

CITY OF PORTLAND WATER & SEWER DEPARTMENT
FINANCIAL STATEMENTS
December 31, 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the City Council of the
City of Portland Water & Sewer Department

We have performed the procedures enumerated below for the City of Portland Water & Sewer Department, ("the Organization"), the year ended December 31, 2021. The Organization's management is responsible for accounting records.

The Organization has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of satisfying annual reporting requirements of the Arkansas Division of Legislative Audit. Additionally, the Arkansas Legislative Joint Auditing Committee has agreed to and acknowledged that the procedures performed are appropriate for their purposes. 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 and associated findings are as follows:

Cash and Investments

1. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
2. Confirm with depository institutions the cash on deposit and investments.
3. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

Finding: *The financial secretary is involved with most aspects of the receipting process including the counting of cash receipts, taking cash and deposit slips to the bank, and recording of the cash receipts.*

Cause: *There are limited number of employees that are involved in the receipting process to properly segregate cash receipting duties.*

Effect: *While testing of cash receipts did not identify any deficiencies or fraudulent activity, there is an increased risk of fraudulent activity that could go undetected.*

Recommendation: *We recommend increasing the number of counters to three individuals and at least a minimum of two if three is not feasible. We also recommend adding another individual to take the cash and deposits slips to the bank. The financial secretary should match the count sheets and the deposit slips to the clearing of the bank statement and resolve any differences before recording the receipts into the general ledger.*

Finding: The cash accounts listed on the trial balance are not properly accounted for as there are multiple accounts that show a balance that do not exist and no reconciliations are being performed on these trial balance accounts

Cause: Accounts were erroneously created in years past with balances and subsequently no activity since creation, but fund balances have been misstated due to the recording errors of previous years. Adequate review of accounts has not been performed to correct the errors.

Effect: It becomes difficult to analyze the entity's cash position with multiple accounts with balances that do not represent the actual cash balance of the entity.

Recommendation: We recommend a thorough review of the cash accounts listed in the accounting system to ensure there is corresponding cash to reflect the balances listed and to remove old or incorrect accounts.

Receipts

1. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
2. Agree 10 customer payments on the accounts receivable sub-ledger to deposit and billing documents.
3. For one deposit, agree the cash/check composition of the deposit with receipt information.

Findings: No findings identified.

Accounts Receivable

1. Agree 10 customer billings to the accounts receivable sub-ledger.
2. Determine that five (5) customer adjustments were properly authorized.

Findings: No findings identified.

Disbursements

1. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$ 500, whichever is greater.
2. Analyze all property, plant, and equipment disbursements.
3. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

Findings: No findings identified.

Property, Plant, and Equipment

1. Determine that additions and disposals were properly accounted for in the records. (Materiality level - 5% of total equipment or \$500, whichever is greater.)

Findings: *No findings identified.*

Long-Term Debt

2. Schedule long-term debt and verify changes in all balances for the year.
3. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
4. Determine that the appropriate debt service accounts have been established and maintained.

Findings: *No findings identified.*

General

1. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

Findings: *No findings identified.*

We were engaged by the Organization 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 accounting records. 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Organization, Arkansas Legislative Joint Auditing Committee and is not intended to be and should not be used by anyone other than those specified parties.



Monticello, Arkansas
September 30, 2022

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To the City Council of the
City of Portland Water & Sewer Department

Management is responsible for the accompanying financial statements of the City of Portland Water & Sewer Department, ("the Organization"), a component unit of the City of Portland, Arkansas, which comprised the statement of net position as of December 31, 2021 and the related statement of revenue, expenses, and changes in net position, and cash flows as of and for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization'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, no provide any assurance on these financial statements.

Management has omitted the Management's Discussion and Analysis and Budget to Actual Comparison required by accounting principles generally accepted in the United States of America to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context.

The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management, the supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

As discussed in Note 1, the financial statements present only the Organization and do not purport to, and do not, present fairly the financial position of the City of Portland, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.



