

**LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS**

AGREED-UPON PROCEDURES

SEPTEMBER 30, 2023 AND 2022

HARVEY & GARNER
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MEMBERS OF ARKANSAS
SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

The Board of Directors of
Lake Catherine Waterworks and Sewer
Facilities Board of Garland County, Arkansas
Arkansas Natural Resources Commission
Bureau of Legislative Audit

We have performed the procedures enumerated below, which were agreed to by Lake Catherine Waterworks and Sewer Facilities Board and Arkansas Natural Resources Commission, and the Bureau of Legislative Audit, solely to assist you with respect to the accounting records of Lake Catherine Waterworks and Sewer as of September 30, 2023 and 2022. Lake Catherine Waterworks and Sewer's management is responsible for the entity's accounting records. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are as follows:

Cash and Investments

- A. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
- B. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

No exceptions noted

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 subledger to deposit and billing documents.

No exceptions noted

Accounts Receivable

- A. Agree ten customer billings to the accounts receivable subledger.
 - B. Determine that five customer adjustments were properly authorized.
- No exceptions noted

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.
- No exceptions noted

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.)
- No exceptions noted

Long-Term Debt

- A. Schedule long-term debt and verify changes in all balances for the year.
 - B. Determine that the appropriate debt service accounts have been established and maintained.
- No exceptions noted

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Lake Catherine Waterworks and Sewer, Arkansas Natural Resources Commission, and the Bureau of Legislative Audit and is not intended to be and should not be used by anyone other than those specified parties.



Harvey & Garner PA
January 24, 2024

**LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS**

COMPILED FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Lake Catherine Waterworks and Sewer Facilities Board of Garland, Arkansas annual financial report presents an analysis of the board's financial performance during the current period.

FINANCIAL HIGHLIGHTS FOR THE PERIOD

- In the 2023 fiscal year, the board's total net assets increased by \$61,232. The increase was the result of operations.
- In September 2022, the Board implemented a rate increase due to the rising cost of materials and supplies. The increase aided in the increase in cash flow position. Subsequent to year end, in November 2023, the board implemented an additional rate increase.
- Depreciation of capital assets accounted for \$80,798 of the change in net assets. Net of depreciation, the total net assets increased \$142,030.
- Water and sewer service revenue increased approximately 9.4% while the cost of purchasing those utilities increased approximately 7.5%. The gross profit percentage remained consistent with the prior year. Revenues related to availability and hook ups increased approximately 6.0% during the year.
- As of April 5, 2021, Arkansas passed Act 605 of 2021 which adds additional responsibilities in managing and operating retail water provider operations. Going forward, board members will need to obtain training each year, and a new refurbishment and replacement reserve threshold has been set, 5% opposed to 3%. Additionally, the board will be required to have a rate study performed by 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of the management's discussion and analysis and the basic financial statement. The financial statement includes notes, which explain in detail some of the information included in the basic financial statement.

REQUIRED FINANCIAL STATEMENTS

The financial statement of the board reports information utilizing the full accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The balance sheet (accrual basis) includes information about the nature and amounts of investments in resources (assets) and the obligation of the board's creditors (liabilities). The statement of revenues, expenses, and changes in net assets (accrual basis) identify

the board's revenues and expenses for the period. The third financial statement is the statement of cash flows (accrual basis). The reader can obtain information on the source and use of cash.

FINANCIAL ANALYSIS OF THE BOARD

The balance sheet (accrual basis) and statement of revenues, expenses, and changes in net assets (accrual basis) provides an indication of the board's financial condition. An increase in net assets over time typically indicates a positive financial condition while a decrease indicates a declining financial condition.

CONDENSED BALANCE SHEET

	<u>Sept 30, 2023</u>
Current and Other Assets	\$ 58,911
Restricted Assets	71,050
Capital Assets-Net	<u>2,118,203</u>
Total Assets	<u>\$ 2,248,164</u>
Current Liabilities	\$ 158,127
Long Term Liabilities	
Notes and Bonds	<u>2,282,955</u>
Total Liabilities	2,441,082
Net Assets	<u>(192,918)</u>
Total Liabilities And Net Assets	<u>\$ 2,248,164</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET ASSETS

	<u>Sept 30, 2023</u>
Revenue	
Operating Revenues	
Water Revenue	\$ 449,457
Sewer Revenue	177,188
Other Operating Income	<u>177,929</u>
Total Operating Revenues	804,574
Non-Operating Revenue	
Miscellaneous	<u>19,710</u>
 Total Revenue	 824,284
 Expenses	
Operating Expenses	
Purchased Utilities	114,793
Direct Materials	63,564
Other Operating	<u>471,668</u>
Total Operating Expenses	650,025
Non-Operating Expense	
Interest Expense	<u>113,027</u>
 Total Expenses	 <u>763,052</u>
 Change in Net Assets	 \$ 61,232

A summary of the Board's capital assets are below.

