

CITY OF ALTUS WATER DEPARTMENT

Independent Accountants' Compilation Report,
Independent Accountants' Report
On Applying Agreed-Upon Procedures,
and
Financial Statements

June 30, 2021

CITY OF ALTUS WATER DEPARTMENT
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Certified Public Accountants • Since 1958

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To the City Council
Altus Water Department
Altus, Arkansas 72821

Management is responsible for the accompanying financial statements of Altus Water Department (an enterprise fund of the City of Altus, Arkansas) which comprise the statement of net position as of June 30, 2021 and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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.

King Jacobs & Lorfing, CPAs, PA
King Jacobs & Lorfing, CPAs, PA
Clarksville, Arkansas
July 14, 2023

King & Jacobs & Lorfing

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Independent Accountants' Report On Applying Agreed-Upon Procedures

To the City Council
Altus Water Department
Altus, Arkansas 72821

We have performed the procedures enumerated below which were agreed to by the City of Altus Water Department as of and for the year ended June 30, 2021. Altus Water Department's management is responsible for the Water Department's accounting records. This report is prepared in accordance with Ark. Code Ann. 14-234-119 through 122. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of 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 for the Altus Water Department are as follows:

Cash and Investments

1. a. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
- 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 above procedures.

Receipts

2. 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 (10) customer payments on the accounts receivable sub-ledger to deposit and billing documents.
- c. For one deposit, agree the cash/check composition of the deposit with receipt information.

We found no exceptions as a result of the above procedures.

Accounts Receivable

3. a. Agree ten (10) customer billings to the accounts receivable sub-ledger.
- b. Determine that five (5) customer adjustments were properly authorized.

We found no exceptions as a result of the above procedures.

Disbursements

4. 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 (10) other disbursements and determine if they were adequately documented.

We found no exceptions as a result of the above procedures.

Property, Plant and Equipment

5. 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 above procedures.

Long-Term Debt

6. 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 above procedures.

General

7. 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 above procedures.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. 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 the Arkansas Legislative Joint Auditing Committee and the City Council of Altus, Arkansas, and is not intended to be and should not be used by anyone other than these specified parties.

King, Jacobs & Lorfing, CPAs, PA

King, Jacobs & Lorfing, CPAs, PA

Clarksville, Arkansas

July 14, 2023

CITY OF ALTUS WATER DEPARTMENT
Statement of Net Position
June 30, 2021

ASSETS

	2021
Current Assets	
Cash and Cash Equivalents	\$ 125,447
Accounts Receivable	96,779
Unbilled Receivables	13,472
Prepaid Insurance	3,064
Inventory	18,195
Accrued Interest Receivable	14
Total Current Assets	256,971
 Restricted Assets	
Debt Reserve Funds	29,229
Depreciation Fund	142,433
Meter Deposit Fund	40,143
Total Restricted Assets	211,805
 Property, Plant & Equipment, Cost	
Land	35,225
Construction in Progress	57,067
Office Equipment & Vehicles	32,247
Water & Sewer System	3,676,812
City Hall Building	130,500
Equipment	105,175
	4,037,026
Less: Accumulated Depreciation	(2,713,142)
Property, Plant & Equipment, Net	1,323,883
 Total Assets	\$ 1,792,659

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

CITY OF ALTUS WATER DEPARTMENT
Statement of Net Position
June 30, 2021

LIABILITIES & NET POSITION

	2021
Current Liabilities	
Accounts Payable	\$ 58,417
Payroll Taxes Payable	1,601
Accrued Interest Payable	1,467
Accrued Vacation	2,012
Payable to City of Altus	25,000
Current Portion of Long-Term Debt	17,100
Total Current Liabilities	105,596
Other Liabilities (Payable from Restricted Assets)	
Customer Meter Deposits	38,523
Long-Term Debt	
USDA - 1991 Revenue Bonds	103,490
USDA - 1996 Revenue Bonds	88,332
Arkansas Natural Resources Note	24,122
Total Long-Term Debt	215,944
Total Liabilities	360,063
Net Position	
Invested in Capital Assets, Net of Related Debt	1,090,840
Restricted	211,805
Unrestricted	129,951
Total Net Position	1,432,596
Total Liabilities and Net Position	\$ 1,792,659

