

CITY OF DANVILLE WATER AND SEWER SYSTEM

Financial Statements and Supplemental Information

December 31, 2022 and 2021

(with Independent Auditors' Report thereon)

CITY OF DANVILLE WATER AND SEWER SYSTEM

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Independent Auditor's Report

Water and Sewer Committee
City Council of Danville
Danville, Arkansas

Opinion

We have audited the accompanying financial statements of the City of Danville Water and Sewer System which comprise the statements of net position as of December 31, 2022 and 2021 and the related statements of income and expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

As discussed in note 1, the financial statements present only the City of Danville Water and Sewer System and are not intended to present fairly the net position of the City of Danville, Arkansas, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the City of Danville Water and Sewer System, as of December 31, 2022 and 2021, and changes in net position and, where applicable, 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. 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 City of Danville Water and Sewer System 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 opinion.

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.

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 City of Danville Water and Sewer System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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, including omissions, 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, 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 City of Danville Water and Sewer System 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 City of Danville Water and Sewer System'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Danville Water and Sewer System's basic financial statements. The supplemental information, disclosed in compliance with requirements for audits of United States Department of Agriculture Rural Development Borrowers' Accounting Records is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental 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. Such 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 supplemental information is 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 February 8, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, 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 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 System's internal control over financial reporting and compliance.

February 8, 2024

Shoptaw, Roberson & Company, P.A.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Net Position

December 31, 2022 and 2021

Assets

	<u>2022</u>	<u>2021</u>
Assets:		
Cash in bank	\$ 299,145	434,322
Restricted cash	<u>701,050</u>	<u>812,030</u>
Total cash	1,000,195	1,246,352
Accounts receivable, less allowance for doubtful accounts of \$16,000 in 2022 and \$12,500 for 2021	181,634	170,720
Other receivable	50,615	5,211
Prepaid expenses	32,906	28,142
Utility plant and equipment:		
Plant in service	18,352,833	18,137,624
Municipal building and vehicles	298,986	284,987
Construction in progress	<u>316,012</u>	<u>147,615</u>
	18,967,831	18,570,226
Less accumulated depreciation	<u>(10,173,226)</u>	<u>(9,567,044)</u>
Net utility plant and equipment	<u>8,794,605</u>	<u>9,003,182</u>
Total assets	<u>10,059,955</u>	<u>10,453,607</u>
Liabilities:		
Accounts payable	74,013	36,935
Construction payable	42,029	3,186
Taxes payable	3,151	5,693
Accrued interest	12,523	13,275
Customers' deposits	65,885	62,625
Long-term liabilities:		
Due within one year	145,696	141,753
Due in more than one year	<u>3,543,466</u>	<u>3,680,968</u>
Total liabilities	<u>3,886,763</u>	<u>3,944,435</u>
Deferred inflows:		
Refundable advance	<u>118,250</u>	<u>152,860</u>
Total deferred inflows	<u>118,250</u>	<u>152,860</u>
Net position:		
Net investment in capital assets	5,050,891	5,164,000
Restricted for debt service and construction activities	701,050	812,030
Unrestricted	<u>303,001</u>	<u>380,282</u>
Total net position	<u>\$ 6,054,942</u>	<u>6,356,312</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Revenue and Expenses

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenue:		
Water	\$ 1,749,869	1,711,100
Sewer	194,570	162,590
Connection fees	8,322	4,350
Penalties	24,004	16,740
Fire hydrant rentals	<u>1,125</u>	<u>1,125</u>
Total operating revenues	<u>1,977,890</u>	<u>1,895,905</u>
Operating expenses:		
Payroll and payroll expenses	625,727	650,790
Water and sewer chemicals	500,898	335,772
Utilities	195,923	187,550
Repairs, maintenance and supplies	194,777	227,740
Insurance	17,309	14,551
Truck and backhoe expenses	32,730	33,738
Other	141,715	80,815
Office and computer expense	10,455	10,109
Bad debts	<u>4,134</u>	<u>3,165</u>
Total operating expense	<u>1,723,668</u>	<u>1,544,230</u>
Net operating revenue before provision for depreciation	254,222	351,675
Depreciation	<u>606,183</u>	<u>553,938</u>
Operating loss	<u>(351,961)</u>	<u>(202,263)</u>
Other revenue (expense):		
Interest income	2,675	3,008
Grant revenue	34,610	168,560
Miscellaneous	1,063	28,960
Oil and gas royalties	30	40
Interest expense	<u>(138,904)</u>	<u>(143,723)</u>
Total other revenue (expense)	<u>(100,526)</u>	<u>56,845</u>
Change in net position	<u><u>\$ (452,487)</u></u>	<u><u>(145,418)</u></u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Changes in Net Position

