POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT

DECEMBER 31, 2024 AND 2023

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JONES and LAWTON, CPAs, P.A.
A PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS

JONES and LAWTON, CPAs, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
1106 WEST B STREET
P O BOX 945
RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552
FAX (479) 968-8855

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

City Council and Management
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

We have performed the procedures enumerated below on the financial and billing records of the Pottsville Municipal Water and Sewer Department as of and for the year ended December 31, 2024. The Pottsville Municipal Water and Sewer System's management is responsible for the preparation of the financial statements.

The City Council and Management of the Pottsville Municipal Water and Sewer Department has agreed to and acknowledged that the procedures performed are appropriate to meet their intended which is to comply with Arkansas Code Annotated §§ 14-234-119 through 14-234-122 and *Guidelines for Conducting Agreed-Upon Procedures for Water Service providers* as prepared by Arkansas Legislative Audit. 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 purpose.

The procedures and associated findings are as follows:

1. <u>Cash and Investments</u>

   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 these procedures.

2. Receipts

   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 customer payments on the accounts receivable subledger to deposit and billing documents.

   c. For ten deposits, agree the cash/check composition of the deposit with receipt information.

   We found no exceptions to 2a. but did find exceptions to 2b. and 2c. as a result of these procedures.

   Due to lack of documentation maintained by former water department personnel, out of the ten selections, we were unable to agree four payments by credit card to credit card deposits on the bank statements. We were also unable to agree four customer payments by cash or check back to the bank deposit slip and cash /check composition, due to multiple days deposits being included on the deposit and not maintaining supporting documentation.

3. Accounts Receivable

   a. Agree ten customer billings to the accounts receivable subledger.

   b. Determine that five customer adjustments were properly authorized.

   All adjustments were made and approved by the water clerk, and we found no exceptions as a result of these procedures.

4. Disbursements

   a. Agree the disbursements per the proof of cash for the year with the disbursements per the journal.

   b. Analyze all property, plant, and equipment disbursements.

   c. Select all disbursements paid to employees other than payroll and ten other disbursements and determine that they were adequately documented.

   We found no exceptions as a result of these procedures.

5. Property, Plant, and Equipment

   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 this procedure.

6. Long-term Debt

   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 these procedures.

7. General

   a. 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 this procedure.

We were engaged by the City Council and Management of the Pottsville Municipal Water and Sewer 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 financial and billing 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 Pottsville Municipal Water and Sewer Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report relates only to the items specified above, regarding only to the water and sewer department, and does not extend to any financial statement of the municipal entity as a whole.

This report is intended solely for the information and use of the City Council and Management of the Pottsville Municipal Water and Sewer Department, Arkansas Office of Legislative Audit and is not intended to be and should not be used by anyone other than those specified parties.

Jones and Lawton, CPAs, P.A.

Jones and Lawton

Russellville, Arkansas
July 28, 2026

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

City Council and Management
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

Management is responsible for the accompanying financial statements of the Pottsville Municipal Water and Sewer Department, which comprise the statement of net position as of December 31, 2024 and 2023 and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United State 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.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part for placing the financial statements in an appropriate operational, economic or historical context.

Jones and Lawton, CPAs, P.A.

Jones and Lawton

Russellville, Arkansas
July 28, 2026

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2024 and 2023

ASSETS

	2024	2023
Cash and Cash Equivalents (Note 2)		
Unrestricted	$ 311,951	$ 569,490
Restricted	261,682	255,821
Accounts Receivable (Note 3)	98,320	138,984
	671,953	964,295
Property And Equipment (Note 4)		
Water System	3,091,928	2,721,393
Sewer System	4,193,420	4,188,420
Buildings	335,366	274,173
Automobiles and Equipment	352,795	311,800
Office Equipment	72,226	72,226
Land	112,083	112,083
	8,157,818	7,680,095
Less: Accumulated Depreciation	4,071,383	3,875,241
	4,086,435	3,804,854
	4,758,388	4,769,149