CAPITAL ASSETS

	<u>Sept 30, 2023</u>
Water Utilities	\$ 1,212,395
Sewer Utilities	1,736,213
Work in Process	<u>2,035</u>
Total Capital Assets	2,950,643
Less: Accumulated Depreciation	<u>(832,440)</u>
Net Capital Assets	<u>\$ 2,118,203</u>

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

The Board of Directors
Lake Catherine Waterworks and Sewer
Facilities Board of Garland County, Arkansas
Hot Springs, Arkansas

Management is responsible for the accompanying financial statements of Lake Catherine Waterworks and Sewer Facilities Board of Garland County, Arkansas which comprise the balance sheet as of September 30, 2023 and 2022, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended, and the related notes to the financial statements. 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. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Supplementary information

The supplementary information contained in Schedules 1 is presented for purposes of additional analysis and is not required part of the basic financial statements. The information is the representation of management. The information was subject to our compilation engagement; however, we have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.



Harvey & Garner PA
January 24, 2024

LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS
BALANCE SHEET
SEPTEMBER 30, 2023 AND 2022

EXHIBIT "A"
PAGE 2

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Equivalents	\$ 55,302	\$ 35,132
Accounts Receivable	-	-
Other Current Assets	<u>3,609</u>	<u>3,676</u>
TOTAL CURRENT ASSETS	58,911	38,808
RESTRICTED ASSETS		
Cash in Investments - Depreciation Reserve	71,050	77,194
CAPITAL ASSETS		
Water Utility Equipment	1,212,395	1,205,236
Sewer Utility Equipment	1,736,213	1,690,430
Work in Process	2,035	-
Less Accumulated Depreciation	<u>(832,440)</u>	<u>(751,642)</u>
TOTAL CAPITAL ASSETS	<u>2,118,203</u>	<u>2,144,024</u>
TOTAL ASSETS	<u>\$ 2,248,164</u>	<u>\$ 2,260,026</u>

LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS
BALANCE SHEET
SEPTEMBER 30, 2023 AND 2022

EXHIBIT "A"
(CONTINUED)
PAGE 3

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Accounts Payable	\$ -	\$ -
Accrued Expenses	37,131	35,402
Note Payable - Current	11,882	11,312
Bond Payable - Current	72,800	69,573
Other Current Liabilities	<u>36,314</u>	<u>32,285</u>
TOTAL CURRENT LIABILITIES	158,127	148,572
LONG TERM LIABILITIES		
Note Payable	81,198	93,080
Bonds Payable	<u>2,201,757</u>	<u>2,272,524</u>
TOTAL LONG TERM LIABILITIES	<u>2,282,955</u>	<u>2,365,604</u>
TOTAL LIABILITIES	2,441,082	2,514,176
NET ASSETS		
Unrestricted	(263,968)	(331,344)
Restricted	<u>71,050</u>	<u>77,194</u>
TOTAL NET ASSETS	<u>(192,918)</u>	<u>(254,150)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,248,164</u>	<u>\$ 2,260,026</u>

LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR PERIOD ENDED SEPTEMBER 30, 2023 AND 2022

EXHIBIT "B"
PAGE 4

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water Service	\$ 449,457	\$ 407,298
Sewer Service	177,188	160,647
Sewer Assessment	87,928	86,879
Other Fees	<u>90,001</u>	<u>80,298</u>
TOTAL OPERATING REVENUES	804,574	735,122
OPERATING EXPENSES		
Purchased Utilities	114,793	106,197
Direct Materials	63,564	88,701
Other Operating Expenses (Schedule No. 1)	<u>471,668</u>	<u>439,631</u>
TOTAL OPERATING EXPENSES	<u>650,025</u>	<u>634,529</u>
OPERATING INCOME	154,549	100,593
NON OPERATING REVENUES (EXPENSES)		
Miscellaneous Income	19,710	40,890
Interest Expense	<u>(113,027)</u>	<u>(116,372)</u>
NET NON OPERATING REVENUES (EXPENSES)	<u>(93,317)</u>	<u>(75,482)</u>
CHANGE IN NET ASSETS	61,232	25,111
NET ASSETS AT BEGINNING OF PERIOD	<u>(254,150)</u>	<u>(279,261)</u>
NET ASSETS AT END OF PERIOD	<u>\$ (192,918)</u>	<u>\$ (254,150)</u>

LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED SEPTEMBER 30, 2023 AND 2022

