

OKOLONA WATER & SEWER SYSTEM



OKOLONA, ARKANSAS

DECEMBER 31, 2020

OKOLONA WATER & SEWER SYSTEM
OKOLONA, ARKANSAS

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TURNER, RODGERS, MANNING & PLYLER, PLLC
Certified Public Accountants

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Mayor and City Council
Okolona, Arkansas

We have performed the procedures enumerated below on the accounting records of Okolona Water & Sewer System as of and for the year ended December 31, 2020. Okolona Water and Sewer System's management is responsible for the accounting records.

Okolona Water & Sewer System 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:

1. Cash and Investments

- a. Perform a proof of cash for the year and reconcile year-end bank balances to book balances.
- 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 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 sub ledger to deposit and billing documents.
- c. For one deposit, agree the cash/check composition of the deposit with the receipt information.

We found no exceptions as a result of the procedures.

3. Accounts Receivable

- a. Agree ten customer billings to the accounts receivable sub ledger.
- b. Determine that five customer adjustments were properly authorized.

We found no exceptions as a result of the procedures.

4. Disbursements

- 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 other disbursements and determine if they were adequately documented.

We found no exceptions as a result of the 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 the procedures.

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 the 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 the procedures.

We were engaged by Okolona Water and Sewer System 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 of Okolona Water and Sewer System. 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 Okolona Water and Sewer System and to meet 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 Okolona Water and Sewer System and the Arkansas Legislative Joint Auditing Committee, and is not intended to be and should not be used by anyone other than those specified parties.

Turner, Rodgers, Manning & Plyler, PLLC
Arkadelphia, Arkansas
March 12, 2021

TURNER, RODGERS, MANNING & PLYLER, PLLC
Certified Public Accountants

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To Management
Okolona Water & Sewer System
Okolona, Arkansas

Management is responsible for the accompanying financial statements of Okolona Water & Sewer System, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years 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.

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

As discussed in Note 1, the financial statements referred to above present only Okolona Water & Sewer System, which is an enterprise fund of the Town of Okolona, and are not intended to present fairly the financial position of the Town of Okolona, and the results of its operations and the cash flows of its other funds in conformity with generally accepted accounting principles.

Turner, Rodgers, Manning & Plyler, PLLC
Arkadelphia, Arkansas
March 12, 2021

OKOLONA WATER & SEWER SYSTEM
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

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	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 102,712	\$ 100,111
Accounts Receivable	10,930	9,765
TOTAL CURRENT ASSETS	<u>113,642</u>	<u>109,876</u>
RESTRICTED ASSETS:		
Meter Deposit Fund	24,925	23,999
Water Revenue Bond Fund	27,962	27,937
Sewer Revenue Bond Fund	13,129	12,516
Revenue Bond Reserve Fund	22,120	22,100
Depreciation Fund	79,784	75,923
TOTAL RESTRICTED ASSETS	<u>167,920</u>	<u>162,475</u>
PLANT AND EQUIPMENT:		
Water System	189,299	189,299
Sewer System	1,891,347	1,891,347
Vehicles and Equipment	99,803	95,720
	<u>2,180,449</u>	<u>2,176,366</u>
Less: Accumulated Depreciation	(1,281,755)	(1,226,537)
TOTAL PLANT AND EQUIPMENT	<u>898,694</u>	<u>949,829</u>
TOTAL ASSETS	<u>\$ 1,180,256</u>	<u>\$ 1,222,180</u>

See Independent Accountants' Compilation Report and accompanying Notes to Financial Statements.

OKOLONA WATER & SEWER SYSTEM
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

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LIABILITIES AND FUND EQUITY

	2020	2019
CURRENT LIABILITIES:		
Accounts Payable	\$ 2,316	\$ 1,980
Payroll Taxes Payable	893	941
Sales Tax Payable	633	608
Accrued Interest Payable	33	43
Notes Payable - Current Portion	3,661	3,456
TOTAL CURRENT LIABILITIES	7,536	7,028
 LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Meter Deposits	15,507	14,680
Bonds Payable - Current Maturity	5,338	5,063
Accrued Bond Interest	104	109
TOTAL LIABILITIES PAYABLE FROM RESTRICTED FUNDS	20,949	19,852
 LONG-TERM DEBT:		
Bonds Payable	76,858	82,197
Notes Payable	7,925	11,586
TOTAL LONG-TERM DEBT	84,783	93,783
 TOTAL LIABILITIES	113,268	120,663
 FUND EQUITY:		
Contributed Capital	1,832,288	1,832,288
Retained Earnings:		
Reserved	146,971	142,623
Unreserved	(912,271)	(873,394)
TOTAL FUND EQUITY	1,066,988	1,101,517
 TOTAL LIABILITIES AND FUND EQUITY	\$ 1,180,256	\$ 1,222,180

See Independent Accountants' Compilation Report and accompanying Notes to Financial Statements.