Monticello, Arkansas
September 30, 2022

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF NET POSITION

December 31, 2021

	2021
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 14,314
Accounts receivable (net)	22,234
Prepaid expenses	3,070
Total current assets	39,618
<u>Restricted cash and investments</u>	
Meter deposits	9,385
Construction	83,833
Debt reserve funds	34,688
Total restricted cash and investments	127,906
Fixed assets, net of accumulated depreciation	3,931,934
Total assets	\$ 4,099,458
<u>Liabilities and Net Position</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 31,808
Accrued taxes payable	4,130
Solid waste payments due to city	7,863
Mosquito payment due to city	2,250
Current portion of bonds payable	52,153
Total current liabilities	98,204
<u>Long term liabilities</u>	
Bonds payable, net of current amount	2,480,941
Customer deposits	9,385
Total long term liabilities	2,490,326
<u>Net position</u>	
Invested in capital assets, net of related debt	1,398,840
Restricted	34,688
Unrestricted	77,400
Total net position	1,510,928
Total liabilities and net position	\$ 4,099,458

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

**WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2021

	<u>2021</u>
<u>Operating revenues</u>	
Water sales	\$ 135,161
Sewer sales	82,819
Late charges	6,210
Other operating revenue	9,819
Total operating revenue	<u>234,009</u>
 <u>Operating expenses</u>	
Plant operations and distribution	107,617
General and administrative	14,829
Depreciation	80,694
Total operating expenses	<u>203,140</u>
 Income / (loss) from operations	30,869
 <u>Other revenue / (expenses)</u>	
Interest income	176
Grant revenue	26,233
Interest expense	(67,951)
Total other revenue / (expenses)	<u>(41,542)</u>
 <u>Excess (deficit) of revenues over expenses</u>	(10,673)
 <u>Other financing sources (uses)</u>	
Transfers in / (out)	<u>39,000</u>
 <u>Change in net position</u>	<u>\$ 28,327</u>
 <u>Net position, beginning of year</u>	1,482,601
 Change in net invested in capital assets	442,282
Change in restricted assets	18,018
Change in unrestricted assets	(431,973)
Change in net position	<u>28,327</u>
 <u>Net position, end of year</u>	<u>\$ 1,510,928</u>

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2021

	<u>2021</u>
<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 229,337
Payments for salaries and benefits	(71,463)
Payments for operating and administrative expenses	(215,227)
Net cash provided by (used for) operating activities	<u>(57,353)</u>
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	(471,544)
Transfers in (out)	39,000
Interest income	176
Net cash provided by (used for) investing activities	<u>(432,368)</u>
<u>Cash flows from financing activities</u>	
Proceeds from grant revenue	26,233
Principal payments on debt	(51,432)
Interest payments	(67,951)
Change in customer deposits	50
Net cash provided by (used for) financing activities	<u>(93,100)</u>
<u>Change in cash and cash equivalents</u>	(582,821)
<u>Cash and cash equivalents, beginning of year</u>	<u>725,041</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 142,220</u>
<u>Cash and cash equivalents</u>	14,314
<u>Restricted cash and cash equivalents</u>	127,906
	<u>\$ 142,220</u>

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended December 31, 2021

	2021
<u>Reconciliation of operating income to</u>	
<u>net cash from operating activities:</u>	
Operating income (loss)	\$ 30,869
Adjustments to reconcile operating income to	
net cash from operating activities:	
Depreciation	80,694
Changes in assets and liabilities:	
Accounts receivable	(4,672)
Prepaid expenses	(430)
Accounts payable	(173,650)
Accrued taxes payable	3,191
Solid waste payments due to city	5,173
Mosquito payment due to city	1,472
Total adjustments	(88,222)
Net cash provided by (used for) operating activities	\$ (57,353)

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

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Water and Sewer Department (the “Organization”) is a component unit of the City of Portland, Arkansas. The Organization is governed by the City Council. The Organization provides water and sewer services to the City of Portland and certain surrounding areas. The Council approves the rate changes of the Organization’s services. The debt of the Organization is maintained in the name of the City of Portland.