Years ended December 31, 2022 and 2021

	Invested in Capital Assets	Construction Fund	<u>Restricted Net Assets</u> Depreciation Fund	Revenue Bond Fund	Total Restricted Net Assets	Unrestricted	Total Net Assets
Net position, January 1, 2021	\$ 5,268,592	965	156,640	638,134	795,739	425,558	6,489,889
Contribution to capital by City	-	-	-	-	-	11,841	11,841
Change in net position	<u>(104,592)</u>	<u>(965)</u>	<u>(22,252)</u>	<u>39,508</u>	<u>16,291</u>	<u>(57,117)</u>	<u>(145,418)</u>
Net position, December 31, 2021	5,164,000	-	134,388	677,642	812,030	380,282	6,356,312
Contribution to capital by City & Community	151,117	-	-	-	-	-	151,117
Change in net position	<u>(264,226)</u>	<u>-</u>	<u>(3,686)</u>	<u>(107,294)</u>	<u>(110,980)</u>	<u>(77,281)</u>	<u>(452,487)</u>
Net position, December 31, 2022	<u>\$ 5,050,891</u>	<u>-</u>	<u>130,702</u>	<u>570,348</u>	<u>701,050</u>	<u>303,001</u>	<u>6,054,942</u>

See accompanying notes to financial statements.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Cash Flows

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,966,976	1,881,211
Cash payment to suppliers	(1,054,026)	(915,315)
Cash paid to employees for payroll and payroll expense	<u>(625,727)</u>	<u>(650,790)</u>
Net cash provided by operating activities	<u>287,223</u>	<u>315,106</u>
Cash flows from non-capital and related financing activities:		
Miscellaneous income including oil and gas receipts	1,093	23,789
Grant funds received	-	161,143
Customer deposits received, net	<u>3,260</u>	<u>4,852</u>
Net cash provided by non-capital and related financing activities	<u>4,353</u>	<u>189,784</u>
Cash flows from capital and related financing activities:		
Capital contribution - city	-	11,841
Principal paid on bonds and notes payable	(124,930)	(121,695)
Interest paid	(139,656)	(143,756)
Proceeds from new bond issues and loans	<u>-</u>	<u>8,125</u>
Net cash used by capital and related financing activities	<u>(264,586)</u>	<u>(245,485)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(275,822)	(333,943)
Interest received	<u>2,675</u>	<u>3,008</u>
Net cash used by investing activities	<u>(273,147)</u>	<u>(330,935)</u>
Decrease in cash	(246,157)	(71,530)
Cash, beginning of year	<u>1,246,352</u>	<u>1,317,882</u>
Cash, end of year	<u>\$ 1,000,195</u>	<u>1,246,352</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statements of Cash Flows (Continued)

Years ended December 31, 2022 and 2021

Reconciliation of operating loss to net cash provided by
operating activities:

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Operating loss	\$ (351,961)	(202,263)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	606,183	553,938
City expenditure on behalf of Department	11,580	-
Construction in progress disposition	990	-
Changes in assets and liabilities		
Increase in accounts receivable	(10,914)	(14,694)
Decrease in other receivable for vendor credit applied	1,573	-
Increase in prepaid insurance	(4,764)	(1,250)
Decrease in taxes payable	(2,542)	(4,214)
Increase (decrease) in trade accounts payable	<u>37,078</u>	<u>(16,411)</u>
Total adjustments	<u>639,184</u>	<u>517,369</u>
Net cash provided by operating activities	<u>\$ 287,223</u>	<u>315,106</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements

December 31, 2022 and 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The Danville Water and Sewer System (the "System") provides water and sewer services to local, residential, commercial and industrial customers in the City of Danville, Arkansas and water services to surrounding communities, including the cities of Belleville, Havana, Northeast Yell County Water Association and to the Tri-County Regional Water Distribution District.

The System is a municipally operated system and is governed by the Danville City Council of the City of Danville, Arkansas. The System is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The accompanying financial statements are intended to present only the financial position and results of operations of the Danville Water and Sewer System and not the City of Danville, Arkansas.

