

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas

Financial Statements
For the Years Ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the City Council
McCrory Water and Sewer System Fund
City of McCrory, Arkansas

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Sewer System Fund of the City of McCrory, Arkansas, as of December 31, 2022 and 2021, and the respective 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water and Sewer System Fund of the City of McCrory, Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water and Sewer System Fund of the City of McCrory, Arkansas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water and Sewer System Fund of the City of McCrory, Arkansas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water and Sewer System Fund of the City of McCrory, Arkansas's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023, on our consideration of Water and Sewer System Fund of the City of McCrory, Arkansas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Water and Sewer System Fund of the City of McCrory, Arkansas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water and Sewer System Fund of the City of McCrory, Arkansas's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.
Turner, Williams and Associates, P.A.

Searcy, Arkansas
June 20, 2023

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Statement of Net Position
December 31, 2022 and 2021

	<u>Assets</u>	
	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 727,810	\$ 713,461
Short term investments	223,847	232,532
Accounts receivable	119,441	103,739
Grants receivable	-	75,658
Inventory	20,311	3,255
Prepays & other assets	12,016	11,131
Total Current Assets	<u>1,103,425</u>	<u>1,139,776</u>
Property, Plant, and Equipment:		
Property, plant, and equipment, net	<u>4,627,456</u>	<u>4,201,769</u>
Total Property, Plant, and Equipment	<u>4,627,456</u>	<u>4,201,769</u>
Restricted Assets		
Cash and cash equivalents	579,377	399,757
Short term investments	104,071	94,627
Total Restricted Assets	<u>683,448</u>	<u>494,384</u>
Total Assets	<u>\$ 6,414,329</u>	<u>\$ 5,835,929</u>
	<u>Liabilities and Net Position</u>	
Current Liabilities:		
Accounts payable	\$ 47,580	\$ 45,777
Accounts payable - restricted	15,955	75,658
Customer meter deposits	39,627	38,805
Current portion long-term debt	42,243	42,243
Total Current Liabilities	<u>145,405</u>	<u>202,483</u>
Long-term Liabilities		
Accrued employee benefits	7,061	4,618
Note Payable	2,038,290	2,078,763
Less: Note Payable - Current Portion	(42,243)	(42,243)
Total Long-term Liabilities	<u>2,003,108</u>	<u>2,041,138</u>
Total Liabilities	<u>2,148,513</u>	<u>2,243,621</u>
Net Position:		
Net investment in capital assets	2,589,166	2,123,006
Restricted		
Restricted for debt service	65,636	56,264
Restricted for capital improvements	578,185	399,756
Unrestricted	1,032,829	1,013,282
Total Net Position	<u>4,265,816</u>	<u>3,592,308</u>
Total Liabilities and Net Position	<u>\$ 6,414,329</u>	<u>\$ 5,835,929</u>

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

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Statement of Revenues, Expenses and Change in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Water revenue	\$ 316,097	\$ 322,889
Sanitation charges	280,324	285,571
Sewer revenues	298,247	317,497
Fees, late charges and other	2,316	911
Mosquito control fees	<u>29,266</u>	<u>29,760</u>
Total Operating Revenues	<u>926,250</u>	<u>956,628</u>
Operating Expenses		
Salaries and benefits	170,913	193,776
Repairs and maintenance	33,150	80,132
Utilities	67,157	63,552
Chemicals	48,024	30,509
Mosquito control	20,705	18,405
Supplies and miscellaneous	41,572	47,648
Licenses, fees, and sales tax	97,262	86,544
Insurance	12,916	11,972
Depreciation	149,464	148,033
Landfill fees	243,534	230,513
Contract Labor	<u>450</u>	<u>1,275</u>
Total Operating Expenses	<u>885,147</u>	<u>912,359</u>
Net Operating Income	<u>41,103</u>	<u>44,269</u>
Non-Operating Revenue/(Expense)		
Grant revenue	526,513	236,287
Interest income	2,132	2,637
Interest expense	<u>(53,127)</u>	<u>(51,911)</u>
Total Non-Operating Revenue/(Expense)	<u>475,518</u>	<u>187,013</u>
Increase (decrease) in net position	516,621	231,282
Net position at beginning of year	3,592,308	2,735,173
Contributed capital- City of McCrory (Note 11)	156,887	622,598
Prior period adjustment (Note 12)	-	3,255
Net position at end of year	<u>\$ 4,265,816</u>	<u>\$ 3,592,308</u>

