

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

Financial Statements
For the Years Ended December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the City Council
McCrary Water and Sewer System Fund
City of McCrary, 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 McCrary, Arkansas as of and for the years ended December 31, 2023 and 2022, 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 McCrary, Arkansas, as of December 31, 2023 and 2022, 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 McCrary, 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 McCrary, Arkansas and do not purport to, and do not present fairly the financial position of the City of McCrary, Arkansas, as of December 31, 2023 and 2022, 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 McCrary, 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 July 25, 2024, 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
July 25, 2024

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Statement of Net Position
December 31, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash and cash equivalents	\$ 141,758	\$ 727,810
Short term investments	767,853	223,847
Accounts receivable	124,861	119,441
Inventory	21,579	20,311
Prepays & other assets	16,820	12,016
Total Current Assets	<u>1,072,871</u>	<u>1,103,425</u>
Property, Plant, and Equipment:		
Property, plant, and equipment, net	<u>4,903,496</u>	<u>4,627,456</u>
Total Property, Plant, and Equipment	<u>4,903,496</u>	<u>4,627,456</u>
Restricted Assets		
Cash and cash equivalents	341,439	579,377
Short term investments	114,964	104,071
Total Restricted Assets	<u>456,403</u>	<u>683,448</u>
Total Assets	<u>\$ 6,432,770</u>	<u>\$ 6,414,329</u>
	<u>Liabilities and Net Position</u>	
Current Liabilities:		
Accounts payable	\$ 68,757	\$ 47,580
Accounts payable - restricted	3,752	15,955
Customer meter deposits	46,328	39,627
Current portion long-term debt	43,396	42,243
Total Current Liabilities	<u>162,233</u>	<u>145,405</u>
Long-term Liabilities		
Accrued employee benefits	7,061	7,061
Note Payable	1,995,966	2,038,290
Less: Note Payable - Current Portion	<u>(43,396)</u>	<u>(42,243)</u>
Total Long-term Liabilities	<u>1,959,631</u>	<u>2,003,108</u>
Total Liabilities	<u>2,121,864</u>	<u>2,148,513</u>
Net Position:		
Net investment in capital assets	2,907,530	2,589,166
Restricted		
Restricted for debt service	75,008	65,636
Restricted for capital improvements	335,067	578,185
Unrestricted	<u>993,301</u>	<u>1,032,829</u>
Total Net Position	<u>4,310,906</u>	<u>4,265,816</u>
Total Liabilities and Net Position	<u>\$ 6,432,770</u>	<u>\$ 6,414,329</u>

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

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Statement of Revenues, Expenses and Change in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water revenue	\$ 313,381	\$ 316,097
Sanitation charges	276,876	280,324
Sewer revenues	299,360	298,247
Fees, late charges and other	512	2,316
Mosquito control fees	<u>30,003</u>	<u>29,266</u>
Total Operating Revenues	<u>920,132</u>	<u>926,250</u>
Operating Expenses		
Salaries and benefits	194,554	170,913
Repairs and maintenance	25,271	33,150
Utilities	67,461	67,157
Chemicals	49,201	48,024
Mosquito control	24,445	20,705
Supplies and miscellaneous	67,750	41,572
Licenses, fees, and sales tax	103,340	97,262
Insurance	15,911	12,916
Depreciation	174,872	149,464
Landfill fees	253,933	243,534
Contract Labor	<u>350</u>	<u>450</u>
Total Operating Expenses	<u>977,088</u>	<u>885,147</u>
Net Operating Income	<u>(56,956)</u>	<u>41,103</u>
Non-Operating Revenue/(Expense)		
Grant revenue	79,538	526,513
Interest income	39,179	2,132
Interest expense	<u>(51,276)</u>	<u>(53,127)</u>
Total Non-Operating Revenue/(Expense)	<u>67,441</u>	<u>475,518</u>
Increase (decrease) in net position	10,485	516,621
Net position at beginning of year	4,265,816	3,592,308
Contributed capital- City of McCrary (Note 11)	34,605	156,887
Net position at end of year	<u>\$ 4,310,906</u>	<u>\$ 4,265,816</u>

