

CITY OF MCNEIL, ARKANSAS
WATER AND SEWER SYSTEM
DECEMBER 31, 2022

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

TABLE OF CONTENTS

Independent Auditors' Report	1-3
<u>Financial Statements</u>	
Combined Statement of Net Position	4
Combined Statement of Revenues, Expenses and Changes in Net Position	5
Combined Statement of Cash Flows	6-7
Notes to Financial Statements	8-14
<u>Supplementary Financial Information</u>	
Combining Statements of Net Position	15
Combining Statements of Revenues, Expenses and Changes in Net Position	16
Combining Statements of Cash Flows	17-18
<u>Other Reports</u>	
Independent Auditors' 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	19-20
Schedule of Findings and Responses: Year Ended 12/31/22	21

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INDEPENDENT AUDITORS' REPORT

To the City of McNeil, Arkansas Water and Sewer Systems
McNeil, Columbia County, Arkansas

Opinion

We have audited the accompanying financial statements of the City of McNeil Water and Sewer Systems, of the City of McNeil, Arkansas, as of and for the year ended December 31, 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 financial position of the City of McNeil Water and Sewer Systems as of December 31, 2022, the changes in financial position, and cash flows for the year 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 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 City of McNeil Water and Sewer Systems, 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.

Responsibilities of Management 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 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 City of McNeil Water and Sewer Systems' 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 City of McNeil Water and Sewer Systems' 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 McNeil Water and Sewer Systems' 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.

Emphasis of Matter

As discussed in Note A, the financial statements present only the City of McNeil, Arkansas Water and Sewer Systems and do not purport to, and do not present fairly the net position of the City of McNeil, Arkansas as of December 31, 2022 the changes in its net 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.

Other Matters

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 Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Statements of Net Position; Combining Statements of Revenues, Expenses and Changes in Net Position and the Combining Statements of Cash Flows is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2024 on our consideration of the City of McNeil, Arkansas Water and Sewer Systems' 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 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 City of McNeil, Arkansas, Water and Sewer Systems' internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Wood and Wood Ltd", is positioned above the printed name.

Wood and Wood, Ltd.
Magnolia, AR

January 26, 2024

CITY OF MC NEIL, ARKANSAS WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINED STATEMENT OF NET POSITION
December 31, 2022

ASSETS

Current Assets

Cash	\$ 44,621
Accounts Receivable-Customers	11,558
Accounts Receivable-Interfund	<u>200,915</u>
Total Current Assets	<u>\$ 257,094</u>

Restricted Assets

Cash	\$ 145,433
Total Restricted Assets	<u>\$ 145,433</u>

Property and Equipment

Property, Plant and Equipment	\$ 2,723,757
Less: Accumulated Depreciation	<u>(1,069,361)</u>
Net Property and Equipment	<u>\$ 1,654,396</u>

Total Assets	<u>\$ 2,056,923</u>
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LIABILITIES

Current Liabilities

Accounts Payable-Trade	\$ 5,365
Accounts Payable-Interfund	203,207
Taxes Payable-Sales and Payroll	<u>542</u>
Total Current Liabilities	<u>\$ 209,114</u>

Payable from Restricted Assets

Bonds and Notes Payable-Current Portion	\$ 14,818
Bonds and Notes Interest Payable	1,344
Meter Deposits	<u>28,352</u>
Total Payable from Restricted Assets	<u>\$ 44,514</u>

Long-Term Debt

Bonds and Notes Payable	\$ 399,355
Total Liabilities	<u>\$ 652,983</u>

NET POSITION

Net Investment in Land, Buildings, and Equipment	\$ 1,240,223
Restricted for Debt Service Fund	30,850
Restricted for Depreciation Fund	77,990
Unrestricted	<u>54,877</u>
Total Net Position	<u>\$ 1,403,940</u>
Total Liabilities and Net Position	<u>\$ 2,056,923</u>

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

CITY OF MC NEIL, ARKANSAS WATER AND SEWER SYSTEMS
Mc Neil, Columbia County, Arkansas

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the year ended December 31, 2022