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

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Statement of Cash Flows
December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from customers	\$ 911,368	\$ 963,736
Payment to suppliers	(638,167)	(563,259)
Payment to employees	(170,913)	(193,776)
Other receipts/(payments)	<u>(180,378)</u>	<u>(200,986)</u>
Net cash provided by operating activities	<u>(78,090)</u>	<u>5,714</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(575,151)	(465,789)
Proceeds from capital debt	-	140,000
Principal paid on capital debt	(40,473)	(39,408)
Proceeds from grants	602,171	160,629
Proceeds from contributed capital	156,887	622,598
Interest paid on capital debt	<u>(53,127)</u>	<u>(51,911)</u>
Net cash used by capital and related financing activities	<u>90,307</u>	<u>366,118</u>
Cash flows from investing activities:		
Interest income	<u>2,132</u>	<u>2,637</u>
Net cash provided by investing activities	<u>2,132</u>	<u>2,637</u>
Net increase (decrease) in cash and cash equivalents	14,349	374,470
Cash and cash equivalents at beginning of year	<u>713,461</u>	<u>338,991</u>
Cash and cash equivalents at end of year	<u>\$ 727,810</u>	<u>\$ 713,461</u>
Reconciliation of operating income/(loss) to net cash provided /(used) by operating activities		
Operating income/(loss)	\$ 41,103	\$ 44,269
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	149,464	148,033
Change in assets and liabilities:		
Prepays & other assets	(885)	(993)
Accounts receivables	(15,704)	7,108
Inventory	(17,056)	-
Short term investments	8,685	7,527
Accounts payable and accrued expenses	(55,456)	8,284
Customer meter deposits	822	(6,077)
Restricted assets	<u>(189,063)</u>	<u>(202,436)</u>
Net cash provided by operating activities	<u>\$ (78,090)</u>	<u>\$ 5,714</u>

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

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The McCrory Water and Sewer System Fund is a component unit of the City of McCrory, Arkansas which was established as an enterprise fund of the City to provide water and sewer services to the residents of the City.

The accounting system is organized and operated on a fund basis. A fund is defined set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Accounting

The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America (US 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 US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

The fund's revenue is derived primarily from water, sewer, and sanitation services. Revenue is recognized on the accrual basis and is recorded as services are provided. Revenue from services provided is considered operating revenue. Non-operating revenues consist of interest income, grant funds and miscellaneous income.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Fund's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid investments (excluding restricted assets) purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The estimated fair values of the Fund's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Short term investments are made up solely of certificates of deposit.

Accounts Receivable

Accounts receivables include amounts due from residents for water, sewer, and sanitation services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. As of December 31, 2022 management believes all accounts to be collectible, therefore, no allowance for doubtful accounts is necessary.

Customers are billed on a monthly billing cycle by the Fund based on actual or estimated meter readings. The Fund recognizes unbilled accounts receivable for services provided prior to year-end that are billed during the following year. This unbilled receivable is included in accounts receivable in the amount of \$34,868 and \$32,282 at December 31, 2022 and 2021, respectively.

Sales of water, sewer, and sanitation services are made on an open account to customers located in McCrory, Arkansas, and are collateralized to the extent of each customer's meter deposit.

Inventory

Inventory consists of meters, couplings, meter setters, etc. used in the customary operation of the Department. All inventory are stated at the lower of cost, determined using FIFO (first-in, first-out) method, or market.

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Major improvements or betterments to property accounts are capitalized. Maintenance and repairs which do not extend the lives of the applicable assets are charged to the expense as incurred. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the property accounts and any resulting gain or loss is regarded in income. Depreciation is computed using primarily the straight-line method over the following estimated useful

<u>Asset</u>	<u>Useful Life</u>
Water distribution system	40-50 years
Buildings	50 years
Vehicles	4-5 years
Other equipment	5-7 years

Depreciation expense was \$149,464 and \$148,033 for the years ended December 31, 2022 and 2021, respectively.