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

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Statement of Cash Flows
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Receipts from customers	\$ 921,412	\$ 911,368
Payment to suppliers	(604,762)	(638,167)
Payment to employees	(194,554)	(170,913)
Other receipts/(payments)	<u>(316,957)</u>	<u>(180,378)</u>
Net cash provided by operating activities	<u>(194,861)</u>	<u>(78,090)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(450,912)	(575,151)
Principal paid on capital debt	(42,324)	(40,473)
Proceeds from grants	79,538	602,171
Proceeds from contributed capital	34,605	156,887
Interest paid on capital debt	<u>(51,276)</u>	<u>(53,127)</u>
Net cash used by capital and related financing activities	<u>(430,369)</u>	<u>90,307</u>
Cash flows from investing activities:		
Interest income	<u>39,179</u>	<u>2,132</u>
Net cash provided by investing activities	<u>39,179</u>	<u>2,132</u>
Net increase (decrease) in cash and cash equivalents	(586,052)	14,349
Cash and cash equivalents at beginning of year	<u>727,810</u>	<u>713,461</u>
Cash and cash equivalents at end of year	<u>\$ 141,758</u>	<u>\$ 727,810</u>
Reconciliation of operating income/(loss) to net cash provided / (used) by operating activities		
Operating income/(loss)	\$ (56,956)	\$ 41,103
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	174,872	149,464
Change in assets and liabilities:		
Prepays & other assets	(4,804)	(885)
Accounts receivables	(5,420)	(15,704)
Inventory	(1,268)	(17,056)
Short term investments	(544,006)	8,685
Accounts payable and accrued expenses	8,975	(55,456)
Customer meter deposits	6,701	822
Restricted assets	<u>227,045</u>	<u>(189,063)</u>
Net cash provided by operating activities	<u>\$ (194,861)</u>	<u>\$ (78,090)</u>

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

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The McCrary Water and Sewer System Fund is a component unit of the City of McCrary, 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.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

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, 2023 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 \$31,782 and \$34,868 at December 31, 2023 and 2022, respectively.

Sales of water, sewer, and sanitation services are made on an open account to customers located in McCrary, 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.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

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 lives:

<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 \$174,872 and \$149,464 for the years ended December 31, 2023 and 2022, 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.

McCrary Water and Sewer System Fund
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Notes to the Financial Statements
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Unrestricted- This component consists of net position that do not meet the definition of "net investment in capital assets," or "restricted".

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 July 25, 2024, the date which the financial statements were available to be issued.

2) CONCENTRATIONS OF CREDIT

The McCrary 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, 2023, cash balances that exceed FDIC coverage have collateral pledged to the cover the cash balances.

3) CASH AND INVESTMENTS

At December 31, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022

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>2023</u>	<u>2022</u>
Category 1	\$ 250,000	\$ 250,000
Category 2	1,118,700	1,386,050
Category 3	-	-
	<u>\$ 1,368,700</u>	<u>\$ 1,636,050</u>

Cash and investments consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash		
Unrestricted	\$ 141,758	\$ 727,810
Restricted	341,439	579,377
Certificates of deposit		
Unrestricted	767,853	223,847
Restricted	114,964	104,071
	<u>\$ 1,366,014</u>	<u>\$ 1,635,105</u>

4) RESTRICTED ASSETS

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

Restricted assets at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Restricted for debt service	\$ 75,008	\$ 65,636
Restricted for capital improvements	335,067	578,185
Meter deposits	46,328	39,627
Total restricted assets	<u>\$ 456,403</u>	<u>\$ 683,448</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, 2023.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

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, 2023.

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, 2023 and 2022 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.

5) PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	2022	Additions	Disposals	Transfers	2023
Water System	\$ 5,500,556	\$ 51,819	\$ -	\$ -	\$ 5,552,375
Sewer System	1,824,159	54,358	-	5,490	1,884,007
Vehicles	88,360	-	-	-	88,360
Building	16,789	-	-	-	16,789
Equipment	153,073	11,025	-	-	164,098
Construction in Progress	36,996	333,710	-	(5,490)	365,216
	7,619,933	450,912	-	-	8,070,845
Accumulated depreciation	(2,992,477)	(174,872)	-	-	(3,167,349)
Net property and equipment	\$ 4,627,456	\$ 276,040	\$ -	\$ -	\$ 4,903,496

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

5) PROPERTY AND EQUIPMENT (CONTINUED)

	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
	<u>7,044,782</u>	<u>575,151</u>	<u>-</u>	<u>-</u>	<u>7,619,933</u>
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>

