

CITY OF ALTUS WATER DEPARTMENT

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

June 30, 2022

CITY OF ALTUS WATER DEPARTMENT
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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, 2022 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
October 22, 2024

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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, 2022. 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 City of Altus Water Department has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose required Ark. Code Ann. 14-234-119 through 122. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures 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 ten (10) 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

1. 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 engaged by the City of Altus Water Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the procedures of Ark. Code Ann. 14-234-119 through 122. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

We are required to be independent of City of Altus Water Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements to our agreed-upon procedures engagement.


King, Jacobs & Lorfing, CPAs, PA

Clarksville, Arkansas

October 22, 2024

CITY OF ALTUS WATER DEPARTMENT

Statement of Net Position

June 30, 2022

ASSETS

	<u>2022</u>
Current Assets	
Cash and Cash Equivalents	\$ 124,425
Accounts Receivable	88,338
Unbilled Receivables	21,746
Prepaid Insurance	3,612
Inventory	20,173
Accrued Interest Receivable	14
Total Current Assets	<u>258,308</u>
Restricted Assets	
Debt Reserve Funds	29,229
Depreciation Fund	155,294
Meter Deposit Fund	40,846
Total Restricted Assets	<u>225,369</u>
Property, Plant & Equipment, Cost	
Land	35,225
Construction in Progress	87,494
Office Equipment & Vehicles	32,247
Water & Sewer System	3,687,912
City Hall Building	130,500
Equipment	106,838
	<u>4,080,216</u>
Less: Accumulated Depreciation	<u>(2,792,873)</u>
Property, Plant & Equipment, Net	<u>1,287,343</u>
Total Assets	<u>\$ 1,771,020</u>

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

CITY OF ALTUS WATER DEPARTMENT
Statement of Net Position
June 30, 2022

LIABILITIES & NET POSITION

	2022
Current Liabilities	
Accounts Payable	\$ 62,898
Payroll Taxes Payable	1,603
Accrued Interest Payable	1,305
Accrued Vacation	4,514
Payable to City of Altus	25,000
Current Portion of Long-Term Debt	17,947
Total Current Liabilities	113,267
Other Liabilities (Payable from Restricted Assets)	
Customer Meter Deposits	39,208
Long-Term Debt	
USDA - 1991 Revenue Bonds	93,854
USDA - 1996 Revenue Bonds	83,570
Arkansas Natural Resources Note	20,575
Total Long-Term Debt	198,000
Total Liabilities	350,474
Net Position	
Invested in Capital Assets, Net of Related Debt	1,071,396
Restricted	225,369
Unrestricted	123,781
Total Net Position	1,420,546
Total Liabilities and Net Position	\$ 1,771,020

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, 2022

	2022
Operating Revenue	
Water, Sewer, and Disposal Charges	\$ 537,134
Meter Set & Connect Fees	4,445
Total Operating Revenues	541,579
Cost of Goods Sold	
Water Purchases	205,637
Health Department Fees	7,315
Insurance	3,952
Parts & Supplies	22,849
Wages	43,290
Sewer Fees & Testing	525
Payroll Taxes	3,341
Repairs and Maintenance	828
Trash Pickup	75,366
Truck Expense	6,923
Utilities	36,481
Depreciation	76,468
Total Cost of Goods Sold	482,975
Gross Profit	58,603
Operating Expense	
Advertising	146
Legal and Accounting	670
Maintenance	3,601
Depreciation	3,263
Conventions, Training & Travel	932
Insurance	4,800
Miscellaneous Expense	3,888
Office Supplies & Postage	7,331
Payments to City for Salaries & Overhead	30,000
Wages	25,935
Payroll Taxes	2,048
Pension Expense	2,902
Utilities	9,213
Total Operating Expenses	94,728
Income (Loss) from Operations	(36,125)
Non-Operating Revenue (Expense)	
Interest Income	281
Interest Expense	(10,726)
Miscellaneous Income	34,519
Total Non-Operating Revenue (Expense)	24,074
Changes in Net Position	(12,050)
Net Position-Beginning of Year	1,432,596
Net Position-End of Year	\$ 1,420,546

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, 2022

	2022
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 541,746
Cash Paid to Suppliers for Cost of Goods Sold and Operations	(396,791)
Cash Paid to Employees	(66,723)
Cash Paid for Interfund Services Used	(30,000)
Net Cash Provided by Operating Activities	48,232
Cash Flows from Non-Capital Financing Activities	
Increase (Decrease) in Meter Deposits	685
Non-Operating Miscellaneous Income	34,519
Net Cash Provided by Non-Capital Financing Activities	35,204
Cash Flows from Capital & Related Financing Activities	
Payments on Debt Obligations	(17,097)
Interest Payments on Debt Obligations	(10,887)
Net Cash used for Capital & Related Financing Activities	(27,984)
Cash Flows from Investing Activities	
Investment Income	281
Capital Expenditures	(43,190)
Net Cash Provided by Investing Activities	(42,909)
Net Increase (Decrease) in Cash and Cash Equivalents	12,543
Cash and Cash Equivalents at Beginning of Year	337,251
Cash and Cash Equivalents at End of Year	\$ 349,794
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, 2022

