

CITY OF CASA MUNICIPAL WATER SYSTEM

Compiled Financial Statements

December 21, 2022

(with Accountants' Compilation Report thereon)

CITY OF CASA MUNICIPAL WATER SYSTEM

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Accountants' Compilation Report

Water and Sewer Committee
City Council of Casa
CASA, Arkansas

Management is responsible for the accompanying financial statements of the business-type activities of the City of Casa Municipal Water System as of and for the year ended December 31, 2022, and related notes to the financial statements, which collectively comprise the City of Casa Municipal Water System's basic financial statements as listed in the table of contents, 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 assurance on these financial statements.

We are not independent with respect to City of Casa Municipal Water System as of and for the year ended December 31, 2022, because we performed certain management accounting functions in preparing the financial statements and underlying accounting records supporting the presentation of the financial statements.

November 3, 2025

Shoptaw, Labahn & Company, P.A.

CITY OF CASA MUNICIPAL WATER SYSTEM

Statements of Net Position

December 21, 2022

Assets

	<u>2022</u>
Assets:	
Cash in bank	\$ 422,999
Restricted cash	30,121
Total cash	<u>453,120</u>
Accounts receivable	27,507
Utility infrastructure:	
Water lines in service	1,559,049
Less accumulated depreciation	<u>(1,134,891)</u>
Net utility infrastructure	<u>424,158</u>
Total assets	<u>904,785</u>
Liabilities:	
Accounts payable	7,505
Sales tax payable	4,831
Customers' deposits	<u>30,121</u>
Total liabilities	<u>42,457</u>
Net position:	
Net investment in capital assets	424,158
Restricted for debt service and construction activities	30,121
Unrestricted	<u>408,049</u>
Total net position	<u>\$ 862,328</u>

CITY OF CASA MUNICIPAL WATER SYSTEM

Statements of Revenue and Expenses

Year ended December 31, 2022

	<u>2022</u>
Operating revenue:	
Water	\$ 251,923
Total operating revenues	<u>251,923</u>
Operating expenses:	
Salaries and wages	22,511
Payroll taxes	779
Contract labor	65,636
Health insurance	6,000
Membership fees	5,836
Office supplies	4,009
Services	597
Utilities	13,756
Repairs, maintenance and supplies	17,884
Miscellaneous expense	838
Water purchased	93,051
Fuel	555
Total operating expense	<u>231,452</u>
Net operating revenue before provision for depreciation	20,471
Depreciation	<u>31,181</u>
Operating income	<u>(10,710)</u>
Other revenue:	
Interest income	<u>4,750</u>
Total other revenue	<u>4,750</u>
Change in net position	<u>\$ (5,960)</u>

CITY OF CASA MUNICIPAL WATER SYSTEM

Statements of Changes in Net Position

Year ended December 31, 2022

	Invested in Capital Assets	Restricted Deposits and Reserve Funds	Unrestricted	Total Net Assets
Net position, December 31, 2021	\$ 455,339	30,556	382,393	868,288
Change in net position	<u>(31,181)</u>	<u>(435)</u>	<u>25,656</u>	<u>(5,960)</u>
Net position, December 31, 2022	<u>\$ 424,158</u>	<u>30,121</u>	<u>408,049</u>	<u>862,328</u>

CITY OF CASA MUNICIPAL WATER SYSTEM

Statements of Cash Flows

Year ended December 31, 2022

	<u>2022</u>
Cash flows from operating activities:	
Cash received from customers	\$ 249,692
Interest received	4,750
Cash payment to suppliers	(211,378)
Cash paid to employees for payroll and related payroll taxes	<u>(24,290)</u>
Net cash provided by operating activities	<u>18,774</u>
Cash flows from non-capital and related financing activities:	
Customer deposits paid	<u>(435)</u>
Net cash used by non-capital and related financing activities	<u>(435)</u>
Increase in cash	18,339
Cash, beginning of year	<u>434,781</u>
Cash, end of year	<u>\$ 453,120</u>

Reconciliation of Cash to the Balance Sheet

Cash in bank	\$ 422,999
Restricted cash	<u>30,121</u>
	<u>\$ 453,120</u>

CITY OF CASA MUNICIPAL WATER SYSTEM

Statements of Cash Flows (Continued)

Year ended December 31, 2022

Reconciliation of operating loss to net cash provided by
operating activities:

	<u>2022</u>
Cash flows from operating activities:	
Change in net position	\$ (5,960)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	31,181
Changes in assets and liabilities	
Increase in accounts receivable	(2,231)
Decrease in trade accounts payable	(2,765)
Decrease in taxes payable	<u>(1,451)</u>
Total adjustments	<u>24,734</u>
Net cash provided by operating activities	<u>\$ 18,774</u>

CITY OF CASA MUNICIPAL WATER SYSTEM

Notes to Financial Statements

December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The City of Casa Municipal Water System (the "System") provides water services to local, residential and commercial customers in the City of Casa, Arkansas.