<u>Operating Revenues</u>	
Sales-Water Use Charges	\$ 86,322
Sales-Sewer Use Charges	39,500
Other Income Receipts	<u>2,900</u>
Total Operating Revenues	\$ <u>128,722</u>
<u>Operating Expenditures</u>	
Salaries and Labor	\$ 40,876
Payroll Taxes	3,127
Utilities and Telephone	15,800
Dues, Fees, and Permits	2,478
Office Supply and Rent	160
Parts and Supplies	1,725
Repair and Maintenance	3,902
Water Analysis	573
Accounting and Legal	12,071
Insurance	2,731
Depreciation	68,748
Unclassified	<u>57</u>
Total Operating Expenditures	\$ <u>152,248</u>
Operating Income or (Loss)	\$ <u>(23,526)</u>
<u>Non-Operating Revenues (Expenditures)</u>	
Interest Income	\$ 289
Interest and Fees	<u>(11,529)</u>
Total Non-Operating Revenues (Expenditures)	\$ <u>(11,240)</u>
Net Income (Loss) Before Other Financing Sources	\$ <u>(34,766)</u>
<u>Other Financing Sources</u>	
Transfers In	\$ 55,967
Transfers Out	<u>(55,967)</u>
Total Other Financing Sources	\$ <u>0</u>
Net Income (Loss) After Other Financing Sources	\$ <u>(34,766)</u>
Net Position, Beginning of Year	1,438,706
Net Position, End of Year	<u>\$ 1,403,940</u>

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

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINED STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

<u>Cash Flows from Operating Activities</u>	
Cash Receipts from Customers	\$ 134,763
Cash Paid to Other Governments	(4,228)
Cash Paid for Wages and Payroll Taxes	(44,003)
Cash Paid to Suppliers	(42,751)
Net Cash Provided (Used) by Operating Activities	<u>\$ 43,781</u>
<u>Cash Flows from Investing Activities</u>	
Cash Received from Interest	\$ 289
Total Cash Provided (Used) by Investing Activities	<u>\$ 289</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Net Transfers	\$ 0
Loan and Bond Principal Paid	(14,455)
Loan and Bond Interest Paid	(11,586)
Total Cash Provided (Used) by Financing Activities	<u>\$ (26,041)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 18,029
Cash and Cash Equivalents, Beginning of Year	<u>172,025</u>
Cash and Cash Equivalents, End of Year	<u>\$ 190,054</u>

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

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINED STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities

Operating Income (Loss)	\$(23,526)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided by Operating Activities:	
Depreciation	\$ 68,748
(Increase) Decrease in Customer Receivable	(403)
Increase (Decrease) in Accounts Payable Trade	(3,314)
Increase (Decrease) in Interfund Payable	406
Increase (Decrease) in Sales & Payroll Taxes	60
Increase (Decrease) in Meter Deposit Liability	<u>1,810</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 43,781</u>

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

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

Note A: Summary of Significant Accounting Policies:

The City of McNeil, Arkansas operates under the Mayor-Council form of government. The City of McNeil, Arkansas Water and Sewer Systems are enterprise funds of the City of McNeil, Arkansas. Operations of the Water and Sewer Systems are directed by the City of McNeil, Arkansas City Council.

The accounting policies of the City of McNeil, Arkansas, Water and Sewer Systems, are designed to conform to accounting principles generally accepted in the United States of America applicable to governmental proprietary funds.

(1) The Reporting Entity

The City of McNeil, Arkansas, Water and Sewer Systems, enterprise funds of the City of McNeil, Arkansas, for financial purposes, reports only on the financial position, results of operations, and cash flows of the City of McNeil, Arkansas Water and Sewer Systems.

The City of McNeil, Arkansas Water and Sewer Systems do not have oversight responsibility for any other governmental unit, as no other governmental entities are considered to be controlled by or dependent on the Water and Sewer Systems. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and the respective governing board.

(2) Proprietary Fund Types-Enterprise Funds

Enterprise funds are used to account for (a) operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the Water and Sewer Systems are charges to customers for water and sewer sales and services. Operating expenses for the Water and Sewer Systems include the cost of pumping, treating, and delivering water and sewer discharge, maintenance of equipment and lines, administrative services, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(3) Basis of Accounting

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of measurements made regardless of the measurement focus applied.