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

CITY OF ALTUS WATER DEPARTMENT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

	2021
Operating Revenue	
Water, Sewer, and Disposal Charges	\$ 509,734
Meter Set & Connect Fees	2,381
Total Operating Revenues	512,115
Cost of Goods Sold	
Water Purchases	234,830
Health Department Fees	3,605
Insurance	4,253
Parts & Supplies	21,429
Wages	40,260
Sewer Fees & Testing	675
Payroll Taxes	3,285
Repairs and Maintenance	1,614
Trash Pickup	57,122
Truck Expense	3,575
Utilities	34,636
Depreciation	82,667
Total Cost of Goods Sold	487,952
Gross Profit	24,163
Operating Expense	
Advertising	123
Legal and Accounting	4,770
Maintenance	389
Depreciation	3,263
Conventions, Training & Travel	-
Insurance	4,873
Miscellaneous Expense	4,684
Office Supplies & Postage	7,498
Payments to City for Salaries & Overhead	30,000
Wages	24,976
Payroll Taxes	2,014
Pension Expense	2,806
Utilities	3,848
Total Operating Expenses	89,245
Income (Loss) from Operations	(65,082)
Non-Operating Revenue (Expense)	
Interest Income	598
Interest Expense	(11,553)
Miscellaneous Income	1,740
Total Non-Operating Revenue (Expense)	(9,214)
Changes in Net Position	(74,296)
Net Position-Beginning of Year	1,506,892
Net Position-End of Year	\$ 1,432,596

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

CITY OF ALTUS WATER DEPARTMENT
Statement of Cash Flows
For the Year Ended June 30, 2021

	2021
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 515,294
Cash Paid to Suppliers for Cost of Goods Sold and Operations	(388,713)
Cash Paid to Employees	(64,736)
Cash Paid for Interfund Services Used	(30,000)
Net Cash Provided by Operating Activities	31,845
Cash Flows from Non-Capital Financing Activities	
Increase (Decrease) in Meter Deposits	1,225
Non-Operating Miscellaneous Income	1,740
Net Cash Provided by Non-Capital Financing Activities	2,965
Cash Flows from Capital & Related Financing Activities	
Payments on Debt Obligations	(16,290)
Interest Payments on Debt Obligations	(11,703)
Net Cash used for Capital & Related Financing Activities	(27,993)
Cash Flows from Investing Activities	
Investment Income	598
Capital Expenditures	-
Net Cash Provided by Investing Activities	598
Net Increase (Decrease) in Cash and Cash Equivalents	7,415
Cash and Cash Equivalents at Beginning of Year	329,836
Cash and Cash Equivalents at End of Year	\$ 337,251
Noncash transactions:	
Fixed Asset & Construction Costs Incurred but not Paid	\$ -

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

CITY OF ALTUS WATER DEPARTMENT
Statement of Cash Flows
For the Year Ended June 30, 2021

	2021
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (65,082)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	85,930
Change in Operating Assets and Liabilities	
(Increase) Decrease in Accounts Receivables	6,276
(Increase) Decrease in Unbilled Receivables	(3,096)
(Increase) Decrease in Inventory	(2,385)
(Increase) Decrease in Prepaid Expenses	(50)
Increase (Decrease) in Accounts Payable	10,019
Increase (Decrease) in Accr Payroll & Taxes	233
Net Cash Provided by Operating Activities	\$ 31,845

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

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Organization

The City of Altus Water Department is an enterprise fund of the City of Altus, Arkansas. The department provides water, sewer, and disposal services to the City of Altus and surrounding communities. The department is governed by the mayor and the city council.

(B) Financial Reporting

The Department is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

(C) Basis of Accounting

The accounting and financial reporting of the Department is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Operating income reported in enterprise fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenues for enterprise funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Non-operating revenues consist of interest income and other miscellaneous receipts that are not derived from the provision of water and sewer services.

