

Grady, Arkansas
Water and Sewer Systems

Agreed-Upon Procedures Report

For the Year Ended December 31, 2017

THE MONTGOMERY FIRM, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Grady City Council
Grady Water and Sewer Systems
Mayor Charles Knight

We have performed the procedures enumerated below, which were agreed to by management of the Grady Water and Sewer Systems, solely to assist you in evaluating accounting procedures and documentation for certain transactions during the year ended December 31, 2017. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Grady Water and Sewer Systems. 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.

Our procedures and results are as follows:

1. We performed proofs of cash for the year and reconciled the year-end bank balances to the balances per books. We confirmed cash on deposit with your financial institutions. We agreed the proof of cash ending balances to the general ledger balances (Water Checking and Sewer Checking).

Results: The Water and Sewer checking accounts are the only accounts represented in the systems' general ledgers. The Sewer Depreciation Fund, the Sewer Revenue Bond Fund, and the Water Deposit Refund Account are not included, nor are they reconciled on a monthly or quarterly basis.

Exceptions:

- *The Water System general ledger lists a cash balance of \$9,673.44 while the bank reconciliation lists a balance of \$8,454.44, a difference of \$1,219.00. The \$1,219.00 in question is from a check to RVS Software dated 10/6/17. It was explained to us that the check was determined to be lost, and was reissued in 2018, thereby removing it from the 2017 ledger and financial statements.*
- *The Sewer System general ledger and the bank reconciliation both list a balance of \$3,316.79 which includes an outstanding check from the checking account payable to the Sewer Revenue Bond Fund dated 9/8/2017 in the amount of \$563.00. At the close of our field work, that check had not cleared; however, it was removed from the outstanding checks list on the reconciliation of 2/28/2018. Inasmuch as it appears that the transaction has been deleted, the checking account balance appears to be understated by \$563.00 at 12/31/17. Accordingly, the Sewer Revenue Bond fund was unfunded for the month of September 2017.*

Recommendations: We strongly urge the accounting staff to perform monthly reconciliations on all cash accounts and to analyze all reconciliations for outstanding items that might indicate clearing issues. We encourage you to include all cash accounts in the general ledgers of the respective systems. Only in such fashion will management and the council have the tools to analyze the complete cash position of the systems at any month-end.

2. We agreed the deposits per the proofs of cash for the year with the deposits per the ledgers.

Results: No exceptions were noted.

3. We agreed ten customer payments on the accounts receivable subledger to deposit and billing documents.

Exception: The actual deposit on 8/29/17 of \$3,467.09 was \$20 less than the sum of the "Deposits Tape" reports that made up the deposit. No explanation was noted on the deposit slip or on the handwritten summarization of deposits included in the total. Furthermore, it was not possible to add the relative deposit tapes and reconcile to the total deposit due to deposits on 8/11/17 having been listed on two different 8/11/17 "Deposits Tape" reports.

Recommendation: If daily deposits that reconcile to the "Deposits Tape" reports are not going to be made, which is highly preferable, we recommend that the person in charge of making deposits run an adding machine tape totaling all of the "Deposit Tape" reports that are to be included in the total deposit. In such fashion there would be a direct audit trail of exactly which daily deposits are included. If any amounts are to be withheld from a deposit, or if any mathematical errors are noted when making a deposit, such items should be noted and initialed at the deposit summary page.

4. We agreed one deposit's cash/check composition with receipt information.

Results: No exceptions were noted.

5. We agreed ten customer billings to the accounts receivable subledger.

Results: No exceptions were noted.

6. We examined five customer adjustments for proper authorization.

Results: While a list of monthly account adjustments is maintained in the Accounts Receivable and Billing reports, at present the person authorizing the adjustments is not evidenced.

Recommendation: We recommend that all adjustments be authorized and witnessed with the initials of the person initiating the adjustment and the witness indicating so in the "Approval" column of the monthly "Adjustments" report.

7. We agreed the disbursements per the proofs of cash for the year with the disbursements per the ledgers.

Results: No exceptions were noted.

8. We noted no expenditures for property, plant, or equipment.
9. We selected all disbursements paid to employees for items other than payroll and ten other disbursements and tested them for proper documentation.

Results: No exceptions were noted.

10. We noted no additions nor disposals of property, plant, or equipment.
11. We confirmed long-term debt transactions and ending balances with the lenders, and tested for compliance with reserve requirements. The Sewer Depreciation Fund is adequately reserved.