Long Term Debt

All long term debt to be repaid from business-type resources are reported as liabilities in the financial statements. The long-term debt consists primarily of bonds and notes payable.

Sales Taxes

Sales taxes charged to the Fund's customers are recorded as accounts receivable and sales tax payable when charged to customer. When these amounts are remitted to the appropriate taxing authority, the sales tax payable is reduced. When the customer pays the bill the accounts receivable is reduced.

Net Position Classifications

GASB requires the classification of net position into three classifications defined as follows:

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

Restricted - This component of net position consist of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component consists of net position that do not meet the definition of "net investment in capital assets," or "restricted".

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

Revenue Recognition

Revenues for water, sewer, sanitation, and mosquito control are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Fund's financial statements include an estimate of charges for services provided but unbilled at year end.

Grant Revenue

Resources from capital grants are reported as temporarily restricted support. When a grant restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net position and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The Fund is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated all tax positions and determined that the Fund does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The Fund does not file federal income tax returns.

Subsequent Events

Management has evaluated subsequent events through June 20, 2023, the date which the financial statements were available to be issued.

2) CONCENTRATIONS OF CREDIT

The McCrory Water and Sewer System Fund maintains cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2022, cash balances that exceed FDIC coverage have collateral pledged to the cover the cash balances.

3) CASH AND INVESTMENTS

At December 31, 2022 and 2021, cash balances exceed the FDIC coverage and collateral was pledged to the Fund. The table presented below is designed to disclose the level of custody credit risk assumed by the Fund based upon how its deposits were insured or secured with collateral at December 31, 2022 and 2021. The categories of credit risk are defined as follows:

Category 1- Insured by FDIC or collateralized with securities held by the Fund (or public trust) or by its agents in its name.

Category 2- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution's trust Fund or agent in the Fund's name.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

3) CASH AND INVESTMENTS (CONTINUED)

Category 3- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust Fund or agent but not in the Fund's name; or collateralized with no written or approved collateralized agreement.

	<u>2022</u>	<u>2021</u>
Category 1	\$ 250,000	\$ 250,000
Category 2	1,386,050	1,237,552
Category 3	-	-
	<u>\$ 1,636,050</u>	<u>\$ 1,487,552</u>

Cash and investments consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash		
Unrestricted	\$ 727,810	\$ 713,461
Restricted	579,377	399,757
Certificates of deposit		
Unrestricted	223,847	232,532
Restricted	104,071	94,627
	<u>\$ 1,635,105</u>	<u>\$ 1,440,377</u>

4) RESTRICTED ASSETS

Restricted assets consists of debt service, capital improvement reserves and meter deposits.

Restricted assets at December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Restricted for debt service	\$ 65,636	\$ 56,264
Restricted for capital improvements	578,185	399,315
Meter deposits	39,627	38,805
Total restricted assets	<u>\$ 683,448</u>	<u>\$ 494,384</u>

USDA (Loan 92-09) requires the Fund to establish debt service reserves in an amount equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. The monthly debt service reserve is to be \$95 a month, until \$11,304 is accumulated. The total required reserve has been met. Disbursements from the reserve account may only be made with proper consent of the USDA-Rural Development. USDA (Loan 92-09) also requires a short lived asset replacement reserve account to be established at a rate of \$2,145 a month to be used to replace short lived assets. The short lived asset replacement reserve was funded in excess as of December 31, 2022.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

4) RESTRICTED ASSETS (CONTINUED)

USDA (Loan 91-06) requires the Fund to establish debt service reserves in an amount equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. The monthly debt service reserve is to be \$547 a month, until \$65,640 is accumulated. The total required reserve has been met. Disbursements from the reserve account may only be made with proper consent of the USDA-Rural Development. USDA (Loan 91-06) also requires a short lived asset replacement reserve account to be established at a rate of \$1,437 a month to be used to replace short lived assets. The short lived asset replacement reserve was funded in excess as of December 31, 2022.

USDA (Loan 91-07) requires the Fund to establish debt service reserves in an amount equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. The monthly debt service reserve is to be \$101 a month, until \$12,096 is accumulated. The total required reserve has been met. Disbursements from the reserve account may only be made with proper consent of the USDA-Rural Development.

