

MINERAL SPRINGS WATER AND SEWER SYSTEM



MINERAL SPRINGS, ARKANSAS

DECEMBER 31, 2022

MINERAL SPRINGS WATER AND SEWER SYSTEM
MINERAL SPRINGS, ARKANSAS

TABLE OF CONTENTS
DECEMBER 31, 2022

	<u>PAGE NO.</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures	1 - 2
Independent Accountants' Compilation Report	3
Statements of Net Position - December 31, 2022 and 2021	4 - 5
Statements of Revenue, Expenses and Changes in Net Position - For Years Ended December 31, 2022 and 2021	6
Statements of Cash Flows - For Years Ended December 31, 2022 and 2021	7 - 8
Notes to Financial Statements	9 - 13

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Mayor and City Council
Mineral Springs, Arkansas

We have performed the procedures enumerated below on the accounting records of Mineral Springs Water & Sewer System as of and for the year ended December 31, 2022. Mineral Springs Water and Sewer System's management is responsible for the entity's accounting records.

Mineral Springs Water & Sewer System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of satisfying annual reporting requirements of the Arkansas Division of Legislative Audit. Additionally, the Arkansas Legislative Joint Auditing Committee has agreed to and acknowledged that the procedures performed are appropriate for their purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. Cash and Investments

- a. Perform a proof of cash for the year and reconcile year-end bank balances to book balances.
- b. Confirm with depository institutions the cash on deposit and investments.
- c. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

We found no exceptions as a result of the procedures.

2. Receipts

- a. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
- b. Agree ten customer payments on the accounts receivable sub ledger to deposit and billing documents.
- c. For ten deposits, agree the cash/check composition of the deposit with the receipt information.

We found no exceptions as a result of the procedures.

3. Accounts Receivable

- a. Agree ten customer billings to the accounts receivable sub ledger.
- b. Determine that five customer adjustments were properly authorized.

We found no exceptions as a result of the procedures.

4. Disbursements

- a. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$500, whichever is greater.
- b. Analyze all property, plant and equipment disbursements.
- c. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

We found no exceptions as a result of the procedures.

5. Property, Plant, and Equipment

- a. Determine that additions and disposals were properly accounted for in the records. (Materiality level – 5% of total equipment or \$500, whichever is greater.)

We found no exceptions as a result of the procedures.

6. Long-Term Debt

- a. Schedule long-term debt and verify changes in all balances for the year.
- b. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
- c. Determine that the appropriate debt service accounts have been established and maintained.

We found no exceptions as a result of the procedures.

7. General

- a. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

We found no exceptions as a result of the procedures.

We were engaged by Mineral Springs Water and Sewer System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records of Mineral Springs Water and Sewer System. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Mineral Springs Water and Sewer System and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Mineral Springs Water and Sewer System and the Arkansas Legislative Joint Auditing Committee, and is not intended to be and should not be used by anyone other than those specified parties.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

May 13, 2023

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To Management
Mineral Springs Water & Sewer System
Mineral Springs, Arkansas

Management is responsible for the accompanying financial statements of Mineral Springs Water & Sewer System, which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has omitted Budgetary Comparison Schedule 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 required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management.

As discussed in Note 1, the financial statements referred to above present only Mineral Springs Water & Sewer System, which is an enterprise fund of the City of Mineral Springs, and are not intended to present fairly the financial position of the City of Mineral Springs, and the results of its operations and the cash flows of its other funds in conformity with generally accepted accounting principles.

Turner, Rodgers, Manning & Plyler, PLLC
Arkadelphia, Arkansas
May 13, 2023

MINERAL SPRINGS WATER AND SEWER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

Page 4

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 107,395	\$ 87,919
Accounts Receivable	43,536	42,028
Unbilled Revenue	7,780	7,459
Prepaid Expenses	31,142	-
TOTAL CURRENT ASSETS	<u>189,853</u>	<u>137,406</u>
RESTRICTED ASSETS:		
Cash	<u>67,791</u>	<u>54,489</u>
CAPITAL ASSETS:		
Land	12,000	12,000
Buildings	52,725	52,725
Water System	2,006,409	2,006,409
Sewer System	1,219,351	1,219,351
Furniture and Equipment	172,057	172,057
Vehicles	203,886	14,386
	<u>3,666,428</u>	<u>3,476,928</u>
Less Accumulated Depreciation	<u>(2,139,537)</u>	<u>(2,025,658)</u>
TOTAL CAPITAL ASSETS	<u>1,526,891</u>	<u>1,451,270</u>
TOTAL ASSETS	<u><u>\$ 1,784,535</u></u>	<u><u>\$ 1,643,165</u></u>

See Independent Accountants' Compilation Report and Notes to Financial Statements.