The enterprise funds of the City of McNeil, Arkansas (Water and Sewer Systems) are accounted for using the accrual basis of accounting. Their revenues are recognized when earned and their expenses are recognized when they are incurred. Unrecorded billings for water and sewer services are recorded at year-end and unpaid incurred expenditures are recorded at year-end.

The Water and Sewer Systems recognize revenue as water and sewer services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. Unbilled amounts are calculated by deriving estimates based on average daily usage of the billing cycle immediately following the accounting period. Unbilled amounts are included in accounts receivable and operating revenues in the financial statements.

The City of McNeil, Arkansas Water and Sewer Systems apply all Governmental Auditing Standards Board pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

(4) Cash and Cash Equivalents

The City of McNeil, Arkansas Water and Sewer Systems, enterprise funds of the City of McNeil, Arkansas maintains cash deposits and cash equivalents; ie; checking accounts, savings passbooks and certificates of deposit in eligible banks within the State of Arkansas.

Generally, state laws require that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations on which principal and interest are fully guaranteed by the United States of America.

For purposes of the Statement of Cash Flows the City of McNeil, Arkansas Water and Sewer Systems considers highly liquid investments with an original maturity of one year or less, when purchased, to be cash and/or cash equivalents.

- (5) Accounts receivable for water and sewer usage are computed in the last week of each month, and billed to customers in the month following usage. These amounts for the month ending December 31, 2022 in addition to billings for past due amounts are, recorded as accounts receivable at December 31, 2022. The system does not provide an allowance for uncollectible accounts receivable but uses the direct write off method for amount in excess of customer meter deposits. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States.

(6) Property, Plant and Equipment and Long-Term Liabilities

The accounting and reporting treatment applied to property, plant, and equipment and long-term liabilities associated with a fund are determined by its measurement focus.

Property, plant, and equipment are valued at historical cost. Donated property, plant, and equipment are valued at their estimated fair value on the date donated.

The enterprise funds of the City of McNeil, Arkansas (Water and Sewer Systems) account for property, plant, and equipment on a cost of service or "capital maintenance" measurement focus. This means that all assets or liabilities (whether current or non-current) associated with their activity are included on their balance sheet. The reported fund equity (Net Position) is segregated into restricted and unrestricted components.

Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis as follows:

System Construction and Extensions	40 Years
Buildings	40 Years
Equipment	5-10 Years

(7) Budget and Budgetary Accounting

The City is required to establish a budget for the operations of the City from January 1, to December 31 of the forth-coming year, under the following procedures:

Proposed Budget-The mayor of the City, operating under the Mayor-Council form of government, on or before December 1 of each year, shall submit to the governing body of the City, for its approval or disapproval, a proposed budget for operation of the City from January 1 through December 31 of the forth-coming year.

Adoption of Budget-The governing body of the City shall on or before February 1 of each year adopt a budget for the operation of the City.

Appropriations and Revisions-The approval by the governing body of the budget shall for the purposes of the budget, from time to time, amount to appropriation of funds which are lawfully applicable to the items contained within the budget.

The governing body may alter or revise the budget and unpledged funds appropriated by the governing body for any purpose may be subsequently, by action of the governing body, appropriated to another purpose, subject to the following exceptions:

- (1) Funds resulting from taxes levied under statutes or ordinances for specific purposes may not be diverted to another purpose.
- (2) Appropriated funds may not be diverted to another purpose where any creditor of the City would be prejudiced thereby.

The City employs the adopted budget as part of its management control system during the year for its governmental and enterprise funds. These budgets are required to be adopted on a basis consistent with the basis of accounting used by governmental and enterprise funds.

The approved, cash basis, budget adopted for the water and sewer systems operations, for the year ending December 31, 2022 is, in total as follows.

	Water	Sewer	Total
Appropriation	\$ 66,500	\$ 65,462	\$ 131,962
Expenditures, Cash Basis	63,546	60,862	124,408
	<u>\$ 2,954</u>	<u>\$ 4,600</u>	<u>\$ 7,554</u>

The reported income and expenditures are as follows:

Income, Accrual Basis	\$ 89,264	\$ 39,747	\$ 129,011
Expenses including depreciation of \$46,363 and \$ 22,385, and interest of \$5,925 and \$5,604	(99,541)	(64,236)	(163,777)
	<u>\$(10,277)</u>	<u>\$(24,489)</u>	<u>\$(34,766)</u>

Unused appropriation for all the annually budgeted funds lapse at the end of the year.