LIABILITIES

	2024	2023
Accounts Payable	31,617	30,334
Accrued Expenses	8,409	9,750
Customer Deposits	106,279	105,621
Long-term Liabilities (Note 5)		
Due Within 1 Year	185,000	180,000
Due in More Than 1 Year	1,980,000	2,265,000
	2,311,305	2,590,705

NET POSITION

	2024	2023
Net Invested in Capital Assets	1,921,435	1,359,854
Unrestricted	370,247	668,390
Restricted	155,403	150,200
	2,447,085	2,178,444
	$ 4,758,390	$ 4,769,149

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Water and Sewer Revenues	$ 842,820	$ 833,065
Connection Fees and Other Income	514,669	481,418
	1,357,489	1,314,483
OPERATING EXPENSES		
Water Purchases	145,884	165,939
Salaries	275,036	212,960
Utilities	61,919	70,289
Auto	22,279	25,758
Insurance	43,147	22,862
Supplies and Maintenance	174,355	139,858
Office Supplies and Postage	51,931	74,538
Taxes and Permits	17,756	18,202
Depreciation	196,142	173,439
Professional Fees	14,671	8,500
Retirement Expense	36,498	31,768
Miscellaneous	20,638	31,394
	1,060,256	975,507
Operating Income	297,233	338,976
OTHER INCOME (EXPENSE)		
Interest Income	9,458	1,788
Interest Expense	(38,050)	(42,200)
	(28,592)	(40,412)
INCREASE IN NET POSITION	268,641	298,564
NET POSITION, BEGINNING OF YEAR	2,178,444	1,879,880
NET POSITION, END OF YEAR	$ 2,447,085	$ 2,178,444

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	$ 1,398,302	$ 1,283,853
Cash Received from City	20,192	0
Payments to Suppliers	(462,882)	(434,354)
Payments to Employees	(329,430)	(249,995)
Payments for Other Admin Costs	(91,040)	(119,153)
Net Cash Provided by Operating Activities	535,142	480,351
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES		
Increase in Customers' Deposits	658	407
Net Cash Provided by Non-Capital Financing Activities	658	407
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	9,458	1,788
Purchases of Property and Equipment	(477,723)	(341,084)
Net Cash Used by Investing Activities	(468,265)	(339,296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Paid on Bonds Payable	(39,212)	(42,492)
Reduction in Note Payable to Pottsville General Fund	(100,000)	0
Reduction in Bonds Payable	(180,000)	(175,000)
Net Cash Used by Financing Activities	(319,212)	(217,492)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(251,677)	(76,030)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	825,311	901,341
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 573,634	$ 825,311

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2024	2023
Cash Paid During the Year for Interest	$ 39,212	$ 42,492
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	$ 311,951	$ 569,490
Restricted Cash	261,682	255,821
	$ 573,633	$ 825,311

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 and 2023

	2024	2023
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from Operations	$ 297,233	$ 338,976
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation	196,142	173,439
(Increase) Decrease in Accounts Receivable	40,664	(30,635)
Increase (Decrease) in Accounts Payable	1,283	(1,116)
Increase (Decrease) in Accrued Expenses	(180)	(313)
	237,909	141,375
Net Cash Provided by Operating Activities	$ 535,142	$ 480,351

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pottsville Municipal Water and Sewer Department is engaged in providing water and sewer services to the general public located in Pottsville, Arkansas and the surrounding rural areas.

Organization

The Pottsville Municipal Water and Sewer Department is a municipallyoperated system governed by an elected Mayor-Council form of government. The Department is a proprietary fund type utilizing enterprise funds 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 that the costs 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 safety, management control, accountability, or other purposes.

These financial statements represent only the Water and Sewer System funds and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped in the financial statements into one generic fund type.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

As a water utility, our contract with the customer is established when they complete the steps necessary to get the water service turned on. That contract is in force until they terminate their water service with us. The Department uses the accrual basis of accounting which recognizes revenues when they are earned and expenses when they are incurred.

The Department applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1998, unless these pronouncements conflict with or contradict GASB pronouncements.