The System is a municipally operated system and is governed by the Casa City Council of the City of Casa, Arkansas. The System is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The accompanying financial statements are intended to present only the net financial position and results of operations of the Casa Municipal Water System and not the City of Casa, Arkansas.

(b) Basis of Accounting and Presentation

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user charges. The System applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In accordance with GAAP, the System's operations are accounted for as a business type activity. In this regard, the System follows the accrual basis of accounting, whereby income is recognized when it is earned and expenses are recorded when they are incurred, irrespective of when paid.

CITY OF CASA MUNICIPAL WATER SYSTEM

Notes to Financial Statements, Continued

(c) Utility Infrastructure

Utility infrastructure is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Water line infrastructure	50 years
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Depreciation expense for the year ended December 31, 2022 was \$31,181. Expenditures for maintenance and repairs are expensed as incurred; replacements and betterments that extend the useful lives of property and equipment are capitalized. Property and equipment used by the System are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In the event that facts and circumstances indicate an impairment exists, an evaluation of recoverability would be performed.

Management evaluates the condition of utility infrastructure on a continuing basis and has accumulated reserves it believes are adequate to fund major repairs and replacements. Amounts accumulated in reserve funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the System has the right, subject to regulatory authority, to increase user rates, obtain bond funding, or delay repairs and replacements until funds are available.

(d) Use of Estimates

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

(e) Regulatory Environment

The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department. The System may be assessed penalties should a violation occur with respect to regulatory requirements.

CITY OF CASA MUNICIPAL WATER SYSTEM

Notes to Financial Statements, Continued

(f) Income Tax

The System is a municipally owned system that is exempt from federal and state income tax.

(g) Receivables

All receivables are reported at their gross value and where appropriate are reduced by the estimated portion that is expected to be uncollectible. The System assesses late fees on accounts determined to be past due but does not assess finance charges on such accounts. The System collects a customer deposit when initiating service. The customer deposit may be applied to outstanding account balances at the termination of service.

(h) Cash

The System defines cash for purposes of the statement of cash flows as cash on hand and in banks, including restricted cash.

(i) Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments.

(j) Revenue Recognition, Contract Assets and Contract Liabilities

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments (“ASC 606”), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to fulfill a contract. The System recognizes revenue when performance obligations are satisfied. Generally, the System’s performance obligations are satisfied when the control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the System’s right to consideration is unconditional at the

CITY OF CASA MUNICIPAL WATER SYSTEM

Notes to Financial Statements, Continued

time, the System currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities). The adoption of ASC 606 did not result in a change of timing of the System's revenue recognition.

(2) CASH AND RESTRICTIONS

At December 31, 2022, the Systems cash consisted of the following balances:

	<u>2022</u>
Unrestricted accounts	
Operations and maintenance fund	\$ 422,656
Emergency water fund	343
	<u>422,999</u>
Restricted balances	
Meter deposit fund	30,121
	<u>30,121</u>
	<u>\$ 453,120</u>

(a) Meter deposit fund

The meter deposit fund is a custodial account for meter deposits paid to the System by water customers. Deposits are collected at the time service is set up. Meter deposits can be applied to final billing of customers discontinuing service.

(3) ACCOUNTS RECEIVABLE

The accounts receivable due for water services at December 31, 2022 is as follows:

	<u>2022</u>
Current (0-30 days)	\$ 23,222
Past due	4,285
	<u>27,507</u>
Net accounts receivable	<u>\$ 27,507</u>

The system expects that the balance of customer receivables will be collected and no reserve is believed to be required.