USDA Bond (2021) requires the Fund to establish debt service reserves in an amount equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. The monthly debt service reserve is to be \$38 a month, until \$4,560 is accumulated. The total required reserve has been met. Disbursements from the reserve account may only be made with proper consent of the USDA-Rural Development.

There were no violations during the years ended December 31, 2022 and 2021 of legal or contractual provision for deposits. Bank balances of the deposits listed above are insured up to the limits allowed by the Federal Deposit Insurance Corporation and are collateralized with securities pledged by First Financial Bank.

See footnote 11 for information regarding American Rescue Plan funding contained in restricted assets.

5) PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	2021	Additions	Disposals	Transfers	2022
Water System	\$ 4,445,080	\$ 9,119	\$ -	\$ 1,046,357	\$ 5,500,556
Sewer System	1,824,159	-	-	-	1,824,159
Vehicles	88,360	-	-	-	88,360
Building	16,789	-	-	-	16,789
Equipment	150,550	2,523	-	-	153,073
Construction in Progress	519,844	563,509	-	(1,046,357)	36,996
	7,044,782	575,151	-	-	7,619,933
Accumulated depreciation	(2,843,013)	(149,464)	-	-	(2,992,477)
Net property and equipment	<u>\$ 4,201,769</u>	<u>\$ 425,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,627,456</u>

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

5) PROPERTY AND EQUIPMENT (CONTINUED)

	2020	Additions	Disposals	Transfers	2021
Water System	\$ 4,423,477	\$ 21,603	\$ -	\$ -	\$ 4,445,080
Sewer System	1,824,159	-	-	-	1,824,159
Vehicles	88,360	-	-	-	88,360
Building	16,789	-	-	-	16,789
Equipment	150,550	-	-	-	150,550
Construction in Progress	-	519,844	-	-	519,844
	6,503,335	541,447	-	-	7,044,782
Accumulated depreciation	(2,694,980)	(148,033)	-	-	(2,843,013)
Net property and equipment	<u>\$ 3,808,355</u>	<u>\$ 393,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,201,769</u>

6) BONDS PAYABLE

Bonds payable at December 31, consist of the following:

	2021	Additions	Principal Payments	2022
USDA-Rural Development-2015 bond issuance, payable in monthly installments of \$5,470 including principal and interest. The bonds bear an annual interest rate of 2.75% and are scheduled to mature in 2055.	\$ 1,401,895	\$ -	\$ (27,433)	\$ 1,374,462
USDA-Rural Development-2015 bond issuance, payable in monthly installments of \$1,008 including principal and interest. The bonds bear an annual interest rate of 2.75% and is scheduled to mature in 2055.	258,198	-	(5,059)	253,139
USDA-Rural Development-2016 bond issuance, payable in monthly installments of \$942 including principal and interest. The bonds bear an annual interest rate of 1.875% and is scheduled to mature in 2056.	280,483	-	(6,097)	274,386
USDA-Rural Development-2021 bond issuance, payable in monthly installments of \$380 including principal and interest. The bonds bear an annual interest rate of 1.375% and is scheduled to mature in 2061.	<u>138,187</u>	<u>-</u>	<u>(1,884)</u>	<u>136,303</u>

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

6) BONDS PAYABLE (CONTINUED)

Total Debt	2,078,763	-	(40,473)	2,038,290
Less: Current Maturities	<u>(42,243)</u>			<u>(42,243)</u>
Total Long-Term Debt	<u>\$ 2,036,520</u>			<u>\$1,996,047</u>

Scheduled retirements of long-term debt are as follows:

	Principal	Interest	Total
2023	42,243	51,288	93,531
2024	43,465	50,204	93,669
2025	44,510	49,090	93,600
2026	45,654	47,946	93,600
2027	46,826	46,774	93,600
2028-2032	252,841	215,159	468,000
2033-2037	287,197	180,803	468,000
2038-2042	326,358	141,642	468,000
2043-2047	371,012	96,989	468,001
2048-2052	421,940	46,060	468,000
2053-2057	140,589	4,119	144,708
2058-2062	15,655	391	16,046
	<u>\$ 2,038,290</u>	<u>\$ 930,465</u>	<u>\$ 2,968,755</u>

7) COMPENSATED ABSENCES

The McCrory Water and Sewer System Fund has the following policies relating to compensated absences:

Employees receive 18 sick days (144 hours) per year and may accumulate up to 240 hours.
Employees receive vacation days as follows, any unused vacation will be lost:

1 week after 1 year of service	3 weeks after 10 years of service
2 weeks after 5 years of service	4 weeks after 15 years of service

The new policy above is effective for employees employed after September 9, 2013; employees hired prior to this date are considered grandfathered under the old policy below, and their unused vacation time from prior years will not be lost.