MINERAL SPRINGS WATER AND SEWER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

Page 5

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 7,131	\$ 3,267
Accrued Interest Payable	8,809	8,915
Accrued Compensated Absences	3,421	3,288
Due to General Fund	249	249
Sales Tax Payable	2,001	1,841
Current Portion of Long-Term Debt	52,155	27,517
TOTAL CURRENT LIABILITIES	<u>73,766</u>	<u>45,077</u>
LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Customers' Meter Deposits	<u>3,789</u>	<u>4,259</u>
LONG-TERM LIABILITIES:		
Revenue Bond Payable		
(Less unamortized issuance costs of \$25,457 and \$26,576)	693,283	712,163
Notes Payable	149,765	20,878
TOTAL LONG-TERM LIABILITIES	<u>843,048</u>	<u>733,041</u>
TOTAL LIABILITIES	<u>920,603</u>	<u>782,377</u>
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	781,453	711,590
Retained Earnings:		
Reserved	64,002	50,230
Unreserved	18,477	98,968
TOTAL NET POSITION	<u>863,932</u>	<u>860,788</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,784,535</u>	<u>\$ 1,643,165</u>

See Independent Accountants' Compilation Report and Notes to Financial Statements.

MINERAL SPRINGS WATER AND SEWER SYSTEM
STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 6

	<u>2022</u>	<u>2021</u>
OPERATING REVENUE:		
Charges for Services	\$ 417,215	\$ 416,498
Miscellaneous Income	11,388	8,471
TOTAL REVENUE	<u>428,603</u>	<u>424,969</u>
OPERATING EXPENSES:		
Personnel Costs	122,585	136,563
Maintenance, Operations, and Contract Services	128,947	137,745
Materials and Supplies	24,048	24,075
Depreciation and Amortization	114,998	77,331
TOTAL OPERATING EXPENSES	<u>390,578</u>	<u>375,714</u>
OPERATING INCOME	<u>38,025</u>	<u>49,255</u>
NON-OPERATING REVENUE (EXPENSES):		
Interest Earned	183	131
Interest Expense	(31,464)	(30,535)
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(31,281)</u>	<u>(30,404)</u>
NET INCOME	<u>6,744</u>	<u>18,851</u>
NET POSITION - BEGINNING OF YEAR	860,788	845,537
TRANSFERS (TO) FROM OTHER CITY FUNDS (NET)	(3,600)	(3,600)
NET POSITION - END OF YEAR	<u>\$ 863,932</u>	<u>\$ 860,788</u>

See Independent Accountants' Compilation Report and Notes to Financial Statements.

MINERAL SPRINGS WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 7

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 422,323	\$ 422,618
Other Operating Cash Receipts	-	4,574
Cash Payments for Goods and Services	(190,104)	(307,343)
Cash Payments to Employees	(108,010)	(116,746)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>124,209</u>	<u>3,103</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating Transfers (to) from other City Funds	(3,600)	(3,600)
Increase (Decrease) in Meter Deposits	(470)	(300)
NET CASH FLOW FROM FINANCING ACTIVITIES	<u>(4,070)</u>	<u>(3,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(189,500)	(6,992)
Principal Debt Payment	(55,974)	(82,157)
Proceeds from Long-Term Debt	189,500	6,992
Interest Paid	(31,570)	(31,338)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(87,544)</u>	<u>(113,495)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	183	131
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>32,778</u>	<u>(114,161)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	142,408	256,569
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 175,186</u>	<u>\$ 142,408</u>

See Independent Accountants' Compilation Report and Notes to Financial Statements.