B. Fund Type

The Organization is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Organization. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Organization.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Organization applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

D. Use of Estimate

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2021

NOTE 1 (continued)

Accounts Receivable

Accounts receivable relate to water and sewer service billings and are shown net of an allowance for doubtful accounts. The allowance is based upon historical losses and a review of the past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Wells & Water Tanks	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$1,000.

Net Position Classifications

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.
- Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

F. Date of Management's Review

The Organization evaluated its December 31, 2021 financial statements for subsequent events through September 30, 2022, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2021

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it.

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2021.

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions’ trust Organization in the Organization’s name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust Organization or agent in the Organization’s name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization’s bank deposits are as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 121,825	\$ 121,825	\$ -	\$ -
Bank B	21,918	21,918	-	-
Total	<u>\$ 143,743</u>	<u>\$ 143,743</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts shown are bank ledger balances of the referenced bank’s deposits and may differ from the Organization’s general ledger balances.

The Organization has certain amounts of its cash accounts restricted at December 31, 2021 as follows:

	2021
Meter deposits	\$ 9,385
Construction	83,833
Debt reserve requirements	<u>34,688</u>
Total restricted cash	<u>\$ 127,906</u>

The debt reserve cash requirements are restricted for use of replacement of certain equipment securing the bonded indebtedness or for their repairs during the term of the debt and for the use of annual debt service payments for the Organization’s indebtedness.

Customers’ meter deposits are restricted for the use of refunding a departing customers’ refund upon leaving the Organization or for off-setting any amounts owed by the customer upon departure.

It is the Organization’s policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021

NOTE 3 – CHANGES IN FIXED ASSETS

	Balance December 31, 2020	Transfers	Additions	Disposals	Balance December 31, 2021
Water system	\$ 1,012,315	\$ -	\$ 2,129,252	\$ -	\$ 3,141,567
Sewer system	380,968	-	1,506,229	-	1,887,197
Machinery and equipment	234,415	-	-	-	234,415
Furniture and fixtures	1,999	-	-	-	1,999
Building and improvements	15,617	-	-	-	15,617
Construction in progress	3,163,937	-	462,689	(3,626,626)	-
	<u>4,809,251</u>	-	<u>4,098,170</u>	<u>(3,626,626)</u>	<u>5,280,795</u>
Accumulated depreciation	<u>(1,268,167)</u>	-	<u>(80,694)</u>	-	<u>(1,348,861)</u>
	<u>\$ 3,541,084</u>	<u>\$ -</u>	<u>\$ 4,017,476</u>	<u>\$ (3,626,626)</u>	<u>\$ 3,931,934</u>

NOTE 4 – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 5 – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PROCEDURES

Management has elected to omit the Budget to Actual Comparison and the Management Discussion and Analysis of the Organization from the financial statements which are required by GAAP.

SUPPLEMENTARY INFORMATION

WATER & SEWER DEPARTMENT OF THE CITY OF PORTLAND, ARKANSAS
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2021

	<u>2021</u>
<u>Plant operations and distributions</u>	
Salaries, wages, and benefits	\$ 53,365
Payroll taxes	3,806
Repairs and maintenance	9,181
Utilities	11,165
Insurance	8,066
Travel and fuel expenses	2,312
License, permits, fees	3,218
Operating supplies	16,222
Other expenses	283
Total plant operations and distributions	<u>107,617</u>
 <u>General and administrative</u>	
Salaries, wages, and benefits	13,341
Payroll taxes	951
Office supplies	371
Training	165
Total general and administrative	<u>14,829</u>
 <u>Depreciation</u>	<u>80,694</u>
 Total operating expenses	<u><u>\$ 203,140</u></u>

See Independent Accountant's Compilation Report.