EXHIBIT "C"
PAGE 5

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 61,232	\$ 25,111
Add (Deduct) Items to Reconcile Cash:		
Depreciation	80,798	80,861
Increase (Decrease) in Other Assets	67	867
Increase (Decrease) in Accrued Expenses	1,729	2,738
Increase (Decrease) in Other Current Liabilities	<u>4,029</u>	<u>4,375</u>
NET FROM (USED IN) OPERATING ACTIVITIES	147,855	113,952
CASH USED IN INVESTING ACTIVITIES		
Net (Increase) Decrease in Restricted Assets	6,144	14,208
Net (Increase) Decrease in Work in Process	(2,035)	(4,755)
Purchase of Capital Assets	<u>(52,942)</u>	<u>(62,719)</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(48,833)	(53,266)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Net Borrowing (Repayments)	<u>(78,852)</u>	<u>(75,458)</u>
NET INCREASE (DECREASE) IN CASH	20,170	(14,772)
CASH AT BEGINNING OF THE PERIOD	<u>35,132</u>	<u>49,904</u>
CASH AT END OF THE PERIOD	<u>\$ 55,302</u>	<u>\$ 35,132</u>

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Lake Catherine Waterworks and Sewer Facilities Board was formed as a public facilities board of Garland County, AR, pursuant to Arkansas code of 1987 Annotated, Title 14, Chapter 137, Subchapter 1. On May 23, 2012, the public facilities board purchased the water and sewer operations from the previous owner, Riviera Utilities of Arkansas, Inc. The purpose of the board is to provide potable water and to collect and treat sewage for the residents of the Diamondhead community and surrounding areas as needed in Garland and Hot Springs Counties, Arkansas. The primary sources of operating revenues are charges from the sale of water and collection of sewage and the related services to its members. The primary operating expenses are the costs of providing those services, administrative expenses and the depreciation of capital assets.

Basis of Presentation - The financial statements are prepared in accordance with accounting principles generally accepted in the United States. The Board's reporting entity applies all relevant governmental accounting standards board (GASB) pronouncements and applicable financial accounting standards board (FASB) pronouncements.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Receivables - Accounts receivable consists of charges currently billed for usage or for assessments that have yet to be remitted. A provision for uncollectible accounts has not been established as historical information for the current board was not available when they took over the operations from Riveria, who did not have a provision. Write off of receivables from assessments occur when the state takes over a lot for auction. Procedures for service denial for delinquent accounts will follow the Board's shut-off policy.

Capital Assets and Depreciation - Water and sewer equipment are valued at acquisition cost as well as new additions and improvements which extend the lives of existing assets. Retirements will be removed from book valuations based on original cost. Maintenance and repairs are charged to expense as they are incurred. Annual depreciation is primarily computed using the straight-line method with lives between 7 years to 40 years, depending on the classification of asset.

Depreciation for the period totalled \$80,798.

Net Assets - The Board must report its net assets as either restricted, unrestricted or invested in capital assets, net of related debt. These components of net assets are defined below:

Net Assets (Cont) - Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets, net of any funds that have been restricted for the payment of those borrowings, any funds set aside for the purchase of capital assets, or any unamortized assets originating from the issuance of debt.

Restricted - This component of net assets consists of constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The restriction reflected on the balance sheet is a depreciation reserve, required by the bond, for repairs to the system or other purposes approved by the bond holder.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Subsequent Events - The Subsequent Events Topic of the FASB Accounting Standards Codification establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Board has evaluated all subsequent events for potential recognition and disclosure through January 24, 2024, the date these financial statements were available to be issued. The below has been disclosed but not recognized.

NOTE 2: CASH AND EQUIVALENTS

For purposes of the statement of cash flows, the corporation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. All cash deposits are insured or collateralized with securities held by the financial institution.

NOTE 2: CASH AND EQUIVALENTS (CONT'D)

The following is a summary of cash and equivalents as of September 30:

	<u>2023</u>	<u>2022</u>
Non Restricted Cash and Equivalents		
Revenue & Operations Accounts	\$ 55,302	\$ 35,132
Restricted Cash and Equivalents		
Cash in Investments - Depreciation Reserve	\$ 71,050	\$ 77,194

See Note 6, Bond Payable, for additional notes referencing the Depreciation Reserve.

NOTE 3: WORK IN PROCESS

During the year, the Board has made improvements to the utilities. As monies were expended for major repairs, The Board accumulated the costs in Work in Process. Once improvements are complete, the Board capitalizes the cost into their respective water or sewer capital asset account.

During the years 2023 and 2022, \$44,677 and \$4,755, respectively, was moved from Work in Process into capital asset accounts.

NOTE 4: USE OF ESTIMATES AND ASSUMPTIONS

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 5: PROVISION FOR INCOME TAX

The board is exempt from income taxes as a public water and sewer authority. Therefore, no income tax provisions have been made.