(8) Accumulated Compensated Absences

The City of McNeil, Arkansas Water and Sewer Systems policy relative to vacation and sick leave does not permit the accumulation of compensated absences. Employee vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence.

- (9) The financial statements of the City of McNeil, Arkansas Water and Sewer Systems reflect restrictions for that part of fund equity, which is for a specific future use.

(10) Restricted Assets

The financial statements of the City of McNeil, Arkansas Water and Sewer Systems reflect certain assets that have been restricted for payment of certain liabilities. These assets are as follows:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Cash in Bank-Depreciation Fund	\$ 7,543	\$ 3,771	\$ 11,314
Cash in Bank-Meter Deposit	24,878		24,878
Cash in Bank-Debt Serv. Acct.	28,200	2,651	30,851
Cash in Bank-Depreciation Reserve	78,390		78,390
	<u>\$ 139,011</u>	<u>\$ 6,422</u>	<u>\$ 145,433</u>

(11) Capitalized Interest

The City of McNeil, Arkansas Water and Sewer Systems capitalizes net interest costs (interest cost less interest earned) as part of the cost of construction of various water and sewer system projects when material.

(12) 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 these estimates.

Note B: Inter-Fund Receivable and Payable:

<u>Water System</u>	
Due from Sewer System	\$ 200,915
Due to Fire Dept.	(2,292)
	<u>\$ 198,623</u>
<u>Sewer System</u>	
Payable to Water System	\$ 200,915
	<u>\$ 200,915</u>

Note C: Property Plant and Equipment-Enterprise Funds

		<u>Beginning Balance</u>	<u>Additions Disposals</u>	<u>Ending Balance</u>
<u>Water System</u>				
Equipment	1983-2006	\$ 153,557	\$	\$ 153,557
Water Tank	2011	427,228		427,228
Water Lines	2014	1,229,245		1,229,245
Equipment	2017-2019	33,812		33,812
Equipment	2020	13,796		13,796
Equipment	2021	157		157
<u>Sewer System</u>				
Building	1995	24,507		24,507
Equipment	1979-2006	109,601		109,601
Disposal System	1995-2006	477,857		477,857
Land		3,697		3,697
Equipment	2015-2019	33,987		33,987
Renovate system	2020	216,156		216,156
Equipment	2021	157		157
Total Property, Plant, and Equipment		\$ 2,723,757	\$	\$ 2,723,757
Less: Accumulated Depreciation		<u>1,000,613</u>	<u>68,748</u>	<u>1,069,361</u>
		<u>\$ 1,723,144</u>	<u>\$ (68,748)</u>	<u>\$ 1,654,396</u>

Depreciation charged to expense during 2022 totals \$68,748.

Note D: Long-Term Debt-Enterprise Funds:

The long-term debt of the City of McNeil, Arkansas Water and Sewer Systems consist of the following bonds and notes payable as at December 31, 2022.

USDA Rural Development Loan No. 19-1 at 3.0% interest rate for \$238,000, payable over a period of 40 years beginning November 19, 2011. This debt is secured with all equipment of the water and sewer system.

The long-term debt transactions relative to the USDA Rural Development note payable are as follows:

USDA-RD Note Payable; January 1, 2022	\$ 199,684
Principal Payments, Year 2022	<u>4,438</u>
Balance December 31, 2022	<u>\$ 195,246</u>

The annual requirements to amortize the USDA-RDA note payable are as follows:

Year Ending December 31	Payment Amount	Principal Payment	Loan Interest	Loan Balance
2022				195,246
2023	10,368	4,550	5,818	190,696
2024	10,368	4,689	5,679	186,007
2025	10,368	4,848	5,520	181,159
2026	10,368	4,995	5,373	176,164
2027	10,368	5,147	5,221	171,017
2028-2032	51,840	28,157	23,683	142,860
2033-2037	51,840	32,731	19,109	110,129
2038-2042	51,840	38,030	13,810	72,099
2043-2047	51,840	44,188	7,652	27,911
2048-2050	<u>29,142</u>	<u>27,911</u>	<u>1,231</u>	<u>0</u>
	<u>\$ 288,342</u>	<u>\$ 195,246</u>	<u>\$ 93,096</u>	<u>\$ 0</u>

The letter of conditions relative to this loan requires that certain reserves be established to maintain the financial viability of the City of McNeil, Arkansas Water System. These required reserve accounts are, per the letter of conditions are (1) USDA-RDA debt services reserve and (2) USDA-RDA Depreciation Reserve.

