

RECTOR WATER DEPARTMENT

AUDIT REPORT

DECEMBER 31, 2023

RECTOR WATER DEPARTMENT

YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
Rector Water Department
Rector, Arkansas 72461

Opinion

We have audited the accompanying financial statements of Rector Water Department of the City of Rector, Arkansas as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

Qualified Opinion on Net Pension Liability

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Rector Water Department of the City of Rector, Arkansas as of December 31, 2023, and the changes in its 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 Qualified Opinion

Rector Water Department participates in the Arkansas Public Employees Retirement System (APERS). Because of the failure for inclusion in the financial statements, we were unable to form an opinion regarding the net pension liability. GASB Statement No. 68 requires state and local employers to recognize the net pension liability and pension expense on the financial statements, along with the related deferred outflows and inflows of resources.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rector Water Department and do not purport to, and do not, present fairly the financial position of the City of Rector, Arkansas, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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, 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 Rector Water 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.

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.

Smith + Davis

October 18, 2024

**RECTOR WATER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

ASSETS

Current assets:

Cash	\$ 165,289
Accounts receivable, net	81,830
Prepaid expenses	<u>1,091</u>
Total current assets	<u>248,210</u>

Noncurrent assets:

Restricted assets:

Cash, including time deposits	386,424
Capital assets (net)	<u>1,243,131</u>
Total noncurrent assets	<u>1,629,555</u>

Total assets	<u>1,877,765</u>
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DEFERRED OUTFLOWS OF RESOURCES

Unamortized charge on refunding of revenue bonds	<u>7,767</u>
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LIABILITIES

Current liabilities:

Accrued expenses	0
Current portion of long-term debt	<u>80,000</u>
Total current liabilities	<u>80,000</u>

Noncurrent liabilities:

Customer deposits payable	51,412
Long-term debt	<u>1,125,000</u>
Total noncurrent liabilities	<u>1,176,412</u>

Total liabilities	<u>\$ 1,256,412</u>
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**RECTOR WATER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

NET POSITION

Net investment in capital assets	\$ 45,898
Restricted for debt service	165,309
Restricted for meter deposits	33,465
Unrestricted	<u>384,448</u>
 Total net position	 \$ <u><u>629,120</u></u>

See accompanying notes to the financial statements.

RECTOR WATER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES

Charges for services	\$ 533,115
EPA fees	4,134
Special services	12,702
Miscellaneous	5,156
Total operating revenues	<u>555,107</u>

OPERATING EXPENSES

Personal services	170,830
Materials and supplies	48,521
Other services and charges	209,524
Power	46,513
Depreciation	62,475
Total operating expenses	<u>537,863</u>

Operating income	<u>17,244</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	7,406
Interest expense	<u>(43,297)</u>
Total nonoperating revenue	
(expense)	<u>(35,891)</u>

Income (loss) before transfers	(18,647)
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TRANSFERS OUT	<u>0</u>
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Change in Net Position	(18,647)
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Net position-beginning of year	647,767
Net position-end of year	<u>\$ 629,120</u>

See accompanying notes to the financial statements.

**RECTOR WATER DEPARTMENT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 528,987
Other operating cash receipts	21,992
Payments for operating goods and services	(304,558)
Payments to employees	(170,830)
Net cash provided (used) by operating activities	<u>75,591</u>

**CASH FLOWS FROM NON-CAPITAL
FINANCING ACTIVITIES**

Operating transfers in (out)	<u>0</u>
Net cash provided (used) by non-capital financing activities	<u>0</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	0
Principal paid on bonds payable	(75,000)
Interest paid on bonds payable	(42,650)
Net cash provided (used) by capital and related financing activities	<u>(117,650)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends	<u>7,406</u>
Net cash provided (used) by investing activities	<u>7,406</u>

Net increase (decrease) in cash and cash equivalents	(34,653)
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Cash - beginning of year	<u>586,366</u>
Cash - end of year	<u>\$ 551,713</u>

See accompanying notes to the financial statements.