(D) Capital Assets and Depreciation

Capital assets are assets with an initial value or cost greater than \$1,000 and an estimated useful life of at least two years. Capital assets are valued at cost. Depreciation is recorded on each class of property utilizing the straight-line method over the estimated useful lives of the assets. Rates used for computing depreciation are as follows:

<u>Assets</u>	<u>Rate</u>
Water and sewer systems	2.50%
Transportation equipment	14.29 - 20.00%
Office Equipment	14.29 - 20.00%
Maintenance & equipment	14.29 - 20.00%

(E) Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, Altus Water Department considers all highly liquid investments with a maturity of three months or less when purchased, cash, and certificates of deposits to be cash equivalents.

CITY OF ALTUS WATER DEPARTMENT

Notes to Financial Statements

June 30, 2021

(F) Income Taxes

As a municipal owned utility, the department is exempt from federal and state income taxes.

(G) Concentration of Credit Risk

Financial instruments that potentially subject the department to credit risk consist primarily of accounts receivables from customers. The department provides water, sewer, and disposal service primarily to customers within ten miles. For the year ended June 30, 2021, the department sold \$112,333 of water to their three largest customers, representing 20% of total revenue.

(H) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City of Altus Water Department to make estimates and assumptions that effect the reported amount of assets and liabilities and disclosures 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.

(I) Inventory

Material and supplies inventories are stated at lower of cost (computed on a first-in, first out basis) or market.

(J) Contributions

Contributions reflect assets contributed by others for improvements and extensions of department assets. Contributed property is recorded at fair value at the date of contribution. There were no contributions made in 2021 by outside parties.

(K) Capitalized Interest

The department capitalizes interest costs as part of the cost of constructing various water and sewer projects when material. No interest was capitalized for the year ended June 30, 2021.

(L) Bad Debts

The City of Altus Water Department uses the direct write-off method for uncollectible accounts. There were no bad debts written off for the year ended June 30, 2021.

(M) Net Position Classifications

The department classifies net assets into the following three components:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted Net Position – Consists of amounts which have external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations imposed by law.

Unrestricted Net Position – Consists of net assets that do not meet the definition of “Invested in Capital Assets, Net of Related Debt” or “Restricted Net Assets”.

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2021

2. CUSTODIAL CREDIT RISK-DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the department's deposits may not be returned to it. The department's policy is that deposits be insured or collateralized at a minimum of 100% of the deposits fair value.

All deposits are separately displayed on the balance sheet as "Cash and Cash Equivalents", and "Debt Reserve Funds". Petty cash for the year ended June 30, 2021 amounted to \$100, and is included in cash on the balance sheet. All of the deposits are carried in three banks.

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 322,415	\$ 322,415
Collateral held by the pledging bank's trust department or agent in the department's name	14,836	4,664
Uncollateralized Deposits	-	-
Total Deposits	\$ 337,251	\$ 327,079

Provisions of the trust indenture on the long-term debt require that all cash be insured by the Federal Deposit Insurance Corporation or collateralized by a pledge of bonds or other direct or fully guaranteed obligations of the United States government.

3. LONG-TERM DEBT

	2021
5.0% bonds payable, dated 06/26/91 to Rural Development; collateralized by an assignment and pledge of revenues; due in Monthly installments of \$1,216, including interest; date of final payment 06/26/31.	112,659
4.5% bonds payable, dated 05/08/96 to Rural Development; collateralized by an assignment and pledge of revenues; due in monthly installments of \$720, including interest; date of final payment 05/08/36.	92,886
5.0% note payable, dated 09/01/97 to Arkansas Natural Resources Commission; collateralized by properties and equipment in the main pumping station; due in annual installments of \$4,752, including interest; date of final payment 09/01/27.	27,499
	233,044
Less current portion payable from current assets	(17,100)
Total Long-Term Debt	\$ 215,944

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2021

The annual requirements to amortize all long-term debt outstanding as of June 30, 2021 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2022	17,100	10,885
2023	17,947	10,038
2024	18,836	9,148
2025	19,769	8,215
2026	20,749	7,235
2027 - 2031	101,960	20,412
2032 - 2036	36,683	4,092
Total Debt and Interest	\$ 233,044	\$ 70,025

Long-Term Debt Schedule

	Balance 6/30/20	Additions	Deletions	Balance 6/30/21	Amounts Due In One Year
1991 Water & Sewer Revenue Bonds	121,379	-	8,720	112,659	9,169
1996 Water & Sewer Revenue Bonds	97,239	-	4,353	92,886	4,554
Arkansas Natural Resources Note	30,716	-	3,217	27,499	3,377
	<u>\$ 249,334</u>	<u>\$ -</u>	<u>\$ 16,290</u>	<u>\$ 233,044</u>	<u>\$ 17,100</u>

4. COMMITMENTS AND REQUIREMENTS

The department has a contractual agreement to supply water to the Denning community, SGL Carbon Corporation, and Wiederkehr Village.