USDA-RDA Debt Service Reserve: This reserve is to be funded by transferring an amount equal to 10% of the monthly payment each month over the life span of the loan until a reserve amount equal to twelve monthly installments are accumulated (\$10,368). These funds may be used for emergency maintenance, repairs, and debt payment if such need should arise.

USDA-RDA-Asset Depreciation Reserve: This reserve is to be funded at the rate of \$445 per month. The purpose of this reserve is to provide funds for the repair and/or replacement of short lived assets when such need arises.

Arkansas Development Finance Authority, water and sewer revenue bond series 2018 at 2.50% including service fees in the amount of \$250,000.00. Principal amount to be paid over a period of 20 years, beginning April 15, 2021 and each 6 months thereafter.

The bond was issued for the purpose of providing financing all or a portion of the cost of construction betterments to the sewer system facilities, and costs of authorizing and issuing this bond. Such bond being issued pursuant to and in full compliance with the constitution and laws of the state of Arkansas and is secured by all assets of the water and sewer systems.

The long-term debt transactions relative to the ADFA note payable are as follows:

ADFA Note Payable: January 1, 2022	\$ 228,944
Principal Payments: Year 2022	<u>10,017</u>
Balance: December 31, 2022	<u>\$ 218,927</u>

The annual requirements to amortize the ADFA note payable, subsequent to construction completion are as follows:

<u>Year Ending December 31</u>	<u>Payment Amount</u>	<u>Principal Payment</u>	<u>Loan Interest</u>	<u>Loan Balance</u>
2022				218,927
2023	15,678	10,268	5,410	208,659
2024	15,678	10,526	5,152	198,133
2025	15,678	10,792	4,886	187,341
2026	15,678	11,063	4,615	176,278
2027	15,678	11,341	4,337	164,937
2028-2032	78,389	61,133	17,256	103,804
2033-2037	78,389	69,219	9,170	34,585
2038-2040	35,808	34,585	1,223	0
	<u>\$ 270,976</u>	<u>\$ 218,927</u>	<u>\$ 52,049</u>	<u>\$ 0</u>

ADFA-ANRC-Asset Depreciation Fund: This reserve to be funded in an amount equal to 6% of the gross monthly revenue of the water and sewer reserves until the fund contains at least \$133,100.

Note E: Public Fund Deposits and Instruments:

State Statutes and Ordinances of the City govern the investment policies of the City of McNeil, Arkansas. State Statutes do not require collateralization for demand deposits, time deposits and certificates of deposit in excess of coverage afforded by the Federal Deposit Insurance Corporation. Obligations that may be pledged as collateral are obligations of the United States of America. However, agencies of the Federal Government wherein federal funds are involved generally require collateralization.

The City of McNeil, Arkansas Water and Sewer Systems deposits and investments are categorized below to indicate risk level assumed by the City of McNeil, Arkansas Water and Sewer Systems as at December 31, 2022.

Deposit Categories of Credit Risk

- (A) Insured or collateralized with securities held by the entity or by its' agent in the entity's name.
- (B) Collateralized by/with securities held by the pledging financial institutions trust department or agent in the entity's name.
- (C) Uncollateralized

Investment Categories of Credit Risk

- (1) Insured or registered securities held by the entity or its' agent in the entity's name.
- (2) Uninsured and unregistered, with securities held by the counterparty trust department or agent in the entity's name
- (3) Uninsured or unregistered, with securities held by the counterparty or by its' trust department or agent but not in the entity's name.

