

**PALESTINE MUNICIPAL WATER
AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2023**

**MEYER & WARD, P.A.
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PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS

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INDEPENDENT AUDITOR'S REPORT

To the Palestine Municipal Water and Sewer Commission
Palestine, Arkansas 72372

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Palestine Municipal Water and Sewer Department as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Department's basic 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 Palestine Municipal Water and Sewer Department as of December 31, 2023 and 2022, and respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller 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 Palestine Municipal Water and Sewer Department 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 opinions.

Emphasis of Matter

As discussed in Note A, the accompanying financial statements of the Palestine Municipal Water and Sewer Department are intended to present the financial position, and the changes in financial position and the cash flows of the City that is attributable to the transactions of the Palestine Municipal Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the City of Palestine, Arkansas, as of December 31, 2023, and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 Palestine Municipal Water and Sewer Department'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 opinions. 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 Palestine Municipal Water and Sewer Department'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 Palestine Municipal Water and Sewer Department'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4 through 6 and 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2024, on our consideration of the Palestine Municipal Water and Sewer Department's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Palestine Municipal Water and Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396
September 10, 2024

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023**

Within this section of the Palestine Municipal Water and Sewer Department's financial report, the Department's management provides narrative discussion and analysis of the financial activities of the Department for the year ended December 31, 2023. The Water and Sewer Department's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Water and Sewer Department as a whole and present a longer term view of the Department's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Palestine Municipal Water and Sewer Department as a whole

Our analysis of the Water and Sewer Department as a whole follow in the next section. The Department operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Water and Sewer Department's finances is: "Is the Department as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Water and Sewer Department as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer Department's net position and the changes which have occurred in the year. You can think of the Department's net position (the difference between its assets and liabilities) as one way to measure the Water and Sewer Department's financial health.

Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Department.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
December 31, 2023**

	2023	2022	2021
Financial Highlights			
Beginning Net Position	\$ 1,259,782	\$ 1,331,307	\$ 1,373,881
Increase (Decrease) in Net Position	(106,869)	(71,525)	(42,574)
Ending Net Position	<u>\$ 1,152,913</u>	<u>\$ 1,259,782</u>	<u>\$ 1,331,307</u>

Assets, liabilities, and net position for 2023, 2022, and 2021 are as follows:

	2023	2022	2021
Current Assets	\$ 127,704	\$ 193,664	\$ 202,182
Restricted Assets	98,566	90,173	83,064
Capital Assets	1,598,842	1,753,727	1,932,830
Total Assets	<u>\$ 1,825,112</u>	<u>\$ 2,037,564</u>	<u>\$ 2,218,076</u>
Current Liabilities	\$ 193,799	\$ 229,242	\$ 253,994
Long-term Liabilities	478,400	548,540	632,775
Total Liabilities	<u>672,199</u>	<u>777,782</u>	<u>886,769</u>
Net Position			
Unrestricted	81,140	141,041	194,968
Restricted for Debt Service	21,336	24,466	16,726
Net Investment in Capital Assets	1,050,437	1,094,275	1,119,613
Total Net Position	<u>\$ 1,152,913</u>	<u>\$ 1,259,782</u>	<u>\$ 1,331,307</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
December 31, 2023**

The following schedule presents a summary of revenues and expenditures for the year ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Operating Revenues	\$ 654,652	\$ 678,522	\$ 708,185
Operating Expenses	744,478	729,278	729,519
Operating Income	(89,826)	(50,756)	(21,334)
Other Income (Expenses)	(17,043)	(20,769)	(21,240)
	<u>\$ (106,869)</u>	<u>\$ (71,525)</u>	<u>\$ (42,574)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year end December 31, 2023, the Department had \$1,598,842 invested in capital assets. This represents a net decrease of \$154,885 which is the result of depreciation expense recognized for the year ended December 31, 2023 in the amount of \$ 167,661 and additions of \$ 12,776.