**RECTOR WATER DEPARTMENT
STATEMENT OF CASH FLOWS-CONTINUED
YEAR ENDED DECEMBER 31, 2023**

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 17,244
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization	62,475
Change in assets and liabilities:	
(Increase) Decrease in receivables, net	(7,353)
Increase (Decrease) in accrued expenses	0
Increase (Decrease) in deposits payable	3,225
Net cash provided by operating activities	<u>\$ 75,591</u>

See accompanying notes to the financial statements.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rector Water Department, an enterprise fund of the City of Rector, Arkansas, operates under a City Council form of government. The major operations of the enterprise fund include the City's water and sewer system.

The Rector Water Department's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the water department are discussed below.

1.A. REPORTING ENTITY

The financial statements include only the accounts of the Rector Water Department's operations. The criteria for including organizations as component units within the Department's reporting entity is set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards. Based on the criteria included in Section 2100, the Rector Water Department has no component units.

1.B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

All proprietary funds, i.e. utility funds, utilize the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Revenue Recognition

The Department provides water and sewer services to the residents of Rector, Arkansas. The revenues from these services are recorded at the time the proceeds are received.

1.C. ASSETS, LIABILITIES, AND EQUITY

Cash

For the purpose of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposit of the Department. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and saving accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Receivables

Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Uncollectible receivables are not considered material. An allowance for doubtful accounts is recorded on the financial statements equal to .5% of the utilities water and sewer revenues.

Fixed Assets

Fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at the estimated fair value at the date of donation. It is the water department's policy to capitalize and depreciate all assets over \$1,000.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation ranging from 5 to 40 years.

Restricted Assets

Restricted assets include cash of the Department that is legally restricted to its use. The primary restricted assets are related to the bond accounts.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Long-term Debt

All long-term debt to be repaid from business-type resources are reported as liabilities in the financial statements. The long-term debt consists of revenue bonds payable.

Compensated Absences

The Department allows full-time employees one week paid vacation per year after one year of employment and two weeks vacation after three years employment. Employees are also granted ten sick days per year which can carry over up to thirty (30) days. The Department does not record any accrual for compensated absences. Any such accrual would be immaterial to the financial statements.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets-Consists of capital assets including restricted 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.
- b. Restricted net position-Consists of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position-All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

1.D. REVENUES, EXPENDITURES, AND EXPENSES

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Expenditures/Expenses

Proprietary funds report expenses relating to the use of economic resources.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.F. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has only one item that qualifies for reporting in this category. It is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Department is subject to various federal, state, and local laws and contractual regulations. An analysis of the Department's compliance with significant laws and regulations and demonstration of its stewardship over the Department's resources follows.

2.A. DEPOSITS LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. As reflected in Note 3A., all deposits were fully insured or collateralized at December 31, 2023.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

2.B. REVENUE RESTRICTIONS

The Department has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Water Revenue	Utility Operations and Debt Service

For the year ended December 31, 2023, the Department complied, in all material respects, with these revenue restrictions.

2.C. DEBT COVENANTS

The loan agreements relating to the Water & Sewer Refunding and Revenue Bonds, Series 2016 contain restrictions for covenants that are financial related. These include covenants such as required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Department's level of compliance thereon as of December 31, 2023.

Requirement	Level of Compliance
\$1,725,000 City of Rector, Arkansas Water & Sewer Refunding Revenue Bonds, Series 2016	
a. Bond Fund: Deposit in bond fund 1/6 of the next interest payment due plus 1/12 of the next principal payment due.	Fund complied with at December 31, 2023.
b. Debt Service Reserve Fund: Continuously maintain an amount equal to 1/2 the maximum annual principal and interest requirements on the Bonds (the "Required Level")	Fund complied with at December 31, 2023.

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

c. Depreciation Fund:

Deposit each month an amount equal
to not less than 3% of gross revenues
for such month.

Fund complied with at December 31, 2023.