The following credit risk information is presented in regard to collateral pledges to secure public fund deposits at December 31, 2022. The City of McNeil, Arkansas, other than the Water and Sewer Systems, funds are not presented in the following tabulation. All funds of the City of McNeil, Arkansas could be considered to be one entity by the FDIC.

	<u>Enterprise Funds</u>	
	<u>Bank</u>	<u>Carrying</u>
	<u>Balances</u>	<u>Balances</u>
<u>Summary of Deposits</u>		
Demand Deposits	\$ 152,489	\$ 148,578
Certificates of Deposit	41,476	41,476
Total Deposits	<u>\$ 193,965</u>	<u>\$ 190,054</u>
<u>Summary of FDIC Insurance</u>		
Demand Deposits	\$ 152,489	\$ 148,578
Certificates of Deposits	41,476	41,476
Total	<u>\$ 193,965</u>	<u>\$ 190,054</u>

The above summary of deposits encompasses two banks in which the City of McNeil, Arkansas Water and Sewer Systems maintains checking accounts and certificates of deposits.

Note F: Lease of Property

In connection with the operation of the City of McNeil, Arkansas Water and Sewer Systems, the City leases certain property from the St. Louis Southwestern Railway Company. The lease allows the City to place sewer lines on railway company property and maintain such lines. Other lease costs are paid in connection with computer software use. Rents are also paid for office space. These charges are included in the Office Supply and Rent classification. These are all considered to be month to month rentals.

Note G: Insurance Coverage

The following insurance coverage is in force as December 31, 2022. Premiums (cost) of this coverage were paid by various funds of the City.

Automotive

Collision and liability coverage on specific vehicles of the City, which are used in all departments (Arkansas Municipal League-Vehicle Program)

Other

Fire and extended coverage on buildings and equipment of the City of McNeil, Arkansas (Arkansas Municipal League-Property Program)

Required workmen's compensation coverage (Arkansas Municipal League)

Fire fighter income protection plan (Arkansas Municipal League)

Fidelity Bonds

Fidelity bond coverage of \$10,000 on any elected officer of the City of McNeil, Arkansas. (Western Surety Co.)

Fidelity bond (Self Insured Trust) established by Act 728 of 1987. Coverage: All employees \$250,000 with \$1,000 deductible. (Governmental Bonding Board-Fidelity Bond Trust)

Note I: Management Review

The organization has evaluated subsequent events through January 26, 2024 the date the financial statements were available to be issued.

SUPPLEMENTARY FINANCIAL INFORMATION

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINING STATEMENTS OF NET POSITION
December 31, 2022

<u>Assets</u>	<u>Water System</u>	<u>Meter Deposit Fund</u>	<u>Sewer System</u>	<u>Totals 12-31-22</u>
<u>Current Assets</u>				
Cash	\$ 5,796	\$	\$ 38,825	\$ 44,621
Accounts Receivable-Customers	7,814		3,744	11,558
Accounts Receivable-Interfund	200,915			200,915
Total Current Assets	<u>\$ 214,525</u>	<u>\$</u>	<u>\$ 42,569</u>	<u>\$ 257,094</u>
<u>Restricted Assets</u>				
Cash	\$ 114,133	\$ 24,878	\$ 6,422	\$ 145,433
Total Restricted Assets	<u>\$ 114,133</u>	<u>\$ 24,878</u>	<u>\$ 6,422</u>	<u>\$ 145,433</u>
<u>Property and Equipment</u>				
Property Plant and Equipment	\$ 1,857,795	\$	\$ 865,962	\$ 2,723,757
Less: Accumulated Depreciation	(576,251)		(493,110)	(1,069,361)
Net Property and Equipment	<u>\$ 1,281,544</u>	<u>\$</u>	<u>\$ 372,852</u>	<u>\$ 1,654,396</u>
Total Assets	<u>\$ 1,610,202</u>	<u>\$ 24,878</u>	<u>\$ 421,843</u>	<u>\$ 2,056,923</u>
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts Payable-Trade	\$ 2,805	\$	\$ 2,560	\$ 5,365
Accounts Payable-Interfund	2,292		200,915	203,207
Taxes Payable-Sales and Payroll	542			542
Total Current Liabilities	<u>\$ 5,639</u>	<u>\$</u>	<u>\$ 203,475</u>	<u>\$ 209,114</u>
<u>Payable from Restricted Assets</u>				
Bonds and Notes Payable-Current Portion	\$ 4,550	\$	\$ 10,268	\$ 14,818
Bonds and Notes Interest Payable	192		1,152	1,344
Meter Deposits		28,352		28,352
Total Payable from Restricted Assets	<u>\$ 4,742</u>	<u>\$ 28,352</u>	<u>\$ 11,420</u>	<u>\$ 44,514</u>
<u>Long-Term Debt</u>				
Bonds and Notes Payable	\$ 190,696	\$	\$ 208,659	\$ 399,355
Total Liabilities	<u>\$ 201,077</u>	<u>\$ 28,352</u>	<u>\$ 423,554</u>	<u>\$ 652,983</u>
<u>Net Position</u>				
Net Investment in Land, Buildings, Equip	\$ 1,086,298	\$	\$ 153,925	\$ 1,240,223
Reserve for Debt Service Fund	28,200		2,650	30,850
Reserve for Depreciation Fund	74,219		3,771	77,990
Undesignated	220,408	(3,474)	(162,057)	54,877
Total Net Position	<u>\$ 1,409,125</u>	<u>\$ (3,474)</u>	<u>\$ (1,711)</u>	<u>\$ 1,403,940</u>
Total Liabilities and Net Position	<u>\$ 1,610,202</u>	<u>\$ 24,878</u>	<u>\$ 421,843</u>	<u>\$ 2,056,923</u>