OKOLONA WATER & SEWER SYSTEM
 STATEMENTS OF REVENUE, EXPENSES AND
 CHANGES IN FUND EQUITY
 FOR YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUE:		
Water Revenue	\$ 90,042	\$ 80,744
Sewer Revenue	14,172	13,803
Penalties	1,651	1,502
Tap and Reconnect Fees	3,990	4,060
Sanitation Fees	7,030	6,987
Miscellaneous	3,342	3,224
TOTAL OPERATING REVENUE	120,227	110,320
OPERATING EXPENSES:		
Salaries	42,200	42,200
Contract Labor	640	100
Small Tools and Supplies	4,606	7,458
Rent	1,200	1,200
Utilities and Telephone	17,054	17,219
Repairs and Maintenance	3,936	16,227
Depreciation	55,218	54,364
Legal and Accounting	1,593	1,644
Insurance	1,462	1,499
Taxes and Licenses	4,227	2,410
Dues, Subscriptions and Seminars	3,104	3,071
Office Supplies	2,999	1,868
Sanitation Fees	6,608	6,592
Vehicles and Equipment Expense	3,770	3,822
Miscellaneous	2,225	2,891
TOTAL OPERATING EXPENSES	150,842	162,565
OPERATING (LOSS)	(30,615)	(52,245)
OTHER INCOME (EXPENSE):		
Interest Income	286	315
Interest Expense	(4,200)	(5,361)
TOTAL OTHER INCOME (EXPENSE)	(3,914)	(5,046)
NET (LOSS)	(34,529)	(57,291)
FUND EQUITY, BEGINNING OF YEAR	1,101,517	1,158,808
FUND EQUITY, END OF YEAR	\$ 1,066,988	\$ 1,101,517

See Independent Accountants' Compilation Report and accompanying Notes to Financial Statements.

OKOLONA WATER & SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2020 AND 2019

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	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 119,062	\$ 109,703
Cash Paid to Suppliers	(53,111)	(66,755)
Cash Paid to Employees	(42,200)	(42,200)
NET CASH FLOW FROM OPERATING ACTIVITIES	23,751	748
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Change in Meter Deposits	827	(148)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	286	315
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Fixed Assets	(4,083)	-
Principal Paid on Debt	(8,520)	(8,066)
Interest Paid on Debt	(4,215)	(5,375)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(16,818)	(13,441)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,046	(12,526)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	262,586	275,112
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 270,632	\$ 262,586

See Independent Accountants' Compilation Report and accompanying Notes to Financial Statements.

OKOLONA WATER & SEWER SYSTEM
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED DECEMBER 31, 2020 AND 2019

Reconciliation of operating income (loss) to net cash provided by operating activities:

	2020	2019
OPERATING (LOSS)	\$ (30,615)	\$ (52,245)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	55,218	54,364
Change in Assets and Liabilities:		
Accounts Receivable	(1,165)	(617)
Accrued Expenses	313	(754)
TOTAL ADJUSTMENTS	54,366	52,993
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 23,751	\$ 748

SCHEDULE OF NONCASH INVESTING AND FINANCING
 ACTIVITIES:

None

See Independent Accountants' Compilation Report and accompanying Notes to Financial Statements.

OKOLONA WATER & SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 1. Significant Accounting Policies:

The Okolona Water and Sewer System is an enterprise fund of the Town of Okolona, Arkansas. The System is governed by the Town Council of the Town of Okolona. The financial statements and other information reflect the Okolona Water & Sewer System which is accounted for as a proprietary fund and do not include other funds of the Town of Okolona, Arkansas.

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The System applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

Plant infrastructure and equipment are stated on the basis of cost, and depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Water and Sewer Distribution Systems	40 Years
Vehicles and Equipment	3-7 Years

Depreciation is partially funded by transfers to the depreciation fund at the rate of 3% of gross revenues of the System.

Accounts receivable at December 31, 2020 was \$10,930. All customers are required to pay a meter deposit before service is provided. Concentrations of credit risk with respect to these receivables are limited by these deposits. No allowance for doubtful accounts has been established as management believes the meter deposits are sufficient to cover any unpaid balances.

Bad debts, which are insignificant in amount, are recognized based on the direct charge-off of individual accounts considered uncollectible.

The System requires every customer to pay a cash meter deposit before service is provided. Concentrations of credit risk with respect to trade receivables are limited by these deposits. The System monitors its exposure for credit losses and maintains allowances for anticipated losses, if warranted.

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

For purposes of the Statement of Cash Flows, the System considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Management has evaluated subsequent events through March 12, 2021, the date the financial statements were available for issuance.

OKOLONA WATER & SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 2. Current Assets:

The revenue fund, operations and maintenance fund, and other current assets are available to meet the existing current liabilities and provide working capital for the System.