(b) Basis of Accounting and Presentation

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user charges. The System applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In accordance with GAAP, the System's operations are accounted for as a business type activity. In this regard, the System follows the accrual basis of accounting, whereby income is recognized when it is earned and expenses are recorded when they are incurred, irrespective of when paid.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(c) Property, Plant and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Vehicles and other moveable equipment	5-10 years
Water plant and related line infrastructure	5-50 years
Sewer plant and related infrastructure	7-50 years
City hall building	40 years

Depreciation expense for the years ended December 31, 2022 and 2021 was \$606,183 and \$553,938, respectively. Expenditures for maintenance and repairs are expensed as incurred; replacements and betterments that extend the useful lives of property and equipment are capitalized. Property and equipment used by the System are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In the event that facts and circumstances indicate an impairment exists, an evaluation of recoverability would be performed.

Management evaluates the condition of property, plant, and equipment on a continuing basis and has accumulated reserves it believes are adequate to fund major repairs and replacements. Amounts accumulated in reserve funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the System has the right, subject to regulatory authority, to increase user rates, obtain additional bond funding, or delay repairs and replacements until funds are available.

(d) Use of Estimates

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

(e) Regulatory Environment

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department. The System may be assessed penalties should a violation occur with respect to regulatory requirements.

(f) Income Tax

The System is a municipally owned system that is exempt from federal and state income tax.

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(g) Receivables

All receivables are reported at their gross value and where appropriate are reduced by the estimated portion that is expected to be uncollectible. The System assesses late fees on accounts determined to be past due but does not assess finance charges on such accounts. The System collects a customer deposit when initiating service. The customer deposit may be applied to outstanding account balances at the termination of service. Management evaluates the collectibility of customer balances based on the aging of accounts and knowledge of the recurring customer relationships. Customer balances not expected to be collected are reserved as doubtful and charged to expense.

(h) Cash

The System defines cash for purposes of the statement of cash flows as cash on hand and in banks, including restricted cash.

(i) Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The carrying value of bonds payable approximates fair value because those financial instruments bear interest at rates that approximate current market rates for bonds with similar maturities and credit quality.

(j) Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments ("ASC 606"), which outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to fulfill a contract.

The System recognizes revenue when performance obligations are satisfied. Generally, the System's performance obligations are satisfied and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

been performed and the System's right to consideration is unconditional at the time, the System recognizes revenue at the time service is rendered. When new customers are set up, the System assesses a security deposit. Security deposits are refundable unless applied to final billings for the customer. Security deposits are recorded as customers' deposits.

(2) RESTRICTED CASH

The terms of Resolution number 2-64 (authorizing the issuance of the waterworks and sewer system refunding bonds) and ordinances Number 130, 134, and 150 require designated funds to be maintained with restrictions placed on their uses.

At December 31, 2022 and 2021, the System had restricted cash shown as follows:

	<u>2022</u>	<u>2021</u>
Reserve accounts required by the Water and Sewer Revenue Bonds:		
Depreciation fund	\$ 130,702	134,388
Water and Sewer Revenue Bond Fund	<u>570,348</u>	<u>677,642</u>
	<u>\$ 701,050</u>	<u>812,030</u>

(a) Depreciation Fund

Bond ordinances require that a minimum of 3% of the gross revenue from the System be deposited in this fund to be used for the purpose of paying for necessary replacements or repairs to the water and sewer facilities or for the cost of economically justifiable extensions to the distribution and collection systems. The required transfers for the years ended December 31, 2022 and 2021, were \$57,976 and \$55,864, respectively. Beginning in 2020, management elected to transfer funds to this account at a 5% rate. The actual transfers to this fund from the Revenue Fund for the years ended December 31, 2022 and 2021 were \$96,626 and \$93,107 excluding interest earned, respectively. Interest earned totaled \$238 and \$281 for 2022 and 2021, respectively.

(b) Water and Sewer Revenue Bond Fund

Bond ordinances require a reserve for contingencies be maintained in this fund. Transfers from the revenue fund to this fund are to be made monthly in payments sufficient to meet the next maturities of principal and interest. In addition to monthly transfers, dedicated sales tax remittances are collected and deposited into the fund. The monies in this fund are pledged for the purpose of paying interest and principal

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

of the bonds. Fund activity for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Reserve balance - beginning of year	\$ 677,642	638,134
Funding transfers	300,000	327,193
Interest income	2,197	2,062
Fund expenditures	<u>(409,491)</u>	<u>(289,747)</u>
Reserve balance - end of year	<u>\$ 570,348</u>	<u>677,642</u>

(3) METER DEPOSIT FUND

The meter deposit fund is a custodial account for meter deposits paid to the System by water customers.