Exception: Detailed under Item 1 above, the deposit to the Revenue Bond Fund for the month of September, 2017, went unpaid. Under the 1992 Bond Issue, \$52.08, in addition to the monthly bond payment, is to be paid into the reserve account until \$6,129.60 is accumulated, at which point the additional \$52.08 is no longer required.

12. We noted no items of significance that were not approved and documented in the minutes of the Council.
13. We compiled a cash basis Balance Sheet as of December 31, 2017 and a Statement of Cash Receipts and Disbursements for the year then ended and included it with a copy of this report in a submission to the Legislative Joint Auditing Committee.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the propriety of the Systems' accounting, or on the presentation of financial statements and results of operations. 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 Mayor and City Council, System management, and the Legislative Joint Auditing Committee and is not intended to be and should not be used by anyone other than these specified parties.

The Montgomery Firm, CPAs, PA

McGehee, Arkansas
September 11, 2018

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Grady City Council
Mayor Charles Knight
Grady, Arkansas

Management is responsible for the accompanying financial statements of the Grady Water and Sewer Systems, which comprise the Balance Sheet – Cash Basis as of December 31, 2017 and the Statement of Receipts and Disbursements – Cash Basis for the year then ended in accordance with the cash basis of accounting, and for determining that the cash basis of accounting is an acceptable financial reporting framework. We have performed compilation engagements 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.

The financial statements are prepared in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the cash basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the systems' assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

The Montgomery Firm, CPAs, PA

McGehee, Arkansas
September 11, 2018

**City of Grady, Arkansas
Water and Sewer Systems
Balance Sheet – Cash Basis
December 31, 2017**

Assets

Current Assets

| | | |
|------------------------------|---------------|-----------|
| Water System Checking | \$ 8,454 | |
| Sewer System Checking | 3,880 | |
| Sewer Depreciation Fund | 1,214 | |
| Sewer Revenue Bond Fund | 5,327 | |
| Water Deposit Refund Account | <u>15,201</u> | |
| Total Current Assets | | \$ 34,076 |

Fixed Assets

| | | |
|--------------------------------|--------------------|---------------|
| Land – Sewer System | 16,178 | |
| Utility Plants – Sewer | 1,201,011 | |
| Equipment – Sewer | 56,027 | |
| Less: Accumulated Depreciation | <u>(1,257,038)</u> | |
| Net Fixed Assets | | <u>16,178</u> |

| | | |
|--------------|--|------------------|
| Total Assets | | <u>\$ 50,254</u> |
|--------------|--|------------------|

Liabilities and Retained Earnings

Long-Term Liabilities

| | | |
|----------------------|---------------|-----------|
| Water Meter Deposits | \$ 15,201 | |
| Bonds Payable – USDA | <u>63,497</u> | |
| Total Liabilities | | \$ 78,698 |

Retained Earnings (Deficit)

| | | |
|---|--|------------------|
| | | <u>(28,444)</u> |
| Total Liabilities and Retained Earnings | | <u>\$ 50,254</u> |

See Accompanying Accountant's Compilation Report

City of Grady, Arkansas
Water and Sewer Systems
Statement of Receipts and Disbursements – Cash Basis
For the Year Ended December 31, 2017

Cash Receipts

| | | |
|----------------------------------|------------|------------|
| Water System Billing Collections | \$ 64,873 | |
| Sewer System Billing Collections | 35,797 | |
| Interest Income | 6 | |
| Miscellaneous Income – Sewer | <u>965</u> | |
| Total Cash Receipts | | \$ 101,641 |

Cash Disbursements

| | | |
|---------------------------------|--------------|---------------|
| Bank Charges | 82 | |
| One Call Service | 137 | |
| Chlorine | 494 | |
| Gas and Oil | 1,963 | |
| Licenses | 85 | |
| Meetings | 2,679 | |
| Membership Fees | 46 | |
| Part-Time Labor | 5,412 | |
| Parts | 2,179 | |
| Payroll Taxes | 3,177 | |
| Postage | 1,005 | |
| Repairs | 1,644 | |
| Salaries | 31,556 | |
| Sales Tax | 5,926 | |
| Software Support | 1,219 | |
| Supplies | 4,383 | |
| Utilities | 13,640 | |
| Manager | 2,200 | |
| Well Registration | 882 | |
| Workman’s Comp | 423 | |
| Testing | 525 | |
| Debt Payments – 1981 Bond Issue | 7,787 | |
| Debt Payments – 1992 Bond Issue | <u>6,132</u> | |
| Total Cash Disbursements | | <u>93,576</u> |

Excess of Cash Receipts over Cash Disbursements **\$ 8,065**

See Accompanying Accountant’s Compilation Report