MINERAL SPRINGS WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 8

Reconciliation of operating income to net cash flow from operating activities:

	<u>2022</u>	<u>2021</u>
OPERATING INCOME	\$ 38,025	\$ 49,255
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation and Amortization	114,998	77,331
Bad Debts	4,451	3,506
Change in Assets and Liabilities:		
Accounts Receivable	(5,959)	(571)
Prepaid Expenses	(31,142)	-
Unbilled Revenue	(321)	(712)
Accounts Payable	3,864	(120,805)
Accrued Expenses	293	(4,901)
TOTAL ADJUSTMENTS	<u>86,184</u>	<u>(46,152)</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 124,209</u>	<u>\$ 3,103</u>

SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

None

See Independent Accountants' Compilation Report and Notes to Financial Statements.

MINERAL SPRINGS WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 9

Note 1. Significant Accounting Policies:

The Mineral Springs Water and Sewer System, "the System", is an Enterprise Fund of the City of Mineral Springs, Arkansas and is governed by the Board of Directors of the City of Mineral Springs, Arkansas. The accompanying financial statements and other information reflect the Mineral Springs Water and Sewer System fund only and do not include other funds of the City of Mineral Springs, Arkansas.

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

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with generally accepted accounting principles under which revenues are recognized when earned, and expenses are recorded when incurred. The System applies all relevant Government Accounting Standards Board (GASB) pronouncements. The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

For purposes of the Statement of Cash Flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bad debts, which are immaterial in amount after applying customers' meter deposits, are recognized based on the direct charge-off of individual accounts considered uncollectible.

Capital Assets are stated at cost or customer cost of construction on contributed assets. Assets capitalized have an original cost of \$2,500 or more and useful lives of at least three years. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Buildings	40 Years
Water and Sewer System	10 - 40 Years
Vehicles and Equipment	5 - 20 Years

Management has evaluated subsequent events through May 13, 2023, the date the financial statements were available for issuance.

Note 2. Current Assets:

Unbilled Revenue at December 31, 2022 consists of December 2022 usage that was billed in January 2023.

MINERAL SPRINGS WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 10

Note 3. Restricted Assets:

Restricted cash at December 31, 2022, consists of \$3,789 (Meter Deposits), \$35,598 (Depreciation Fund) and \$28,404 (Debt Service Fund).

Note 4. Capital Assets:

Capital Assets activity for the years ended December 31, 2022 and 2021 was as follows:

	12/31/2021	INCREASES	DECREASES	12/31/2022
Capital Assets at Historical Costs:				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Buildings	52,725	-	-	52,725
Water System	2,006,409	-	-	2,006,409
Sewer System	1,219,351	-	-	1,219,351
Furniture and Equipment	172,057	-	-	172,057
Vehicles	14,386	189,500	-	203,886
	<u>3,476,928</u>	<u>189,500</u>	<u>-</u>	<u>3,666,428</u>
Less Accumulated Depreciation:				
Buildings	(19,441)	(1,318)	-	(20,759)
Water System	(1,007,042)	(36,670)	-	(1,043,712)
Sewer System	(871,968)	(26,856)	-	(898,824)
Furniture and Equipment	(112,821)	(11,135)	-	(123,956)
Vehicles	(14,386)	(37,900)	-	(52,286)
Total Depreciation	<u>(2,025,658)</u>	<u>(113,879)</u>	<u>-</u>	<u>(2,139,537)</u>
NET	<u>\$ 1,451,270</u>	<u>\$ 75,621</u>	<u>\$ -</u>	<u>\$ 1,526,891</u>
	12/31/2020	INCREASES	DECREASES	12/31/2021
Capital Assets at Historical Costs:				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Buildings	52,725	-	-	52,725
Water System	2,006,409	-	-	2,006,409
Sewer System	1,219,351	-	-	1,219,351
Furniture and Equipment	165,065	6,992	-	172,057
Vehicles	14,386	-	-	14,386
	<u>3,469,936</u>	<u>6,992</u>	<u>-</u>	<u>3,476,928</u>
Less Accumulated Depreciation:				
Buildings	(18,123)	(1,318)	-	(19,441)
Water System	(970,372)	(36,670)	-	(1,007,042)
Sewer System	(845,112)	(26,856)	-	(871,968)
Furniture and Equipment	(101,453)	(11,368)	-	(112,821)
Vehicles	(14,386)	-	-	(14,386)
Total Depreciation	<u>(1,949,446)</u>	<u>(76,212)</u>	<u>-</u>	<u>(2,025,658)</u>
NET	<u>\$ 1,520,490</u>	<u>\$ (69,220)</u>	<u>\$ -</u>	<u>\$ 1,451,270</u>