	<u>2022</u>	<u>2021</u>
Cash in fund	\$ 65,639	62,875
Customer meter deposits	<u>(65,885)</u>	<u>(62,625)</u>
Meter deposit cash funds over (under) liability	<u>\$ (246)</u>	<u>250</u>

Other than normal recurring deposit transactions, no transfers were made during 2022 and 2021.

(4) ACCOUNTS RECEIVABLE

The accounts receivable due for water and sewer services at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Current (0-30 days)	\$ 172,461	159,331
Past due (30-60 days)	8,093	9,215
Past due (over 60 days)	<u>17,080</u>	<u>14,674</u>
Total accounts receivable	197,634	183,220
Allowance for doubtful accounts	<u>(16,000)</u>	<u>(12,500)</u>
Net accounts receivable	<u>\$ 181,634</u>	<u>170,720</u>

(5) INSURANCE

<u>Company</u>	<u>Description</u>	<u>Coverage</u>	<u>Amount</u>
Arkansas Fidelity Bond Trust Fund	All elected city officials, employees and councilmen	Blanket Fidelity Bond	\$ 300,000
Arkansas Municipal League	Automobile liability Workmen's compensation Buildings, equipment and vehicles		25,000/50,000 Statutory 7,218,813

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(6) LONG-TERM NOTES AND BONDS PAYABLE

Long-term notes payable collateralized by pledge of water and sewer revenue consisted of the following at December 31, 2022 and 2021:

	Interest Rate	2022	2021
United States Department of Agriculture Rural Development, 2002 bonds, due in annual installments of \$14,544, including interest. The bonds mature in April, 2040.	4.750%	\$ 171,579	177,812
Arkansas Natural Resources Commission, 2019 series no interest bonds, due in annual installments of \$25,661, beginning October, 2021 including 0.5% service fee. The bonds mature in April, 2031.	0.000%	365,952	406,797
Arkansas Natural Resources Commission, 2014 bonds, due in annual installments of \$24,449, beginning June, 2016 including interest. The bonds mature in June, 2034.	3.000%	243,362	260,011
United States Department of Agriculture Rural Development, 2006 bonds, due in monthly installments of \$6,465, including interest. The bonds mature in December, 2046.	4.125%	1,179,028	1,207,338
United States Department of Agriculture Rural Development, 2007 bonds, due in monthly installments of \$9,482, including interest. The bonds mature in December, 2046.	4.125%	<u>1,729,241</u>	<u>1,770,763</u>
		3,689,162	3,822,721
Notes payable due within one year		<u>145,696</u>	<u>141,753</u>
		<u>\$ 3,543,466</u>	<u>3,680,968</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

Maturities of long-term debt for each of the years ending December 31, 2023 through 2027 and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 145,696	135,680	281,376
2024	149,832	131,544	281,376
2025	154,130	127,246	281,376
2026	158,595	122,781	281,376
2027	163,233	118,143	281,376
2028 and thereafter	2,956,507	1,175,804	4,132,311

Interest expense incurred for 2022 and 2021 totaled \$138,904 and \$143,723, respectively.

(7) EMPLOYEE PENSION PLAN

The City of Danville has established a SEP (Simplified Employee Pension) Plan for all full time employees. Monthly contributions are made to each employee's individual IRA account by the city equal to 6% of applicable wages. During 2022 and 2021, \$25,688 and \$23,973, respectively, was contributed to the plan.

(8) CONCENTRATIONS

The System services consumers in Danville, Arkansas and surrounding communities. Poultry processing plants and other surrounding communities and associations accounted for approximately 85% and 85% of consumption in the years ended December 31, 2022 and 2021, respectively.

All funds are deposited in financial institutions insured by the FDIC. Deposits in excess of the insured amount total approximately \$774,000 of which \$774,000 was collateralized by a pledge of Federally backed securities by the financial institution.

The System had one major supplier in 2022 and 2021 that accounted for approximately 93% and 94%, respectively, of the cost of chemicals used in the water and sewer treatment process. Management reviews its vendor relationships on a regular basis to assess quality and continuity of service in maintaining a reliable source of necessary supplies and materials. Other vendors are available if the current vendors are unable to supply necessary treatment chemicals.