See Independent Auditors' Report.

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
For the year ended December 31, 2022

	Water System	Sewer System	Totals 12-31-22
<u>Operating Revenues</u>			
Sales-Water Use Charges	\$ 86,322	\$	\$ 86,322
Sales-Sewer Use Charges		39,500	39,500
Other Income Receipts	2,900		2,900
Total Operating Revenue	<u>\$ 89,222</u>	<u>\$ 39,500</u>	<u>\$ 128,722</u>
<u>Operating Expenditures</u>			
Salaries and Labor	\$ 20,438	\$ 20,438	\$ 40,876
Payroll Taxes	1,564	1,563	3,127
Utilities and Telephone	11,969	3,831	15,800
Dues, Fees, Permits & Publications	944	1,534	2,478
Office Supply	108	52	160
Parts and Supplies	1,548	177	1,725
Repair and Maintenance	2,370	1,532	3,902
Water Analysis		573	573
Accounting and Legal	6,036	6,035	12,071
Insurance	2,276	455	2,731
Depreciation	46,363	22,385	68,748
Unclassified		57	57
Total Operating Expenditures	<u>\$ 93,616</u>	<u>\$ 58,632</u>	<u>\$ 152,248</u>
Operating Income or (Loss)	<u>\$ (4,394)</u>	<u>\$ (19,132)</u>	<u>\$ (23,526)</u>
<u>Non-Operating Revenues (Expenditures)</u>			
Interest Income	\$ 42	\$ 247	\$ 289
Interest and Fees	(5,925)	(5,604)	(11,529)
Total Non-Operating Revenues (Expenditures)	<u>\$ (5,883)</u>	<u>\$ (5,357)</u>	<u>\$ (11,240)</u>
<u>Other Financing Sources</u>			
Transfers In	\$ 12,000	\$ 43,967	\$ 55,967
Transfers Out	(28,345)	(27,622)	(55,967)
Total Other Financing Sources	<u>\$ (16,345)</u>	<u>\$ 16,345</u>	<u>\$ 0</u>
Net Income (Loss) After Other Financing Sources	<u>\$ (26,622)</u>	<u>\$ (8,144)</u>	<u>\$ (34,766)</u>
Net Position, Beginning of Year	<u>1,432,273</u>	<u>6,433</u>	<u>1,438,706</u>
Net Position, End of Year	<u>\$ 1,405,651</u>	<u>\$ (1,711)</u>	<u>\$ 1,403,940</u>

See Independent Auditors' Report

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINING STATEMENTS OF CASH FLOWS
For the year ended December 31, 2022