The department has a contractual agreement with the City of Ozark, Arkansas for its water supply. The city relies solely on this contract for its water purchases.

5. RESTRICTED ASSETS

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use unrestricted resources first and to transfer restricted funds as needed. For projects funded by tax-exempt debt proceeds, the debt proceeds are used first. Certain resources of the Department are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited.

Under the terms of the Rural Development debt agreement dated May 21, 1981, the department was required to transfer \$42 monthly to a reserve account until a balance of \$6,000 was accumulated.

Under the terms of the Rural Development debt agreements dated June 26, 1991, the department

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2021

was required to transfer a total of \$122 monthly to reserve accounts until a balance of \$14,589 was accumulated.

Under the terms of the Rural Development debt agreements dated May 8, 1996, the department was required to transfer a total of \$72 monthly to reserve accounts until a balance of \$8,640 was accumulated.

The total combined balance required in the debt service reserve funds is \$29,229.

Restricted assets as of June 30, 2021 are as follows:

Depreciation Fund	\$ 142,433
Debt Service Revenue	29,229
Meter Deposit Fund	40,143
	\$ 211,805

6. MONEY PURCHASE SAVINGS PLAN

The department has a defined contribution plan established by the City of Altus Council and has been administered by the National Telephone Cooperative Association Savings Plan for employees with one or more years of service. They have decided to switch to a new plan, but have not transferred the funds or sent contributions to the National Telephone Cooperative Association as of April 2017. The department is accruing the amount that will be paid to the new plan and the participating employees are withholding the required amount. The department contributes 7% of compensation, and employees, in order to participate in the plan, must contribute 3% with an election to contribute an additional 7% annually. Pension expense for year ended June 30, 2021 was \$2,806. The amount that has not been paid to the plan as of June 30, 2021 is \$15,804.17.

7. CONSTRUCTION IN PROGRESS

Construction in progress consists of three jobs for which costs have been expended, but are waiting for pending grants or other circumstances to complete.

Grapevine Way Water Improvement	1,565
Sewer Extension	37,972
Water Line Extensions	17,530
	\$ 57,067

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2021

8. CAPITAL ASSET SCHEDULE

	Balance 06/30/20	Additions	Deletions	Balance 06/30/21
Depreciable Assets				
Office Building	\$ 130,500	\$ -	\$ -	\$ 130,500
Office Equipment	12,792	-	-	12,792
Equipment	105,175	-	-	105,175
Vehicles	19,455	-	-	19,455
Signs	172	-	-	172
Water System	1,892,233	-	-	1,892,233
Sewer System	1,784,407	-	-	1,784,407
	<u>3,944,734</u>	<u>-</u>	<u>-</u>	<u>3,944,734</u>
Non-depreciable Assets				
Land	35,225	-	-	35,225
Construction in Progress	57,067	-	-	57,067
	<u>92,292</u>	<u>-</u>	<u>-</u>	<u>92,292</u>
Totals at Historical Cost	4,037,026	-	-	4,037,026
Less: Accumulated Depreciation	<u>(2,627,212)</u>	<u>(85,930)</u>	<u>-</u>	<u>(2,713,142)</u>
Total Fixed Assets, Net	<u>\$ 1,409,813</u>	<u>\$ (85,930)</u>	<u>\$ -</u>	<u>\$ 1,323,883</u>

Depreciation expense for the year ended 6/30/2021 was \$85,930

9. RISK MANAGEMENT

The department is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; fraudulent or dishonest acts; injuries to employees; and natural disasters. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption. Settled claims have not exceeded coverage in any of the three proceeding years and there has been no significant reduction in coverage in fiscal year ending June 30, 2021.

10. SUBSEQUENT EVENTS

Subsequent events have been reviewed through July 14, 2023 which is the date that the financial statements were available to be issued.