CITY OF CASA MUNICIPAL WATER SYSTEM

Notes to Financial Statements, Continued

(4) UTILITY INFRASTRUCTURE

Utility infrastructure consists of the following at December 31, 2022:

Water	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Water line infrastructure	<u>\$ 1,559,049</u>	<u>-</u>	<u>-</u>	<u>\$1,559,049</u>
Accumulated depreciation	<u>\$ 1,103,710</u>	<u>31,181</u>	<u>-</u>	<u>\$1,134,891</u>

(5) CONCENTRATIONS

The System contracts with the neighboring municipal water and sewer department to provide its water supply. All of the cost of water purchases was provided by this municipality.

(6) SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 3, 2025, which is the date the financial statements were available to be issued.

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ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

City Council of Casa, Arkansas
City of Casa Municipal Water System
Casa, Arkansas

We have performed the procedures enumerated below, which were agreed to by the City Council of Casa, Arkansas, as specified in the Agreed Upon Procedures as required under Arkansas Code Annotated 14-234-119, solely to assist the specified parties in evaluating the City of Casa Municipal Water System's compliance with the *Guidelines and Rules* specified below, as of and for the year ended December 31, 2022. The City of Casa's Municipal Water System's management is responsible for the compliance with those requirements.

The procedures and associated findings are as follows:

1. Cash and Investments

- a. Prepared a proof of cash for the year for all accounts and reconciled the year-end bank balances to book balances.
- b. Acquired deposit confirmations for all cash accounts.
- c. Agreed 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 procedures and determined that the criteria was within the test guidelines.

2. Receipts

- a. Agreed the deposits per proof of cash for the year for all accounts with the deposits per the journal within 5% or \$500, whichever is greater.
- b. Agreed ten customer payments included in the accounts billing ledger to deposit and billing information.
- c. For ten deposits, agree the cash/check composition of the deposit with receipt information.

We found no exceptions as a result of the procedures tested under criteria a and b. Records detailing the component breakdown of individual deposit transactions were not maintained and thus, we were unable to complete testing of criteria c.

3. Accounts Receivable

- a. Agreed ten customer billings to the account billing ledger.
- b. Determined that five customer adjustments were properly authorized.

We found no exceptions as a result of the procedures applied to criteria a. Criteria b could not be tested as a result of the lack of historical documentation of customer billing adjustment transactions.

4. Disbursements

- a. Agreed the disbursements per the proof of cash for the year for all accounts with the disbursements per the accounting ledger within 5% or \$500, whichever is greater.
- b. There were no property, plant and equipment additions identified during the operating period. We note that the System has established no defined capital policy and retroactive determination of capital infrastructure was based on an historical record of the United States Department of Agriculture grant and loan transactions at approximate installation periods as confirmed by the United States Department of Agriculture correspondence.
- c. Tested all disbursements paid to the employee other than payroll to determine that such disbursements were adequately documented.

We noted that the employee received an insurance supplemental payment on a recurring basis for which management could not locate documentation specifying the terms of the agreement. Disbursements during the period for this supplemental health insurance payment totaled \$6,000 for the year. Management has retained an agreement supporting current period payments under such agreement. We found no other exceptions as a result of the procedures and determined that the criteria was within the test guidelines as applicable.

5. Property, Plant, and Equipment (Utility Infrastructure)

- a. Determination of historical capital infrastructure was based on the United States Department of Agriculture correspondence for years where grants and loans were identified during periods of infrastructure development. Retroactive capitalization was proposed as part of the engagement process and recommendations are made to establish a defined capital policy.

There were no property, plant and equipment additions or dispositions identified during the operating period as the System has not established a defined capital policy.

6. Long-term Debt

The System had no outstanding long-term debt instruments in effect for the reporting period and thus no criteria testing applies.

7. General

- a. Determined that any items of financial significance were approved and documented in the minutes of the governing body's meeting.

We found no exceptions as a result of the procedures applied to City Council minutes during the test period.

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 or review, the objective of which would be the expression of an opinion or conclusion, on the effectiveness of internal controls over compliance. Accordingly, we do not express such an opinion or conclusion. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you. The sufficiency of the procedures is solely the responsibility of the City Council of Casa, Arkansas.

City Council of Casa, Arkansas
City of Casa Municipal Water System

Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose.

This report is intended solely for the information and use of the City Council of Casa, Arkansas, management of the City of Casa Water System, and the Arkansas Department of Finance and Administration, Office of Intergovernmental Services and is not intended to be and should not be used by anyone other than these specified parties.

Shoptaw, Zabala & Company, P.A.

November 3, 2025