2 weeks after 1 year of service	4 weeks after 15 years of service
3 weeks after 8 years of service	

Compensated absences are \$7,061 at December 31, 2022 and \$4,618 at December 31, 2021.

8) RETIREMENT PLAN

The McCrory Water and Sewer System Fund matches employee contributions up to 4% in a retirement fund Arkansas Diamond Plan. Contributions for December 31, 2022 are \$1,290 and \$1,213 at December 31, 2021.

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

9) RISK MANAGEMENT

The McCrory Water and Sewer System Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance for risks of loss, including property and casualty insurance, worker's compensation, employee and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in the amount of coverage provided.

10) CHANGES IN NET POSITION

The changes in net position are as follows:	Invested in Capital assets	Unrestricted	Restricted	Total
Net position at December 31, 2020	\$ 1,830,184	\$ 657,922	\$ 247,067	\$2,735,173
Profit	-	229,041	2,241	231,282
Capital contributed by city	-	468,455	154,143	622,598
Prior period adjustments (Note 12)	-	3,255	-	3,255
Transfers	292,822	(345,391)	52,569	-
Net position at December 31, 2021	<u>\$ 2,123,006</u>	<u>\$ 1,013,282</u>	<u>\$ 456,020</u>	<u>\$3,592,308</u>
Net position at December 31, 2021	\$ 2,123,006	\$ 1,013,282	\$ 456,020	\$3,592,308
Profit	-	516,621	-	516,621
Capital contributed by city (Note 11)	-	-	156,887	156,887
Transfers	466,160	(497,074)	30,914	-
Net position at December 31, 2022	<u>\$ 2,589,166</u>	<u>\$ 1,032,829</u>	<u>\$ 643,821</u>	<u>\$4,265,816</u>

11) CONTRIBUTED CAPITAL BY CITY

The American Rescue Plan Act (ARPA) was signed into law March 2021 and in part provides aid for state and local governments for approved purposes. \$154,143 of ARPA funds received by the City of McCrory in 2021 were contributed to the Water and Sewer System and designated to be used for future sewer upgrades. These funds are included in restricted assets and restricted net position as of December 31, 2021. In addition, \$468,455 of funds received by the City were also contributed to the Water & Sewer System during 2021. This portion of the contributed capital is not restricted; however, the City plans to use these funds for the clarifier construction project.

12) PRIOR PERIOD ADJUSTMENT

The prior period adjustment in the amount of \$3,255 relates to inventory as of December 31, 2021 that was not previously recorded.

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Notes to the Financial Statements
December 31, 2022 and 2021

13) ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2022, the Authority adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Authority did not have any leases subject to the new standards and therefore, there was no impact to net position, revenues, or expenses as a result of applying GASB 87 for the year ended December 31, 2022, and there have been no significant changes to the Authority's business processes, systems, or internal controls as a result of implementing the standard.

13) FUTURE ACCOUNTING STANDARDS

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement is effective for periods beginning June 15, 2022, with earlier application encouraged.

Supplemental Information

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 City Council
McCrory Water and Sewer System Fund
City of McCrory, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water and Sewer System Fund of the City of McCrory, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Water and Sewer System Fund of the City of McCrory, Arkansas's basic financial statements and have issued our report thereon dated June 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water and Sewer System Fund of the City of McCrory, Arkansas's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water and Sewer System Fund of the City of McCrory, Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer System Fund of the City of McCrory, Arkansas's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas

June 20, 2023

McCrory Water and Sewer System Fund
of the City of McCrory, Arkansas
Schedule of Service Users
December 31, 2022

Unaudited 2022

	<u>Active</u>
Number of Users	
Residential	685
Non-residential	109
Garden meter	56
Total Number of Users	<u>850</u>