Cash Equivalents

The Department considers cash equivalents to be short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Cash and cash equivalents" and "Restricted Cash and cash equivalents". The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Bad Debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Customers are required to make a deposit which is recorded on the balance sheet. When a bad debt is identified, the deposit can be offset against the receivable to mitigate the bad debt.

Property and Equipment

Property and equipment are recorded at cost and is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

Water and sewer system	40 years
Building	40 years
Automobiles and equipment	5 years
Office equipment	5 years

Depreciation expenses for the years ended December 31, 2024 and 2023 amounted to $196,142 and $173,439, respectively.

Compensated Absences

The Department accrues for the costs of compensated absences to the extent that the employee's right to receive payment related to service already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated. Forfeiture due to turnover is not reasonably predictable except in instances when an employee gives their notice.

The Department has not accrued a liability for compensated absences in accordance with Accounting Standards Codifications 710, *Compensation* – General, as the amount of the liability could not be reasonably estimated at June 30, 2025 and 2024.

Fair Value of Financial Instruments

The Department's financial instruments include cash and cash equivalents. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

Income Tax

The Pottsville, Arkansas Water and Sewer System is municipally owned and is exempt from Federal and State income tax pursuant to Internal Revenue Code 501(c)(12) and Arkansas Act 114 of 1957, which also exempts the Department from filing Tax Form 990.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position Classifications

Net position is classified and displayed in the following three components:

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."

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulatory Environment

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Health Department. 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.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2024 and 2023, the Department had cash and cash equivalents as follows:

	2024	2023
Unrestricted		
Water system operating fund	$ 311,951	$ 569,490
Restricted		
Bond debt service fund	155,403	150,200
Meter deposit fund	106,279	105,621
	261,682	255,821
	$ 573,633	$ 825,311

NOTE 3: ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable from users at December, 2024 is as follows:

Current	$ 67,150
Past due:	
30 days	3,669
60 days	70
Over 90 days	27,431
	$ 98,320

NOTE 4: PROPERTY AND EQUIPMENT

At December 31, 2024, the Department had property and equipment as follows:

	12-31-2023	Additions	Deletions	12-31-2024
Land	$ 112,083	$		$ 112,083
Water System	2,721,393	370,535		3,091,928
Sewer System	4,188,420	5,000		4,193,420
Vehicles	311,800	40,995		352,795
Office Equipment	72,226			72,226
Building	274,173	61,193		335,366
	$ 7,680,095	$ 477,723		$ 8,157,818

At December 31, 2023, the Department had property and equipment as follows:

	12-31-2022	Additions	Deletions	12-31-2023
Land	$ 112,083	$		$ 112,083
Water System	2,489,453	231,940		2,721,393
Sewer System	4,079,276	109,144		4,188,420
Vehicles	311,800			311,800
Office Equipment	72,226			72,226
Building	274,173	.		274,173
	$ 7,339,011	$ 341,084		$ 7,680,095

NOTE 5: LONG-TERM DEBT

Long-term debt detail at December 31, 2024:

	12-31-2023	Additions	Reductions	12-31-2024
City of Pottsville Arkansas Water & Sewer Refunding and Improvement Revenue Bonds – Series 2021 Interest ranges from 2.0% to 3.25% and are payable semiannually on June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption by lot in such manner as the trustee shall determine on December 1 of each year until December 1, 2039 when the full redemption is due.	$ 2,345,000		$ 180,000	$ 2,165,000
City of Pottsville – General Fund – Building	100,000		100,000	0
	$ 2,445,000		$ 280,000	2,165,000
Less Current Maturities Payable				185,000
				$ 1,980,000

In October 2021, the City issued the City of Pottsville, Arkansas Water And Sewer Refunding Revenue Bonds Series 2021 in the amount of $2,715,000. The proceeds of the bond issue, after payment of issuance and underwriter discount, were used to pay off the Series 2016 bond issue.