(9) REFUNDABLE ADVANCE

During 2015, the System received a grant to install fluoridating equipment in its water treatment plant. The terms of the grant include a provision whereby if the System elects to voluntarily discontinue the use of such equipment within ten years of the date of the grant

CITY OF DANVILLE WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

agreement, a proportional balance of the grant will be refundable to the grantor. Management has elected to recognize the grant over the ten year conditional period based on the date the equipment is placed in service. Management placed the equipment in service during 2016. At December 31, 2022 and 2021, grant funds received in advance totaled \$118,250 and \$152,860, respectively. During 2022 and 2021, the advance recognized as grant income totaled \$34,610 and \$34,610, respectively.

(10) OTHER OPERATING EXPENSES

Other operating expenses include the following:

	2022	2021
Legal and accounting	\$ 18,227	14,900
Lab and testing	8,990	10,210
Corps of Engineer fees	26,983	26,060
Permit application fees and consulting	61	420
Sales and excise tax recovery consulting	-	3,725
Water and sewer consulting fees	65,180	-
Water - schools and meetings	4,767	1,219
Miscellaneous	17,507	24,281
Total other expense	<u>\$ 141,715</u>	<u>80,815</u>

(11) CAPITAL CONTRIBUTIONS FROM CITY AND COMMUNITY

The System recognizes contributions to capital from the city of Danville and community entities that provide infrastructure support or benefit to the operations of the System. During 2022 and 2021, the City made contributions of capital to the system for infrastructure improvements and operations through direct support or from federal assistance program passthrough funding in the amount of \$101,117 and \$11,841, respectively. During 2022, a local commercial production entity provided infrastructure funding for increased system capacity improvements totaling \$50,000.

(12) RELATED PARTY TRANSACTION

During 2022 and 2021, the System engaged a consultant to conduct a sales tax recovery evaluation. The engagement resulted in sales tax recoveries for both the System and the city. Consulting costs paid by the System on behalf of the city totaled \$615 in 2021. Taxes recovered by the city for the System totaled \$3,022 in 2021. At December 31, 2022 the balance due to the System from the city totaled \$615.

(13) SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 8, 2024, which is the date the financial statements were available to be issued.

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CITY OF DANVILLE

WATER AND SEWER SYSTEM

Supplemental Information Disclosed in Compliance

with Requirements for Audits of United States

Department of Agriculture Rural Development

Borrowers' Accounting Records

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statement of Net Position

Year ended December 31, 2022

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Assets:			
Cash in bank	\$ 299,145	299,145	-
Restricted cash	<u>701,050</u>	<u>676,813</u>	<u>24,237</u>
Total cash	1,000,195	975,958	24,237
Accounts receivable, less allowance for doubtful accounts of \$16,000 in 2022 and \$12,500 in 2021	181,634	162,452	19,182
Other receivable	50,615	50,615	-
Prepaid expenses	32,906	32,906	-
Utility plant and equipment:			
Plant in service	18,340,609	13,548,544	4,792,065
Municipal building and vehicles	311,210	311,210	-
Construction in progress	<u>316,012</u>	<u>160,258</u>	<u>155,754</u>
	18,967,831	14,020,012	4,947,819
Less accumulated depreciation	<u>(10,173,226)</u>	<u>(7,972,068)</u>	<u>(2,201,158)</u>
Net utility plant and equipment	<u>8,794,605</u>	<u>6,047,944</u>	<u>2,746,661</u>
Total assets	<u>10,059,955</u>	<u>7,269,875</u>	<u>2,790,080</u>
Liabilities:			
Accounts payable	74,013	66,968	7,045
Construction payable	42,029	-	42,029
Taxes payable	3,151	3,151	-
Accrued interest	12,523	9,325	3,198
Customers' deposits	65,885	65,885	-
Long-term liabilities:			
Due within one year	145,696	116,198	29,498
Due in more than one year	<u>3,543,466</u>	<u>2,393,936</u>	<u>1,149,530</u>
Total liabilities	<u>3,886,763</u>	<u>2,655,463</u>	<u>1,231,300</u>
Deferred inflows:			
Refundable advance	<u>118,250</u>	<u>118,250</u>	<u>-</u>
Total deferred inflows	<u>118,250</u>	<u>118,250</u>	<u>-</u>
Net position:			
Net investment in capital assets	5,050,891	3,528,485	1,522,406
Restricted for debt service and construction activities	701,050	676,813	24,237
Unrestricted	<u>303,001</u>	<u>290,864</u>	<u>12,137</u>
Total net position	<u>\$ 6,054,942</u>	<u>4,496,162</u>	<u>1,558,780</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statement of Revenue and Expenses - Actual vs. Budget