NOTE 6: BONDS PAYABLE

The Board has an outstanding revenue bond payable with the state of Arkansas. The bond was approved on May 9, 2012 for the amount of \$1,900,000. The bond is reflected on the balance sheet as:

	<u>Total</u>	<u>Current</u>	<u>Long - Term</u>
Bond Payable	\$ 1,519,487	\$ 51,177	\$ 1,468,310

Interest expense related to the bond totalled \$74,945 and \$ 77,078 in 2023 and 2022, respectively. Principle payments on the bond began during 2014. The bond carries an interest rate of 4.75% with an expected maturity date of June 1, 2042.

Current maturities of the principle on the bond payable are as follows:

2024	51,177
2025	53,637
2026	56,215
2027	58,917
2028	61,749
and later	<u>1,237,792</u>
	<u>\$ 1,519,487</u>

The General Obligation Bond Program with ANRC set forth a Depreciation Reserve Fund, reflected on the balance sheet, that should be funded at a rate equal to 3% of monthly gross revenue. Expenditures from the reserve fund are permitted.

In December 2015, the board approved and secured additional bond funding of \$875,500 through ANRC to make necessary investments to the waste water utilities. The additional utility investment requirements were outlined in a Consent Administrative Order from Arkansas Department of Environmental Quality (ADEQ) in 2015. The bond is to be repaid over 30 years, due December 2045, with an annual interest rate of 4.25%.

During the previous years, the Board has borrowed money as mandated projects to the utilities are completed. As of September 30, 2017, the projects were complete. The balance of the bond payable as of current year end is \$755,070. Interest expense related to the bond totalled \$33,093 and \$33,809 in 2023 and 2022, respectively.

Also see note 3 for additional notes regarding the mandated projects.

NOTE 6: BONDS PAYABLE (CONT'D)

The 2 bonds are reflected on the balance sheet as current and long term bonds payable. See below for the balance of each respective bond:

	<u>Total</u>	<u>Current</u>	<u>Long-Term</u>
2012 ANRC Bond	\$ 1,519,487	\$ 51,177	\$ 1,468,310
2015 ANRC Bond	755,070	21,623	733,447
Total Bonds Payable	\$ 2,274,557	\$ 72,800	\$ 2,201,757

NOTE 7: NOTES PAYABLE

During 2017, the Board borrowed \$82,500 from ANRC to cover the bid overruns associated with the wastewater treatment plant improvement, for which the 2015 ANRC Bond funds were originally borrowed. The note carries an interest rate of 4.25% with an expected maturity date of June 2047.

During 2020, the Board borrowed \$48,413 from Bank OZK to purchase a new dump truck. The note carries an interest rate of 5.00% with 60 expected monthly payments. The note has an expected maturity date of November 4, 2025.

The Notes above are reflected on the balance sheet as seen below:

	<u>Total</u>	<u>Current</u>	<u>Long - Term</u>
Notes Payable - 2017 ANRC	\$ 70,596	\$ 1,809	\$ 68,787
Notes Payable - OZK - Truck Loan	22,484	10,073	12,411
Total Notes Payable	\$ 93,080	\$ 11,882	\$ 81,198

NOTE 7: NOTES PAYABLE (CONT'D)

Current maturities of the principle on the notes payable are as follows:

	<u>2017 ANRC</u>	<u>OZK - Truck</u>	<u>Total</u>
2024	1,809	10,072	\$ 11,881
2025	1,886	10,597	12,483
2026	1,966	1,815	3,781
2027	2,049	-	2,049
2028	2,136	-	2,136
and later	60,750	-	60,750
	<u>\$ 70,596</u>	<u>\$ 22,484</u>	<u>\$ 93,080</u>

NOTE 8: FAIR VALUE

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. They also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Following are the three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The boards only asset, required to be marked to fair value, at year end was cash which is stated at it's fair value (level 1).

SUPPLEMENTAL SCHEDULES

LAKE CATHERINE WATERWORKS AND SEWER
FACILITIES BOARD OF GARLAND COUNTY, ARKANSAS
SCHEDULE OF OPERATING EXPENSES
FOR THE PERIOD ENDED SEPTEMBER 30, 2023 AND 2022

SCHEDULE NO. 1
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	<u>2023</u>	<u>2022</u>
OPERATING EXPENSES:		
Bank Fees	755	804
Depreciation	80,798	80,861
Equipment Rental	4,960	2,893
Independent Contractors	58,438	59,806
Insurance	41,664	45,111
Legal and Professional	6,903	5,235
Licenses and Fees	11,012	8,948
Office Expense	6,009	4,468
Postage and Shipping	8,439	7,484
Rent	16,471	16,123
Repairs and Maintenance	33,496	33,852
Salaries and Wages	179,924	152,916
Telephone	10,652	7,667
Travel	10,212	11,730
Utilities	1,935	1,733
TOTAL	<u>\$ 471,668</u>	<u>\$ 439,631</u>