Debt

At year end, the Water and Sewer Department had \$ 548,405 in outstanding debt. This represents a net decrease of \$ 84,496 which is the result of principal payments made during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Water and Sewer Department has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Water and Sewer Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Eric Johnson, Chairman of the Palestine Water Commission.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	Assets	
	2023	2022
Current Assets:		
Cash on Hand and in Banks	\$ 48,355	\$ 74,579
Accounts Receivable	79,349	119,085
Total Current Assets	<u>127,704</u>	<u>193,664</u>
Restricted Assets:		
Cash - Customer Deposits	52,043	50,588
Cash - Ark Soil and Water Reserve	16,828	13,003
Cash In Hands of Paying Agent	8,359	2,116
Cash - Debt Service Reserve	21,336	24,466
Total Restricted Assets	<u>98,566</u>	<u>90,173</u>
Property, Plant and Equipment:		
Water and Sewer System	5,995,220	5,995,220
Machinery and Equipment	445,093	432,317
Office Equipment	34,016	34,016
	<u>6,474,329</u>	<u>6,461,553</u>
Less: Accumulated Depreciation	(4,875,487)	(4,707,826)
Net Property, Plant and Equipment	<u>1,598,842</u>	<u>1,753,727</u>
Total Assets	<u>\$ 1,825,112</u>	<u>\$ 2,037,564</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

LIABILITIES AND NET POSITION

	<u>2023</u>	<u>2022</u>
Current Liabilities:		
Accounts Payable	\$ 28,248	\$ 51,605
Due to City of Palestine-General Fund	12,245	12,245
Payroll Taxes Payable	1,926	1,785
Sales Tax Payable	6,537	5,489
Accrued Interest Payable	1,493	1,862
Current Portion of Notes Payable	70,005	84,361
Total Current Liabilities	<u>120,454</u>	<u>157,347</u>
Current Liabilities Payable from Restricted Assets:		
Customer Meter Deposits	<u>73,345</u>	<u>71,895</u>
Long-Term Liabilities:		
Bonds Payable - USDA	246,027	269,390
Notes Payable - Bancorp South	1,731	11,852
Notes Payable - Arkansas Soil and Water	46,393	63,323
Notes Payable - ANRC	254,254	288,336
	<u>548,405</u>	<u>632,901</u>
Less: Current Portion	<u>(70,005)</u>	<u>(84,361)</u>
Net Long-Term Liabilities	<u>478,400</u>	<u>548,540</u>
Total Liabilities	<u>672,199</u>	<u>777,782</u>
Net Position:		
Net Investment in Capital Assets	1,050,437	1,094,275
Restricted for debt service	21,336	24,466
Unrestricted	81,140	141,041
Total Net Position	<u>1,152,913</u>	<u>1,259,782</u>
Total Liabilities and Net Position	<u>\$ 1,825,112</u>	<u>\$ 2,037,564</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Operating Revenues:		
Water Fees	\$ 526,011	\$ 547,338
Sewer Fees	100,344	109,138
Other Revenues	28,297	22,046
Total Operating Revenues	<u>654,652</u>	<u>678,522</u>
Operating Expenses:		
Water Purchases	177,615	165,784
Salaries and Wages	107,594	100,988
Auto and Truck Expense	14,241	12,123
Depreciation	167,661	179,103
Employee Benefits	40,917	39,315
Insurance Expense		1,901
Laboratory Expense	7,459	5,265
Miscellaneous	5,575	2,341
Office Expense	2,095	2,093
Payroll Taxes	7,932	7,454
Postage	4,712	3,980
Professional Fees	16,431	6,244
Operating Supplies, Repairs and Maintenance	168,792	178,330
Utilities Expense	23,454	24,357
Total Operating Expenses	<u>744,478</u>	<u>729,278</u>
OPERATING INCOME (LOSS)	<u>(89,826)</u>	<u>(50,756)</u>
Non-operating Revenues (Expenses):		
Interest Income	2,345	336
Interest Expense	(19,388)	(21,105)
Total Non-operating Revenues (Expenses)	<u>(17,043)</u>	<u>(20,769)</u>
Change in Net Position	(106,869)	(71,525)
Beginning Net Postion	1,259,782	1,331,307
Ending Net Position	<u>\$ 1,152,913</u>	<u>\$ 1,259,782</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Receipts from Customers	\$ 695,838	\$ 664,187
Payments to Suppliers	(491,391)	(468,624)
Payments to Employees	(107,594)	(100,988)
Net Cash Provided by (Used in) Operating Activities	<u>96,853</u>	<u>94,575</u>
Cash Flows from Non-Capital Financing Activities		
Transfers (to) from Restricted Accounts	(8,393)	(7,109)
Net Cash Provided by (Used in)		
Non-Capital Financing Activities	<u>(8,393)</u>	<u>(7,109)</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of Capital Assets	(12,776)	-
Principal Paid on Capital Debt	(84,496)	(90,095)
Interest Paid on Capital Debt	(19,757)	(21,477)
Net Cash Provided by (Used in) Capital and		
Related Financing Activities	<u>(117,029)</u>	<u>(111,572)</u>
Cash Flows from Investing Activities		
Interest Income	<u>2,345</u>	<u>336</u>
Net Cash Provided by (Used in) Investing Activities	<u>2,345</u>	<u>336</u>
Increase (Decrease) in Cash and Cash Equivalents	(26,224)	(23,770)
Cash and Cash Equivalents, Beginning of Year	<u>74,579</u>	<u>98,349</u>
Cash and Cash Equivalents, End of Year	<u>\$ 48,355</u>	<u>\$ 74,579</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
STATEMENTS OF CASH FLOWS (cont'd)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

