	\$ 4,842,085	\$ 155,128

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE C - PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Utility is presented below:

	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>
Not subject to depreciation:				
Land	\$ 237,640	\$ -	\$ -	\$ 237,640
Subject to depreciation:				
General Plant and Equipment	3,052,569	146,674	-	3,199,243
Other Plant Assets	987,876	-	-	987,876
Madison System	71,861	-	-	71,861
Source of Supply	3,952,658	-	-	3,952,658
Transmission and Distribution	4,881,186	78,098	-	4,959,284
Waste Disposal System	10,145,293	-	-	10,145,293
Other Plant and Equipment	44,579	-	-	44,579
	<u>23,373,662</u>	<u>224,772</u>	<u>-</u>	<u>23,598,434</u>
Less Accumulated Depreciation	<u>(17,786,685)</u>	<u>(645,189)</u>	<u>-</u>	<u>(18,431,874)</u>
Net Capital Assets	<u>\$ 5,586,977</u>	<u>\$ (420,417)</u>	<u>\$ -</u>	<u>\$ 5,166,560</u>

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE D – RESTRICTED ACCOUNTS

Restricted Accounts at December 31, 2017 consists of the following

Certificates of Deposit:

Repair and replacement (depreciation)	<u>\$ 911,816</u>
Total Certificates of Deposit	<u>911,816</u>

Total Restricted Accounts	<u><u>\$ 911,816</u></u>
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NOTE E – INVENTORY

Supplies and materials are stated at the lower of cost or market. Cost is determined on the first in, first out basis.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE F – RELATED PARTIES

At December 31, 2017, Accounts payable includes \$15,000 due to the City of Forrest City, Arkansas.

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report; no items were noted which would require disclosure.

NOTE H– RETIREMENT PLAN

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under the system, college and university employees, and certain non-teaching school employees. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (The Board). Memberships includes three state and three non-state employees, all appointed by the Governor, and three ex officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

Benefit provisions are set forth in the 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 for member's year of service.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE H– RETIREMENT PLAN- cont’d
Benefits Provided- cont’d**

The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 07/01/2005	2.07%
Contributory, on or after 07/01/2005, but prior to 07/01/2007	2.03%
Contributory on or after 07/01/2007	2.00%
Non- Contributory	1.72%

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

- at age 65 with 5 years of service, except for members of the General Assembly who must have 10 years of actual service if the member only has services as a member of the General Assembly
- at any age with 28 years actual service,
- 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. A member who is defined as a public safety member is eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid monthly, is determined based on 1) the members final average compensation (an average of the highest 36 months earnings) and 2) the number of years of credited service. The plan also provides for disability and survivor benefits.

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

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE I – RETIREMENT PLAN – CONT'D

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. 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 14.76% of compensation for the fiscal year ended June 30, 2017. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

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

The collective Net Pension Liability of \$ 2,584,140,480 was measured as of June 30, 2017, 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.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE I – RETIREMENT PLAN – CONT'D

Deferred outflows of resources and deferred inflows of resources related to pensions related to the Department are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 30,645	\$ 31,091
Changes of assumptions	254,349	
Net difference between projected and actual earnings on pension plan investments	66,240	
Changes in proportion and difference Between employer contribution and Share of contribution	71,764	489
Payments made subsequent to the Measurement date	<u>81,838</u>	
Total	<u>\$ 504,836</u>	<u>\$ 31,580</u>

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

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
\$ 115,385	\$ 176,737	\$ 109,504	(\$ 10,208)

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (10.6 years for District Judges New Plan/Paid Off Old Plan and 19 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.5 % price inflation
Salary Increases	3.25 – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Retirement Age	Experience- based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.3774

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE I – RETIREMENT PLAN – CONT'D

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 System's target asset allocation as of June 30, 2017 are summarized in the table below:

Asset Class	Target Allocation	Rate of Return
Broad domestic equity	37%	5.97%
International Equity	24%	6.54%
Real Assets	16%	4.59%
Absolute return	5%	3.15%
Domestic fixed	18%	0.83%
 Total Real Rate of Return		 4.82%
Plus: Price Inflation- Actuary Assumption		2.50%
Net Expected Return		<hr/> 7.32%

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE I – RETIREMENT PLAN – CONT'D

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Lower 6.15 %	Discount Rate 7.15%	1% Higher 8.15%
\$ 2,407,359	\$ 1,580,803	\$ 894,476

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

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*

Members of the City Council
Forrest City, Arkansas 72335

We have audited, 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, the financial statements of the business-type activities of the Forrest City Water and Sewer Utility as of December 31, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated July 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Forrest City Water and Sewer 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Forrest City Water and Sewer 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 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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we

consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2017-1.).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Forrest City Water and Sewer Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Forrest City Water and Sewer Utility's Response to Findings

Forrest City Water and Sewer Utility's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Forrest City Water and Sewer Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

July 31, 2018

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

2017-01 Segregation of Duties

CONDITION: The Forrest City Water and Sewer Utility has not adequately segregated duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Utility's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Utility's management should segregate responsibilities among employees so that no individual has the ability to both authorize a transaction and process it within the Utility's accounting system.

RESPONSE: Management will implement this process in the upcoming period.

**FORREST CITY WATER AND SEWER UTILITY
CITY OF FORREST CITY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Water Revenues	\$ 2,558,931	\$ 2,600,000	\$ (41,069)
Wastewater Revenues	1,073,927	1,090,000	(16,073)
Other Revenues	109,615	147,000	(37,385)
Total Operating Revenues	<u>3,742,473</u>	<u>3,837,000</u>	<u>(94,527)</u>
Operating Expenses:			
Administration	951,061	243,530	707,531
General Operating	108,037	516,000	(407,963)
Customer Service	390,098	290,500	99,598
Distribution & Collection	879,599	955,850	(76,251)
Operation & Maint of Mains	74,574	926,120	(851,546)
Wastewater Collection & Operation	89,496	-	89,496
Wastewater Collection & Maint	103,615	-	103,615
Water Supply Operation/Maint	456,721	560,500	(103,779)
Wastewater Treatment	277,751	283,300	(5,549)
Depreciation & Amortization	645,189	-	645,189
Other Maintenance	39,044	61,200	(22,156)
Total Operating Expenses	<u>4,015,185</u>	<u>3,837,000</u>	<u>178,185</u>
OPERATING INCOME (LOSS)	<u>(272,712)</u>	<u>-</u>	<u>(272,712)</u>
Non-operating Revenues (Expenses)			
Interest Income	3,741	-	3,741
Interest Expense	-	-	-
Total Non-operating Revenues (Expenses)	<u>3,741</u>	<u>-</u>	<u>3,741</u>
Change in Net Position	<u>\$ (268,971)</u>	<u>\$ -</u>	<u>\$ (268,971)</u>

FORREST CITY WATER AND SEWER UTILITY SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Year ended</u>	<u>Proportionate Net Pension Liability</u>	<u>Net Pension Liability</u>	<u>Actual Covered Member Payroll</u>	<u>Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
6/30/2015	0.05720817%	\$ 1,053,622	\$ 1,015,014	104%	100.00%
6/30/2016	0.05097124%	\$ 1,412,599	\$ 1,132,371	125%	100.00%
6/30/2017	0.06117326%	\$ 1,580,803	\$ 1,083,110	146%	100.00%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The date in this schedule is based on the measurement date of APERS Net Pension Liability.