Note 3. Restricted Assets:

Restricted assets at December 31, 2020 consisted of \$24,925 (Meter Deposit Fund); \$27,962 (Water Revenue Bond Fund); \$13,129 (Sewer Revenue Bond Fund); \$22,120 (Revenue Bond Reserve Fund); and \$79,784 (Depreciation Fund). Restricted assets at December 31, 2019 consisted of \$23,999 (Meter Deposit Fund); \$27,937 (Water Revenue Bond Fund); \$12,516 (Sewer Revenue Bond Fund); \$22,100 (Revenue Bond Reserve Fund); and \$75,923 (Depreciation Fund). According to the revenue bond ordinance, the System is required to maintain separate funds for customers' meter deposits and debt service reserve. Monthly transfers are being made to the debt service reserve at the rate of \$50 per month.

Note 4. Property, Plant and Equipment:

Property, Plant and Equipment activity for the year ended December 31, 2020 was as follows:

	12/31/2019	Increases	Decreases	12/31/2020
Water System	\$ 189,299	\$ -	\$ -	\$ 189,299
Sewer System	1,891,347	-	-	1,891,347
Vehicles and Equipment	95,720	4,083	-	99,803
	<u>2,176,366</u>	<u>4,083</u>	<u>-</u>	<u>2,180,449</u>
Less Accumulated Depreciation	(1,226,537)	(55,218)	-	(1,281,755)
NET	<u>\$ 949,829</u>	<u>\$ (51,135)</u>	<u>\$ -</u>	<u>\$ 898,694</u>

Property, Plant and Equipment activity for the year ended December 31, 2019 was as follows:

	12/31/2018	Increases	Decreases	12/31/2019
Water System	\$ 189,299	\$ -	\$ -	\$ 189,299
Sewer System	1,891,347	-	-	1,891,347
Vehicles and Equipment	95,720	-	-	95,720
	<u>2,180,714</u>	<u>-</u>	<u>-</u>	<u>2,176,366</u>
Less Accumulated Depreciation	(1,172,173)	(54,364)	-	(1,226,537)
NET	<u>\$ 1,008,541</u>	<u>\$ (54,364)</u>	<u>\$ -</u>	<u>\$ 949,829</u>

Note 5. Long-Term Debt:

The Town issued revenue bonds in 1988 and 1997 which were purchased by USDA Rural Development in the amount of \$154,700.

OKOLONA WATER & SEWER SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

Note 5. Long-Term Debt: (Continued)

Long-Term Debt as of December 31, 2020 and 2019 consists of the following:

	12/31/2020	12/31/2019
Bond payable, series 1997, to USDA Rural Development; original amount \$101,700; maturing in 2037; monthly payments of \$467, including interest at 4.50%; secured by the System's revenues and accounts receivable; current portion is \$2,781.	\$ 64,004	\$ 66,663
Bond payable, series 1988, to USDA Rural Development; original amount \$53,000; maturing in 2028; monthly payments of \$300, including interest at 6.125%; secured by the System's revenues and accounts receivable; current portion is \$2,557.	18,192	20,597
Note Payable to Ally Auto, original amount \$21,391; maturing in 2023; monthly payments of \$353, including interest at 5.80%; secured by a vehicle; current portion is \$3,661.	11,586	15,042
	93,782	102,302
Less portion considered current	(8,999)	(8,519)
Total long-term debt	\$ 84,783	\$ 93,783

Aggregate debt payment requirements are as follows:

	Principal	Interest	Total
2021	\$ 8,999	\$ 4,442	\$ 13,441
2022	9,506	3,935	13,441
2023	9,976	3,399	13,375
2024	6,253	2,951	9,204
2025	6,593	2,611	9,204
Thereafter	52,455	13,361	65,816
Total	\$ 93,782	\$ 30,699	\$ 124,481

Note 6. Contributed Capital and Retained Earnings:

Contributed capital represents grants received to assist in financing construction of the System and Contributions in Aid of Construction received from customers and the Town of Okolona.

Retained earnings for the year ended December 31, 2020 in the amount of (\$765,300) consists of the accumulated losses of the System of (\$912,271) and the excess of restricted assets over liabilities payable from restricted assets of \$146,971.

OKOLONA WATER & SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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Note 7. Public Fund Deposits:

State law generally requires that public funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America. All cash funds of the System, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of the Okolona Water and Sewer System in financial institutions permitted by law.

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 System does not have a policy for custodial credit risk. At December 31, 2020, the carrying value of the System's accounts, deposits and investments was \$270,632. The bank balances before reduction and addition of outstanding items were \$270,907.

Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Okolona Water and Sewer System's accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Okolona accounts and investments at a financial institution.

Note 8. Number of Water and Sewer Customers:

As of December 31, 2020, the System had 241 water customers and 63 sewer customers.