MINERAL SPRINGS WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 11

Note 5. Public Fund Deposits and Investments:

State law generally requires that City funds be deposited in federally insured banks located within the State of Arkansas. The 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 where principal and interest are fully guaranteed by the United States of America. All cash funds of the System, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of Mineral Springs Water and Sewer in financial institutions permitted by law.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. Mineral Springs Water and Sewer System does not have a policy for custodial credit risk. The carrying value of the System's accounts and investments at December 31, 2022 was \$175,186. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$177,049 before adjustment for outstanding items.

Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Mineral Springs Water and Sewer accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Mineral Springs accounts and investments at a financial institution.

Investment Interest Rate Risk: The System does not have an investment interest rate risk. All investments are short-term certificates of deposit and the System is under no obligation to renew upon maturity.

Investment Credit Risk: The System does not have a formal investment policy. All investments are short-term certificates of deposit with banks authorized by state law to receive deposits of public funds and with which the System has a collateral agreement.

Foreign Currency Risk: The System has no exposure to foreign currency risk.

Note 6. Liabilities:

Accounts payable, reported as a current liability, is composed of operating expenses for December. These amounts were paid subsequent to December 31, 2022.

MINERAL SPRINGS WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 12

Note 7. Long-Term Debt:

Long-term debt consists of the following as of December 31, 2022 and 2021, respectively:

	<u>2022</u>	<u>2021</u>
Bonds Payable - 2020 Series, Payable in Varying Semi-Annual Installments, Due March 1st and September 1st each year, Bearing interest at 3.5%, Maturing in September 2045, Collateralized by System Revenues, Current Portion \$20,000.	\$ 738,740	\$ 758,739
Note Payable - John Deere Financial, Payments of \$510 due monthly, Including interest at 3.95%, Maturing in November 2025, Collateralized by Equipment, Current Portion \$5,577.	16,278	22,205
Note Payable - Marlin Capital, Payments of \$299 due monthly, Including interest at 10.99%, Maturing in August 2024, Collateralized by Equipment, Paid in full in 2022.	-	6,190
Note Payable - Cadence Bank, Payments of \$2,495 due monthly, Including interest at 2.19%, Balloon payment due in July 2024, Collateralized by Equipment, Current Portion \$26,578.	165,642	-
	<u>920,660</u>	<u>787,134</u>
Less portion considered current	<u>(52,155)</u>	<u>(27,517)</u>
Long-Term Debt	<u>868,505</u>	<u>759,617</u>
Less issuance discounts	<u>(25,457)</u>	<u>(26,576)</u>
Long-Term Debt, Net	<u>\$ 843,048</u>	<u>\$ 733,041</u>

The future maturities of long-term debt as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 52,155	# \$ 29,760	\$ 111,675
2024	164,865	27,165	192,030
2025	29,900	24,543	54,443
2026	25,000	23,581	48,581
2027	25,000	22,705	47,705
Thereafter	<u>623,740</u>	<u>212,925</u>	<u>836,665</u>
Total	<u>\$ 920,660</u>	<u>\$ 340,679</u>	<u>\$ 1,261,339</u>

Note 8. Risk Management:

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The System maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the System.

MINERAL SPRINGS WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 13

Note 9. Retirement Plan:

The System participates in the Arkansas Diamond Deferred Compensation Plan (a 457 supplemental retirement plan). All full-time employees are eligible to participate after 60 days of service. The System contributes 6% of each eligible employee's gross pay per year. Contributions to Arkansas Diamond for the year ending December 31, 2022 and 2021 were \$2,389 and \$3,281, respectively. Employees are allowed to make salary deferral contributions to the Plan, subject to IRS limitations (\$20,500 limit for 2022 and \$19,500 limit for 2021).