Year ended December 31, 2022

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenue:			
Water	\$ 1,749,869	1,711,000	38,869
Sewer	194,570	165,000	29,570
Connection fees	8,322	3,250	5,072
Penalties	24,004	17,000	7,004
Fire hydrant rentals	1,125	1,200	(75)
Total operating revenues	<u>1,977,890</u>	<u>1,897,450</u>	<u>80,440</u>
Operating expenses:			
Payroll and payroll expenses	625,727	669,587	43,860
Water and sewer chemicals	500,898	306,000	(194,898)
Utilities	195,923	182,000	(13,923)
Repairs, maintenance and supplies	194,777	169,000	(25,777)
Insurance	17,309	20,000	2,691
Truck and backhoe expenses	32,730	35,000	2,270
Other operating expenses	141,715	126,200	(15,515)
Office and computer expense	10,455	10,000	(455)
Bad debts	4,134	1,000	(3,134)
Total operating expense	<u>1,723,668</u>	<u>1,518,787</u>	<u>(204,881)</u>
Net operating revenue before provision for depreciation	254,222	378,663	(124,441)
Depreciation	<u>606,183</u>	<u>36,000</u>	<u>(570,183)</u>
Net operating revenue (loss)	<u>(351,961)</u>	<u>342,663</u>	<u>(694,624)</u>
Other revenue (expense):			
Interest income	2,675	3,000	(325)
Grant revenue	34,610	-	34,610
Miscellaneous	1,063	2,810	(1,747)
Oil and gas royalties	30	50	(20)
Interest expense	<u>(138,904)</u>	<u>13,308</u>	<u>(152,212)</u>
Total other revenue (expense)	<u>(100,526)</u>	<u>19,168</u>	<u>(119,694)</u>
Change in net position	<u>\$ (452,487)</u>	<u>361,831</u>	<u>(814,318)</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Statement of Revenue and Expenses - Actual vs. Budget

Year ended December 31, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenue:			
Water	\$ 1,711,100	1,731,000	(19,900)
Sewer	162,590	160,000	2,590
Connection fees	4,350	3,000	1,350
Penalties	16,740	17,000	(260)
Fire hydrant rentals	1,125	1,200	(75)
Total operating revenues	<u>1,895,905</u>	<u>1,912,200</u>	<u>(16,295)</u>
Operating expenses:			
Payroll and payroll expenses	650,790	649,009	(1,781)
Water and sewer chemicals	335,772	306,000	(29,772)
Utilities	187,550	186,000	(1,550)
Repairs, maintenance and supplies	227,740	234,600	6,860
Insurance	14,551	24,000	9,449
Truck and backhoe expenses	33,738	25,000	(8,738)
Other operating expenses	80,815	95,370	14,555
Office and computer expense	10,109	6,000	(4,109)
Bad debts	3,165	2,000	(1,165)
Total operating expense	<u>1,544,230</u>	<u>1,527,979</u>	<u>(16,251)</u>
Net operating revenue before provision for depreciation	351,675	384,221	(32,546)
Depreciation	<u>553,938</u>	<u>35,000</u>	<u>(518,938)</u>
Net operating revenue (loss)	<u>(202,263)</u>	<u>349,221</u>	<u>(551,484)</u>
Other revenue (expense):			
Interest income	3,008	3,000	8
Grant revenue	168,560	-	168,560
Miscellaneous	28,960	3,100	25,860
Oil and gas royalties	40	-	40
Interest expense	<u>(143,723)</u>	<u>(19,000)</u>	<u>(124,723)</u>
Total other revenue (expense)	<u>56,845</u>	<u>(12,900)</u>	<u>69,745</u>
Change in net position	<u>\$ (145,418)</u>	<u>336,321</u>	<u>(481,739)</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statements of Revenue and Expenses