On January 26, 2016, the Rector Water Department refunded the City Water & Sewer Refunding Revenue Bonds, Series 2011 which financed improvements to the City's Water & Sewer System. This was accomplished through the issuance of the \$1,725,000 City of Rector, Arkansas Water & Sewer Refunding Revenue Bonds, Series 2016.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASS/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH

The Department's cash consists of cash on hand, deposits with local financial institutions and certificates of deposit. It is the Department's policy to require collateral for all deposits at 100% of all amounts not covered by federal deposit insurance.

At December 31, 2023, the Department's carrying amount of deposits was \$551,713 and the bank balance was \$563,491. Of the bank balance, \$382,636 was covered by federal depository insurance and \$180,855 was pledged and collateralized with securities.

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets are deposited in a financial institution and are related to the required bond accounts as described in Note 2.C.

The restricted assets as of December 31, 2023, are as follows:

Checking-bond reserve & depreciation funds	\$	173,280
CD's-bond reserve funds		<u>213,144</u>
	\$	<u><u>386,424</u></u>

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Receivables detail at December 31, 2023, is as follows:

	Business- type Activities
Billed receivables	\$ 63,801
Unbilled receivables	20,310
Total receivables	<u>84,111</u>
Less-allowance for doubtful accounts	<u>(2,281)</u>
Net accounts receivable	<u><u>\$ 81,830</u></u>

3.D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023, was as follows:

	Balance at Jan. 1, 2023	Additions	Disposals	Balance at Dec. 31, 2023
Business-type activities:				
Buildings	\$ 60,932	\$ 0	\$ 0	\$ 60,932
Land	45,000	0	0	45,000
Water & sewer plant	3,009,160	0	0	3,009,160
Machinery & equipment	472,188	0	0	472,188
Totals at historical cost	<u>3,587,280</u>	<u>0</u>	<u>0</u>	<u>3,587,280</u>
Accumulated depreciation	<u>(2,281,673)</u>	<u>(62,475)</u>	<u>0</u>	<u>(2,344,148)</u>
Business-type capital assets, net	<u><u>\$ 1,305,607</u></u>	<u><u>\$ (62,475)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,243,132</u></u>

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

3.E. LONG-TERM DEBT

As of December 31, 2023, the long-term debt payable from proprietary fund resources consisted of the following:

\$1,725,000 City of Rector, Arkansas Water & Sewer Refunding Revenue Bonds,
Series 2016, int rate 2.7% - 4.0%, maturing 5-1-2036 \$ 1,205,000

Net long-term debt	<u>1,205,000</u>
Current Portion	\$ 80,000
Noncurrent Portion	<u>1,125,000</u>
	<u>\$ 1,205,000</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2023:

Type of Debt	Balance Jan. 1, 2023	Additions	Deductions	Balance Dec. 31, 2023	Amounts Due within One Year
\$1,725,000 City of Rector, Arkansas Water & Sewer Refunding Revenue Bonds, Series 2016	<u>1,280,000</u>	<u>0</u>	<u>75,000</u>	<u>1,205,000</u>	<u>80,000</u>
Total Enterprise Fund Debt	<u>\$ 1,280,000</u>	<u>\$ 0</u>	<u>\$ 75,000</u>	<u>\$ 1,205,000</u>	<u>\$ 80,000</u>

**RECTOR WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2023, are as follows:

Year Ending December 31	Principal	Interest	Total
2024	80,000	40,437	120,437
2025	80,000	38,037	118,037
2026	85,000	35,562	120,562
2027	85,000	32,906	117,906
2028	85,000	30,143	115,143
2029-2036	<u>790,000</u>	<u>123,693</u>	<u>913,693</u>
 Total	 \$ <u>1,205,000</u>	 \$ <u>300,778</u>	 \$ <u>1,505,778</u>

NOTE 4. DATE OF MANAGEMENT REVIEW

Subsequent events have been evaluated through October 18, 2024 which is the date the financial statements were available to be issued.