	<u>2023</u>	<u>2022</u>
Operating Income	(89,826)	(50,756)
Depreciation	167,661	179,103
(Increase) Decrease in Accounts Receivable	39,736	(15,252)
Increase (Decrease) in Payroll Taxes Payable	141	(660)
Increase (Decrease) in Sales Tax Payables	1,048	130
Increase (Decrease) in Accounts Payable	(23,357)	(18,907)
Increase (Decrease) in Customer Deposits	1,450	917
Total Adjustments	<u>186,679</u>	<u>145,331</u>
Net Cash Provided by Operating Activities	<u>\$ 96,853</u>	<u>\$ 94,575</u>

The accompanying notes are an integral part to the financial statements.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Organization and Financial Reporting – Palestine Municipal Water and Sewer Department is a component unit of the City of Palestine, Arkansas. The accompanying financial statements present only the Palestine Municipal Water and Sewer Department and do not include all funds, account groups, and programs controlled by the City of Palestine. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Water and Sewer Department consist of an enterprise fund with the purpose of providing water and sewer services to the general public within the City and the rural residents of the surrounding area.

Basis of accounting – The Palestine Municipal Water and Sewer Department uses the accrual basis of accounting in accordance with generally accepted accounting principles. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business. Revenues are recognized when earned, and expenses are recognized when incurred.

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

Cash and Cash Equivalents – The Palestine Municipal Water and Sewer Department considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted per loan agreements or other purposes are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of water and sewer services to local customers. Accounts receivable are presented net of an allowance for doubtful accounts as of December 31, 2023 and 2022, of \$ 296,219 and \$215,232 respectively. The allowance is based on age analysis of accounts and results of collection efforts. Accounts receivable are collateralized by customer deposits.

Property and Equipment – Property and Equipment are stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 5 - 7 years for office furniture and equipment, to 40 years for the water and sewer system.

Restricted Assets – The Palestine Municipal Water and Sewer Department is required under the terms of various bond ordinances to establish and maintain prescribed cash balances that can only be used for specific purposes.

Risk Management - The Palestine Municipal Water and Sewer Department minimizes risk of loss through purchase of commercial insurance coverage.

Operating Revenues and Expenses – Operating Revenues and Expenses consists of those revenues that result from ongoing operations, and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Department's policy to apply those expenses to restricted net assets to the extent such as are available and then to unrestricted net assets.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONT'D)

Sales Tax – The Palestine Municipal Water and Sewer Department collects sales taxes on water sold, and remits taxes collected monthly to the State of Arkansas Department of Finance and Administration. Water fees are presented in the accompanying financial statements net of sales taxes.

Compensated absences – No accrual has been made for compensated absences because the amounts would not be material.

Net Position – Net Position is categorized as investments in capital assets (net of related debt), restricted for debt services (pursuant to debt agreements), or unrestricted.

Advertising – Advertising costs are charged to expenses when incurred.

Credit Risk – Financial instruments which subject the Department to concentration of credit risk consist principally of temporary cash investments. The Department places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit risk exposure. The Department's policy is to limit such investments to amounts covered by FDIC coverage and securities pledged to collateralize deposits. Credit risk from accounts receivable is limited due to the large number of customers and security deposits held as collateral.

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The Water and Sewer Department's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The Water and Sewer Department's deposits are categorized to give an indication of the level of risk assumed by the Water and Sewer Department. The categories are described as follows:

Category 1- Insured or collateralized by the Water and Sewer Department or by its agent in the Water and Sewer Department's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust department or by its agent in the Water and Sewer Department's name.

Category 3- Uncollateralized.