Year ended December 31, 2022

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Operating revenue:			
Water	\$1,749,869	1,749,869	-
Sewer	194,570	-	194,570
Connection fees	8,322	8,072	250
Penalties	24,004	24,004	-
Fire hydrant rentals	1,125	1,125	-
Total operating revenues	<u>1,977,890</u>	<u>1,783,070</u>	<u>194,820</u>
Operating expenses:			
Payroll and payroll expenses	625,727	548,813	76,914
Water and sewer chemicals	500,898	487,848	13,050
Utilities	195,923	151,941	43,982
Repairs, maintenance and supplies	194,777	178,485	16,292
Insurance	17,309	17,309	-
Truck and backhoe expenses	32,730	32,730	-
Other operating expenses	141,715	98,567	43,148
Office and computer expense	10,455	10,455	-
Bad debt	4,134	4,134	-
Total operating expense	<u>1,723,668</u>	<u>1,530,282</u>	<u>193,386</u>
Net operating revenue before provision for depreciation	254,222	252,788	1,434
Depreciation	<u>606,183</u>	<u>459,949</u>	<u>146,234</u>
Net operating revenue (loss)	<u>(351,961)</u>	<u>(207,161)</u>	<u>(144,800)</u>
Other revenue (expense):			
Interest income	2,675	2,675	-
Grant revenue	34,610	34,610	-
Miscellaneous	1,063	748	315
Oil and gas royalties	30	30	-
Interest expense	<u>(138,904)</u>	<u>(89,711)</u>	<u>(49,193)</u>
Total other revenue (expense)	<u>(100,526)</u>	<u>(51,648)</u>	<u>(48,878)</u>
Change in net position	<u><u>\$ (452,487)</u></u>	<u><u>(258,809)</u></u>	<u><u>(193,678)</u></u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Departmental Statements of Revenue and Expenses

Year ended December 31, 2021

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Operating revenue:			
Water	\$1,711,100	1,711,100	-
Sewer	162,590	-	162,590
Connection fees	4,350	4,100	250
Penalties	16,740	16,740	-
Fire hydrant rentals	1,125	1,125	-
Total operating revenues	<u>1,895,905</u>	<u>1,733,065</u>	<u>162,840</u>
Operating expenses:			
Payroll and payroll expenses	650,790	572,695	78,095
Water and sewer chemicals	335,772	328,466	7,306
Utilities	187,550	138,339	49,211
Repairs, maintenance and supplies	227,740	192,366	35,374
Insurance	14,551	14,551	-
Truck and backhoe expenses	33,738	33,738	-
Other operating expenses	80,815	64,298	16,517
Office and computer expense	10,109	10,109	-
Bad debt	3,165	3,165	-
Total operating expense	<u>1,544,230</u>	<u>1,357,727</u>	<u>186,503</u>
Net operating revenue before provision for depreciation	351,675	375,338	(23,663)
Depreciation	<u>553,938</u>	<u>409,829</u>	<u>144,109</u>
Net operating revenue (loss)	<u>(202,263)</u>	<u>(34,491)</u>	<u>(167,772)</u>
Other revenue (expense):			
Interest income	3,008	3,008	-
Grant revenue	168,560	168,560	-
Miscellaneous	28,960	28,140	820
Oil and gas royalties	40	40	-
Interest expense	<u>(143,723)</u>	<u>(93,385)</u>	<u>(50,338)</u>
Total other revenue (expense)	<u>56,845</u>	<u>106,363</u>	<u>(49,518)</u>
Change in net position	<u>\$ (145,418)</u>	<u>71,872</u>	<u>(217,290)</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information

Years ended December 31, 2022 and 2021

WATER CONSUMPTION

Water consumption for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Residential and small business	117,020,000	111,259,000
Cities of Belleville, Havana, NE Yell County Assn. & Tri County Water Dist.	349,287,700	346,555,800
State and county buildings	2,456,500	1,528,600
Poultry processing plants	<u>312,839,000</u>	<u>310,009,100</u>
Total water consumed	<u><u>781,603,200</u></u>	<u><u>769,352,500</u></u>

Cost of water production per thousand gallons consumed:

2022

Operating expenses	\$ 1,723,668	divided by 781,603,200 gal. =	2.21	/ thousand
Depreciation	<u>606,183</u>	divided by 781,603,200 gal. =	<u>0.78</u>	/ thousand
	<u><u>\$ 2,329,851</u></u>		<u><u>2.98</u></u>	/ thousand

2021

Operating expenses	\$ 1,544,230	divided by 769,352,500 gal. =	2.01	/ thousand
Depreciation	<u>553,938</u>	divided by 769,352,500 gal. =	<u>0.72</u>	/ thousand
	<u><u>\$ 2,098,168</u></u>		<u><u>2.73</u></u>	/ thousand

The water rate schedule for the operations of the water and sewer system is as follows for December 31, 2022 and 2021:

<u>Water rates</u>		<u>2022</u> Per thousand Gallons	<u>2021</u> Per thousand Gallons
First	2,000 gallons - minimum	\$11.72	11.72
Next	3,000 gallons	3.83	3.83
Next	5,000 gallons	3.29	3.29
Next	50,000 gallons	2.89	2.89
Next	140,000 gallons	2.74	2.74
Over	200,000 gallons	2.04	2.04
Industrial	Per 1,000 gallons	2.04	2.04
Wholesale	Per 1,000 gallons	1.95	1.95

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

The sewer rate schedule for the operations of the water and sewer system is as follows for December 31, 2022 and 2021:

<u>Sewer rates</u>		2022	2022	2021
		Per two thousand Gallons beginning 9/1/22	Per two thousand Gallons to 8/31/22	Per two thousand Gallons
First	2,000 gallons - minimum	\$15.00	\$10.00	10.00
Over	2,000 gallons	3.10	2.05	2.05

Sewer rates, through August 31, 2022, were assessed based on the average water usage registered by each customer during the November and December usage periods. That average was then used to establish a fixed charge for the operating period based on the noted fee structure identified above. Beginning September 1, 2022, the sewer rate is based on the monthly metered water usage based on the fee structure identified above.

PRINCIPAL OFFICERS AT DECEMBER 31, 2022 (and subsequent period):

Mayor:	Phil Moudy (Prior)
Mayor:	Bill Gilkey (Current)
City manager:	Jerry Pendergraft (Deceased)
City manager:	Heath Tate (Current)

PROPERTY AND PLANT ADDITIONS AND DISPOSITIONS

2022

Additions:	
Vehicle and equipment acquisitions	\$ 26,223
Water construction in progress	225,872
Sewer construction in progress	<u>146,500</u>
	<u>\$ 398,595</u>
Disposition:	
Sewer project cost charge-off	\$ 990
	<u>\$ 990</u>

2021

Additions:	
Vehicle acquisitions	\$ 28,144
Sewer equipment and improvements	53,614
Water equipment and improvements	<u>218,709</u>
	<u>\$ 300,467</u>

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

Five year amortization schedule of long-term notes and bonds payable:

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-04):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 14,544	6,535	8,009	165,044
2024	14,544	6,852	7,692	158,192
2025	14,544	7,185	7,359	151,007
2026	14,544	7,534	7,010	143,473
2027	14,544	7,899	6,645	135,574
Past 2028	179,415	135,574	43,841	-

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-07):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 113,784	43,264	70,520	1,685,977
2024	113,784	45,082	68,702	1,640,895
2025	113,784	46,978	66,806	1,593,917
2026	113,784	48,952	64,832	1,544,965
2027	113,784	51,010	62,774	1,493,955
Past 2028	2,155,329	1,493,955	661,374	-

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-06):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 77,580	29,498	48,082	1,149,530
2024	77,580	30,738	46,842	1,118,792
2025	77,580	32,030	45,550	1,086,762
2026	77,580	33,377	44,203	1,053,385
2027	77,580	34,780	42,800	1,018,605
Past 2028	1,469,543	1,018,605	450,938	-

CITY OF DANVILLE WATER AND SEWER SYSTEM

Supplemental Information, Continued

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(note 91-06):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 24,449	17,148	7,301	226,214
2024	24,449	17,663	6,786	208,551
2025	24,449	18,192	6,257	190,359
2026	24,449	18,738	5,711	171,621
2027	24,449	19,300	5,149	152,321
Past 2028	171,139	152,321	18,818	-

Arkansas Development Finance Authority 0% Water and Sewer Revenue Bonds, Series 2019
(note 01214-DWSRF-L):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Service Fee Requirement</u>	<u>Remaining Principal</u>
2023	\$ 51,019	49,251	1,768	355,532
2024	51,019	49,497	1,522	306,035
2025	51,019	49,745	1,274	256,290
2026	51,019	49,994	1,025	206,296
2027	51,019	50,244	775	156,052
Past 2028	156,885	156,052	833	-

The 0% interest bond repayment will include an annual 0.5% servicing fee assessment.

SHOPTAW, LABAHN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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*

Water and Sewer Committee
City Council of Danville
Danville, 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 Danville Water and Sewer System (a component unit of the City of Danville, Arkansas), which comprise the statement of net position as of December 31, 2022, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2024.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danville Water and Sewer System'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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 8, 2024

Shoptaw, Zabala & Company, P.A.