6) BONDS PAYABLE

Bonds payable at December 31, consist of the following

	2022	Additions	Principal Payments	2023
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.	\$ 1,374,462	\$ -	\$ (28,197)	\$1,346,265
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.	253,139	-	(5,200)	247,939
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.	274,386	-	(6,213)	268,173
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.	136,303	-	(2,714)	133,589

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

6) BONDS PAYABLE (CONTINUED)

Total Debt	2,038,290	-	(42,324)	1,995,966
Less: Current Maturities	<u>(42,243)</u>			<u>(43,396)</u>
Total Long-Term Debt	<u>\$ 1,996,047</u>			<u>\$1,952,570</u>

Scheduled retirements of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	43,396	50,204	93,600
2025	44,510	49,090	93,600
2026	45,654	47,946	93,600
2027	46,826	46,774	93,600
2028	48,030	45,570	93,600
2029-2033	259,360	208,640	468,000
2034-2038	294,625	173,375	468,000
2039-2043	334,827	133,173	468,000
2044-2048	380,669	87,331	468,000
2049-2053	432,958	35,042	468,000
2054-2058	53,845	1,818	55,663
2059-2063	11,266	202	11,468
	<u>\$ 1,995,966</u>	<u>\$ 879,165</u>	<u>\$ 2,875,131</u>

7) COMPENSATED ABSENCES

The McCrary 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, 2023 and December 31, 2022.

8) RETIREMENT PLAN

The McCrary Water and Sewer System Fund matches employee contributions up to 4% in a retirement fund Arkansas Diamond Plan. Contributions for December 31, 2023 are \$1,375 and \$1,290 at December 31, 2022.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

9) RISK MANAGEMENT

The McCrary 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, 2021	\$ 2,123,006	\$ 1,013,282	\$ 456,020	\$3,592,308
Profit	-	516,621	-	516,621
Capital contributed by city	-	-	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>
Net position at December 31, 2022	\$ 2,589,166	\$ 1,032,829	\$ 643,821	\$4,265,816
Profit	-	10,485	-	10,485
Capital contributed by city (Note 11)	-	-	34,605	34,605
Transfers	318,364	(50,013)	(268,351)	-
Net position at December 31, 2023	<u>\$ 2,907,530</u>	<u>\$ 993,301</u>	<u>\$ 410,075</u>	<u>\$4,310,906</u>

11) CONTRIBUTED CAPITAL BY CITY

The City received grant funding during the year ending December 31, 2023 for the World Wide Loading Dock project. The loading dock is property of the City, and not the Water & Sewer System fund. The funds were deposited into the Sewer Project account at various dates throughout the fiscal year. Payments were also made from this account related to the World Wide Loading Dock project. A net total of \$34,605 will be reflected as capital contributed by the city at December 31, 2023.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Notes to the Financial Statements
December 31, 2023 and 2022

12) 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, 2023, 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. 100 - An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for periods beginning after June 15, 2023, 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
McCrary Water and Sewer System Fund
City of McCrary, 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 McCrary, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Water and Sewer System Fund of the City of McCrary, Arkansas's basic financial statements and have issued our report thereon dated July 25, 2024.

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 McCrary, 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 McCrary, 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 McCrary, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-1 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water and Sewer System Fund of the City of McCrary, 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

July 25, 2024

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Schedule of Audit Findings and Responses
December 31, 2023

FINDING 2023-1:

Numerous adjusting entries were required during the 2023 audit in order to present the Department's financial statements in accordance with generally accepted accounting principles (GAAP). The Fund does not have a process in place to ensure accounting records are in accordance with GAAP. This caused many accounts within the Fund's financial statements to be misstated. We recommend the Fund establish a formal closing checklist (monthly and annually) to document entries, reversing entries, and reconciliations that should be performed. In addition, at the completion of the audit, all required entries should be posted to the accounting software to ensure the Fund's final trial balance agrees to the audited trial balance.

RESPONSE:

Management will establish and implement a closing checklist for the monthly and annual closing processes to ensure the books are closed properly.

McCrary Water and Sewer System Fund
of the City of McCrary, Arkansas
Schedule of Service Users
December 31, 2023

Unaudited 2023

	<u>Active</u>
Number of Users	
Residential	682
Non-residential	103
Garden meter	<u>60</u>
Total Number of Users	<u><u>845</u></u>