At December 31, 2023, cash deposits categorized by level of risks are as follows:

Carrying Amount	Category		
	1	2	3
<u>\$ 146,921</u>	<u>\$ 146,921</u>		

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE C – PROPERTY AND EQUIPMENT

A summary of property, plant and equipment for the Water and Sewer Department is presented below:

	December 31, 2022	Additions	Deletions	December 31, 2023
Assets subject to depreciation:				
Machinery and Equipment	432,317	\$ 12,776		\$ 445,093
Office Equipment	34,016			34,016
Water and Sewer System	5,995,220			5,995,220
	<u>6,461,553</u>	<u>12,776</u>	<u>-</u>	<u>6,474,329</u>
Total	6,461,553	12,776	-	6,474,329
Less Accumulated Depreciation	<u>(4,707,826)</u>	<u>(167,661)</u>		<u>(4,875,487)</u>
Net Property, Plant, and Equipment	<u>\$ 1,753,727</u>	<u>\$ (154,885)</u>	<u>\$ -</u>	<u>\$ 1,598,842</u>

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE D – LONG TERM NOTES PAYABLE

The following is a summary of the Palestine Municipal Water and Sewer Department's long-term notes payable:

	2023	2022
5% Revenue Bond of 1992, due in monthly installments of \$3,014 through December 2032, secured by pledge of future revenues	\$ 246,027	\$ 269,390
5% Note Payable to Arkansas Natural Resource Commission, due in annual installments of \$5,713 through June 2023, secured by pledge of capital assets	40,613	44,129
5% Note Payable to Arkansas Natural Resource Commission, due in annual installments of \$1,583 through December 2024, secured by pledge of future revenues	1,502	2,938
5.55% Note Payable to Arkansas Natural Resource Commission, due in semi-annual installments of \$6,293 through February 2027, secured by pledge of future revenues	4,278	16,256
1% Note Payable to Arkansas Natural Resource Commission, due in semi-annual installments of \$18,440 through April 2031, secured by pledge of future revenues	254,254	288,336
BancorpSouth Equip, 4.5%, monthly \$871 through February 2024, secured by property and equipment	1,731	11,852
	548,405	632,901
Less Current Portion	(70,005)	(84,361)
Net Long-Term Notes Payable	<u>\$ 478,400</u>	<u>\$ 548,540</u>

A summary of notes payable activity is as follows:

	12/31/2022	Additions	Reductions	12/31/2023
USDA	\$ 269,390		\$ 23,363	\$ 246,027
Bancorp South	11,852		10,121	1,731
Arkansas Soil & Water	63,323		16,930	46,393
Arkansas Natural Resources Commission	288,336		34,082	254,254
	<u>\$ 632,901</u>		<u>\$ 84,496</u>	<u>\$ 548,405</u>

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE D – LONG TERM NOTES PAYABLE (CON'T'D)

A Schedule of the future payments required is as follows:

For the years ending
December 31,

	Principal	Interest	Total
2024	\$ 70,005	\$ 16,449	\$ 86,454
2025	64,305	14,456	78,761
2026	66,160	12,927	79,087
2027	68,096	10,675	78,771
2028	70,097	8,665	78,762

For the five years
ending December 31,

2023	209,742	13,374	223,116
	<u>\$ 548,405</u>	<u>\$ 76,546</u>	<u>\$ 624,951</u>

NOTE E – RESTRICTED ACCOUNTS

The Debt Service Reserve and Depreciation Reserve cash accounts have been established pursuant to agreements with U.S. Rural Development, and the Arkansas Natural Resource Commission. These accounts are required to maintain monthly transfers as defined by loan agreements and are restricted for retirement of long-term debt and repairs.

The required balances for the Debt Service Reserve and Depreciation cash accounts at December 31, 2023 are \$ 36,168 and \$ 6,000 respectively. The actual amounts held in the Debt Service Reserve and Depreciation cash accounts at December 31, 2023 are \$ 21,336 and \$ 0 respectively, for a deficit in the Debt Service Reserve of \$ 14,832 and a deficit in the Depreciation Reserve of \$ 6,000.

The required balances for the Debt Service Reserve and Depreciation cash accounts at December 31, 2022 are \$ 36,168 and \$ 6,000, respectively. The actual amounts held in the Debt Service Reserve and Depreciation cash accounts at December 31, 2022 are \$ 24,466 and \$ 6,000 respectively, for a deficit in the Debt Service Reserve of \$ 11,702 and a deficit in the Depreciation Reserve of \$ 6,000.