The principal and interest payments due on long-term debt for the years succeeding December 31, 2024 are as follows:

	Principal	Interest	Total
2025	$ 185,000	$ 34,450	$ 219,450
2026	185,000	33,063	218,063
2027	190,000	29,362	219,362
2028	190,000	27,225	217,225
2029	195,000	24,850	219,850
2030-2034	1,010,000	78,050	1,088,050
2035	210,000	4,200	214,200
	$ 2,165,000	$ 231,200	$ 2,396,200

Long-term debt detail at December 31, 2023:

	12-31-2022	Additions	Reductions	12-31-2023
City of Pottsville Arkansas Water & Sewer Refunding and Improvement Revenue Bonds – Series 2021 Interest ranges from 2.0% to 3.25% and are payable semiannually on June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption by lot in such manner as the trustee shall determine on December 1 of each year until December 1, 2039 when the full redemption is due.	$ 2,520,000		$ 175,000	$ 2,345,000
City of Pottsville – General Fund – Building	100,000		-	100,000
	$ 2,620,000		$ 175,000	2,445,000
Less Current Maturities Payable				180,000
				$ 2,265,000

In October 2021, the City issued the City of Pottsville, Arkansas Water And Sewer Refunding Revenue Bonds Series 2021 in the amount of $2,715,000. The proceeds of the bond issue, after payment of issuance and underwriter discount, were used to pay off the Series 2016 bond issue. Bond issuance costs of $44,169 are expensed in the current period.

The principal and interest payments due on long-term debt for the years succeeding December 31, 2023 are as follows:

	Principal	Interest	Total
2024	$ 180,000	$ 38,050	$ 218,050
2025	185,000	34,450	219,450
2026	185,000	33,063	218,063
2027	190,000	29,363	219,363
2028	190,000	27,225	217,225
2029-2033	995,000	94,499	1,089,499
2034-2035	520,000	12,600	532,600
	$ 2,445,000	$ 269,250	$ 2,714,250

NOTE 6: SCHEDULE OF RATES

The water and sewer rates during the year 2024 were unchanged from 2023, and were as follows:

Monthly Water Rates:

Inside City Limits

a. Minimum charge on first 1,000 gallons, $20.00.
b. Charge of $3.41 per 1,000 gallons for the next 5,000 gallons.
c. Charge of $2.89 per 1,000 gallons for the next 4,000 gallons.
d. Charge of $2.36 per 1,000 gallons for the usage over 10,000 gallons.

Outside City Limits

a. Minimum charge on first 1,000 gallons, $24.00.
b. Charge of $4.20 per 1,000 gallons for the next 5,000 gallons.
c. Charge of $3.68 per 1,000 gallons for the next 4,000 gallons.
d. Charge of $2.63 per 1,000 gallons for the usage over 10,000 gallons.

Monthly Sewer Rates:

a. Minimum charge on first 1,000 gallons, $15.00.
b. Charge of $4.20 per 1,000 gallons for the next 5,000 gallons.
c. Charge of $3.68 per 1,000 gallons for the next 4,000 gallons.
d. Charge of $2.63 per 1,000 gallons for the usage over 10,000 gallons.

NOTE 7: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 12-19-25
Coverage: Water and sewer buildings, and equipment - $6,202,332

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 11-08-25
Coverage: Automobile liability and physical damage-$79,550

Company: Arkansas Fidelity Bond Trust Fund
Policy No.: FBTF12
Expiration: 06-30-25
Coverage: $300,000

Company: Municipal League Worker's Compensation Trust
Policy: Workers' compensation
Expiration: 12-31-24

NOTE 8: RETIREMENT PLAN

The Department maintains a 403(b) Retirement Plan administered by the Arkansas Public Retirement System. All employees who choose to participate are required to make a 5% salary reduction contribution to the Plan. The Department makes a contribution of 15.32% of salary. The Department contributions for 2024 and 2023 were $36,498 and $31,768, respectively.

NOTE 9: CONCENTRATION OF CREDIT RISK

The Department maintains cash balances with several banks located in Arkansas. The balances at these banks are insured by the Federal Deposit Insurance Corporation up to $250,000. The City has obtained pledged securities for all funds that exceed this FDIC limit.

NOTE 10: SUBSEQUENT EVENTS

The Department considers there to be no significant events to be reported through July 28, 2026, which is the date the financial statements were available to be issued.