	Water System	Sewer System	Totals 12-31-21
<u>Cash Flows from Operating Activities</u>			
Cash Receipts from Customers	\$ 95,703	\$ 39,060	\$ 134,763
Cash Received-Interest	42	247	289
Cash Paid to Other Government Services	(4,228)		(4,228)
Cash Paid for Wages and Payroll Taxes	(22,002)	(22,001)	(44,003)
Cash Paid to Suppliers	(27,569)	(15,182)	(42,751)
Total Cash Provided (Used) by Operating Activities	<u>\$ 41,946</u>	<u>\$ 2,124</u>	<u>\$ 44,070</u>
<u>Cash Flows from Investing Activities</u>			
Capital Expenditure-Equipment Purchases	\$ (0)	\$ (0)	\$ (0)
Total Cash Provided (Used) by Investing Activities	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ (0)</u>
<u>Cash Flows from Financing Activities</u>			
Net Transfers	\$(16,345)	\$ 16,345	\$ 0
Loan and Bond Principal Paid	(4,438)	(10,017)	(14,455)
Loan and Bond Interest Paid	(5,929)	(5,657)	(11,586)
Net Cash Provided (Used) Financing Activities	<u>\$(26,712)</u>	<u>\$ 671</u>	<u>\$(26,041)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 15,234	\$ 2,795	\$ 18,029
Cash and Cash Equivalents, Beginning of Year	<u>129,573</u>	<u>42,452</u>	<u>172,025</u>
Cash and Cash Equivalents, End of Year	<u>\$ 144,807</u>	<u>\$ 45,247</u>	<u>\$ 190,054</u>

See Independent Auditors' Report

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
McNeil, Columbia County, Arkansas

COMBINING STATEMENTS OF CASH FLOWS
For the year ended December 31, 2022

	<u>Water System</u>	<u>Sewer System</u>	<u>Totals 12-31-22</u>
<u>Reconciliation of Operating Income (Loss)</u> <u>To Net Cash Provided by Operating Activities</u>			
Operating Income (Loss)	\$(4,394)	\$(19,132)	\$(23,526)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Depreciation	46,363	22,385	68,748
Interest Received	42	247	289
(Increase) Decrease Customer Receivable	37	(440)	(403)
Increase (Decrease) in Accounts Payable Trade	(2,378)	(936)	(3,314)
Increase (Decrease) in Interfund Payable	406		406
Increase (Decrease) in Sales & Payroll Tax	60		60
Increase (Decrease) in Meter Deposit Liability	<u>1,810</u>		<u>1,810</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,946</u>	<u>\$ 2,124</u>	<u>\$ 44,070</u>

See Independent Auditors' Report.

OTHER REPORTS

WOOD AND WOOD, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' 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 of McNeil Arkansas Water and Sewer Systems
McNeil, Columbia County, Arkansas.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of McNeil, Arkansas, Water and Sewer Systems as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the City of McNeil, Arkansas, Water and Sewer Systems' basic financial statements, and have issued our report thereon dated January 26, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of McNeil, Arkansas, Water and Sewer Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McNeil, Arkansas, Water and Sewer Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of McNeil, Arkansas, Water and Sewer Systems' 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies. (Reference 22-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McNeil, Arkansas, Water and Sewer Systems' 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

City of McNeil, Arkansas Water & Sewer Systems-Response to Findings

The City of McNeil, Arkansas Water and Sewer Systems' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Their response was not subject to the auditing procedures applied in the audit of the combined financial statements; accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Wood and Wood, Ltd.
Magnolia, AR

January 26, 2024

CITY OF MC NEIL, ARKANSAS, WATER AND SEWER SYSTEMS
Mc Neil, Columbia County, Arkansas

SCHEDULE OF FINDINGS AND RESPONSES
For the year ended December 31, 2022

Financial Statement Findings

Internal Control

22-1 Condition: Absence of appropriate segregation of duties consistent with appropriate control objectives. This is an inherent limitation.

Without appropriate segregation of duties, material misstatement could exist within the financial statements and not be detected currently.

Recommendation: Management should continue to develop policies and procedures that would segregate the duties of employed personnel.

Response: Segregation of duties in the situation where limited personnel is required is difficult and the hiring of addition personnel is not cost effective, we will continue to develop polices and procedures in this area wherever possible.