	2022
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (36,125)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	79,731
Change in Operating Assets and Liabilities	
(Increase) Decrease in Accounts Receivables	8,441
(Increase) Decrease in Unbilled Receivables	(8,274)
(Increase) Decrease in Prepaid Expenses	(548)
(Increase) Decrease in Inventory	(1,978)
Increase (Decrease) in Accounts Payable	4,482
Increase (Decrease) in Accr Payroll & Taxes	2,503
Net Cash Provided by Operating Activities	\$ 48,232

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

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2022

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, 2022

(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, 2022, the department sold \$122,895 of water to their three largest customers, representing 22% 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 2022 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, 2022.

(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, 2022.

(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, 2022

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, 2022 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)	\$ 322,629	\$ 322,629
Collateral held by the pledging bank's trust department or agent in the department's name	27,065	35,770
Uncollateralized Deposits	-	-
Total Deposits	\$ 349,694	\$ 358,399

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

	2022
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.	103,492
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.	88,333
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.	24,122
	215,947
Less current portion payable from current assets	(17,947)
Total Long-Term Debt	\$ 198,000

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2022

The annual requirements to amortize all long-term debt outstanding as of June 30, 2022 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2023	17,947	10,038
2024	18,836	9,148
2025	19,769	8,215
2026	20,749	7,235
2027	21,177	6,207
2028 - 2032	87,320	15,709
2033 - 2036	29,548	2,588
Total Debt and Interest	\$ 215,947	\$ 59,141

Long-Term Debt Schedule

	Balance 6/30/21	Additions	Deletions	Balance 6/30/22	Amounts Due In One Year
1991 Water & Sewer Revenue Bonds	112,659	-	9,167	103,492	9,638
1996 Water & Sewer Revenue Bonds	92,886	-	4,553	88,333	4,763
Arkansas Natural Resources Note	27,499	-	3,377	24,122	3,546
	<u>\$ 233,044</u>	<u>\$ -</u>	<u>\$ 17,097</u>	<u>\$ 215,947</u>	<u>\$ 17,950</u>

4. COMMITMENTS AND REQUIREMENTS

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

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

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2022

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, 2022 are as follows:

Depreciation Fund	\$ 155,294
Debt Service Revenue	29,229
Meter Deposit Fund	40,846
	\$ 225,369

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, 2022 was \$2,902. The amount that has not been paid to the plan as of June 30, 2022 is \$20,023.

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
St Mary's Water Line Extension	30,428
	\$ 87,494

CITY OF ALTUS WATER DEPARTMENT
Notes to Financial Statements
June 30, 2022

8. CAPITAL ASSET SCHEDULE

	Balance 06/30/21	Additions	Deletions	Balance 06/30/22
Depreciable Assets				
Office Building	\$ 130,500	\$ -	\$ -	\$ 130,500
Office Equipment	12,792	-	-	12,792
Equipment	105,175	1,663	-	106,834
Vehicles	19,455	-	-	19,455
Signs	172	-	-	172
Water System	1,892,233	4,514	-	1,896,747
Sewer System	1,784,407	6,585	-	1,790,992
	<u>3,944,734</u>	<u>-</u>	<u>-</u>	<u>3,957,496</u>
Non-depreciable Assets				
Land	35,225	-	-	35,225
Construction in Progress	57,067	30,428	-	87,494
	<u>92,292</u>	<u>-</u>	<u>-</u>	<u>92,292</u>
Totals at Historical Cost	4,037,026	-	-	4,080,216
Less: Accumulated Depreciation	(2,713,142)	(79,731)	-	(2,792,873)
Total Fixed Assets, Net	<u>\$ 1,323,883</u>	<u>\$ (85,930)</u>	<u>\$ -</u>	<u>\$ 1,287,343</u>

Depreciation expense for the year ended 6/30/2022 was \$79,731

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 preceding years and there has been no significant reduction in coverage in fiscal year ending June 30, 2022.

10. CURRENT INSURANCE COVERAGE

Expiration Dates	Company	Amount of Coverage	Description of Coverage
March 21, 2023	Municipal Vehicle Program	\$ 32,500	Automobile
December 31, 2022	Municipal League WC Trust	Unlimited	Workers Compensation
May 18, 2023	Municipal League Property Program	\$1,255,220	Property
December 31, 2022	Municipal League AML & MLDP	Legal Fees	AML & MLDP

11. SUBSEQUENT EVENTS

Subsequent events have been reviewed through October 22, 2024 which is the date that the financial statements were available to be issued.