The Customer Meter Deposit Cash account is reserved for customer meter deposits. The cash balance should equal or exceed the Customer Meter Deposit liability. At December 31, 2023, the Customer Meter Deposit liability exceeded the cash balances held by \$ 21,302. At December 31, 2022, the Customer Meter Deposit liability exceeded the cash balances held by \$ 21,307.

The note agreement with Arkansas Natural Resource Commission requires a separate Depreciation Reserve account be established to fund future sewer system repairs and maintenance. For the years ended December 31, 2023, and 2022 the amount in the reserve account was \$ 16,828 and \$ 13,003.

NOTE F – CONCENTRATIONS

The Palestine Municipal Water and Sewer Department purchases all water from the Forrest City, Arkansas Water Utility.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report; no items were noted which would require disclosure.

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

**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**

Palestine Municipal Water and Sewer Commission
Palestine, 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 business-type activities of the Palestine Municipal Water and Sewer Department as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Water and Sewer Department's basic financial statements and have issued our report thereon dated September 10, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Palestine Municipal Water and Sewer Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palestine Municipal Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Department'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 Water and Sewer Department'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 over financial reporting 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (#23-001)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Palestine Municipal Water and Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* (#23-002).

Palestine Municipal Water and Sewer Department's Response to Findings

Palestine Municipal Water and Sewer Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Palestine Municipal Water and Sewer Department's response was not subjected to the auditing procedures applied in the audit of the financial statement and, 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 Water and Sewer Department'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 Water and Sewer Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396
September 10, 2024

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

23-001 Segregation of Duties

CONDITION: The Palestine Municipal Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Department's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Department's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

RESPONSE: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly by the Commission.

23-002 Noncompliance: Debt Service Reserve Accounts

CONDITION: The Palestine Municipal Water and Sewer Department does not maintain the required debt service and depreciation reserves as established by the USDA loan agreement.

CRITERIA: The terms of the loan agreements with the United States Department of Agriculture (USDA) and Arkansas Natural Resource Commission (ANRC) require the Department to maintain the following reserve balances:

Debt Service Reserve-USDA	\$ 36,168
Depreciation Reserve-USDA	<u>6,000</u>
Total	\$ <u>42,168</u>

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023**

23-002 Noncompliance: Debt Service Reserve Accounts – cont'd

At December 31, 2023, the Department had total depreciation and debt service reserves of \$ 21,336.

EFFECT: Failure to maintain the required reserve is noncompliance with the terms of the loan agreement.

RECOMMENDATION: The Department should make additional transfers to the reserve account.

RESPONSE: Additional transfers will be made when sufficient funds are available.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2023**

Prior year finding #22-001 – Lack of Segregation of Duties

This finding has been repeated as finding #23-001.

Prior year finding #22-002 – Noncompliance: Debt Service Reserve

This finding has been repeated as finding #23-002.

**PALESTINE MUNICIPAL WATER AND SEWER DEPARTMENT
CITY OF PALESTINE, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Water Fees	\$ 526,011	\$ 600,000	\$ (73,989)
Sewer Fees	100,344	90,000	10,344
Other Revenues	28,297	11,000	17,297
Total Operating Revenues	<u>654,652</u>	<u>701,000</u>	<u>(46,348)</u>
Operating Expenses:			
Water Purchases	177,615	200,000	22,385
Salaries and Wages	107,594	94,980	(12,614)
Auto and Truck Expense	14,241	18,500	4,259
Depreciation	167,661		(167,661)
Equipment Payment		17,000	17,000
Employee Benefits	40,917	25,000	(15,917)
Laboratory Expense	7,459	4,000	(3,459)
Miscellaneous Expense	5,575	4,000	(1,575)
Office Expense	2,095		(2,095)
Payroll Taxes	7,932		(7,932)
Postage	4,712		(4,712)
Professional Fees	16,431	4,800	(11,631)
Repairs and Maintenance	168,792	95,000	(73,792)
Utilities Expense	23,454	20,000	(3,454)
Total Operating Expenses	<u>744,478</u>	<u>483,280</u>	<u>(261,198)</u>
OPERATING INCOME (LOSS)	<u>(89,826)</u>	<u>217,720</u>	<u>(307,546)</u>
Non-operating Revenues (Expenses)			
Long term note payments		(94,434)	94,434
Interest Income	2,345		2,345
Interest Expense	(19,388)		(19,388)
Total Non-operating Revenues (Expenses)	<u>(17,043)</u>	<u>(94,434)</u>	<u>77,391</u>
Change in Net Position	<u>\$ (106,869)</u>	<u>\$ 123,286</u>	<u>(230,155)</u>