

COVE WATER AND SEWER DEPARTMENT



COVE, ARKANSAS

DECEMBER 31, 2022

COVE WATER AND SEWER DEPARTMENT
COVE, ARKANSAS

TABLE OF CONTENTS
DECEMBER 31, 2022

	<u>PAGE NO.</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures	1 - 2
Independent Accountants' Compilation Report	3
Statements of Net Position - December 31, 2022 and 2021	4 - 5
Statements of Revenues, Expenses and Changes in Net Position - For Years Ended December 31, 2022 and 2021	6
Statements of Cash Flows - For Years Ended December 31, 2022 and 2021	7 - 8
Notes to Financial Statements	9 - 11

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Mayor and City Council
Cove Water and Sewer Department

We have performed the procedures enumerated below on the accounting records of Cove Water and Sewer Department as of and for the year ended December 31, 2022. Cove Water and Sewer Department's management is responsible for the entity's accounting records.

Cove Water and Sewer Department 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 ten deposits, agree the cash/check composition of the deposit with 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 Cove 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 accounting records of Cove Water and Sewer Department. 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 Cove Water and Sewer Department 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 Cove Water and Sewer Department 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
May 30, 2023

To Management
Cove Water and Sewer Department
Cove, Arkansas

Management is responsible for the accompanying financial statements of Cove Water and Sewer Department, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, 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 elected to omit the management's discussion and analysis and 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 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.

As discussed in Note 1, the financial statements referred to above present only Cove Water and Sewer Department, which is an enterprise fund of the Town of Cove, and are not intended to present fairly the financial position of the Town of Cove, 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
May 30, 2023

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

Page 4

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 83,803	\$ 156,427
Certificates of Deposit	215,978	215,431
Accounts Receivable	14,506	10,688
Sales Tax Receivable	7,298	11,377
Prepaid Expenses	3,328	2,869
TOTAL CURRENT ASSETS	<u>324,913</u>	<u>396,792</u>
RESTRICTED ASSETS:		
Cash - Meter Deposits	11,680	10,996
Certificate of Deposit - Meter Deposits	12,000	12,000
Cash - Depreciation Reserve	25,177	25,163
TOTAL RESTRICTED ASSETS	<u>48,857</u>	<u>48,159</u>
CAPITAL ASSETS:		
Land	19,788	19,788
Machinery and Equipment	63,367	63,367
Buildings	61,715	61,715
Improvements	13,790	13,790
Water System	600,623	502,486
Sewer System	2,447,230	2,415,399
	<u>3,206,513</u>	<u>3,076,545</u>
Less Accumulated Depreciation	<u>(1,649,406)</u>	<u>(1,561,819)</u>
TOTAL CAPITAL ASSETS	<u>1,557,107</u>	<u>1,514,726</u>
TOTAL ASSETS	<u><u>\$ 1,930,877</u></u>	<u><u>\$ 1,959,677</u></u>

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

Page 5

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 11,325	\$ 7,913
Sales Tax Payable	656	558
TOTAL CURRENT LIABILITIES	<u>11,981</u>	<u>8,471</u>
LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Customers' Meter Deposits	23,580	22,996
LONG-TERM LIABILITIES:		
None	-	-
TOTAL LIABILITIES	<u>35,561</u>	<u>31,467</u>
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	1,557,107	1,514,726
Retained Earnings:		
Restricted	25,277	25,163
Unrestricted	312,932	388,321
TOTAL NET POSITION	<u>1,895,316</u>	<u>1,928,210</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,930,877</u></u>	<u><u>\$ 1,959,677</u></u>

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 6

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Water and Sewer Services	\$ 135,265	\$ 128,639
Late Charges	3,014	2,157
Miscellaneous Income	66,061	6,365
TOTAL REVENUES	<u>204,340</u>	<u>137,161</u>
OPERATING EXPENSES:		
Water Purchases	62,597	51,481
Salaries and Wages	49,424	48,135
Auto Expenses	2,244	2,677
Contract Services	7,946	7,223
Fees and Licenses	1,600	1,960
Dues and Subscriptions	1,347	913
Insurance	13,399	10,513
Legal and Professional	2,760	2,610
Office Expense	2,858	2,310
Postage	1,738	1,294
Rental Expenses	-	164
Repairs and Maintenance	52,398	16,959
Operating Supplies	786	2,722
Payroll Taxes	3,928	3,767
Sales Tax Expense	7,653	7,254
Utilities and Telephone	16,958	14,359
Depreciation	87,587	87,961
Miscellaneous	558	1,187
TOTAL OPERATING EXPENSES	<u>315,781</u>	<u>263,489</u>
OPERATING INCOME	<u>(111,441)</u>	<u>(126,328)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest Income	674	1,854
City and County Sales Tax Revenues	77,873	87,422
Interest Expense	-	(3,597)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>78,547</u>	<u>85,679</u>
NET INCOME (LOSS)	<u>(32,894)</u>	<u>(40,649)</u>
NET POSITION - BEGINNING OF YEAR	1,928,210	1,767,771
TRANSFERS FROM GENERAL FUND	-	201,088
NET POSITION - END OF YEAR	<u><u>\$ 1,895,316</u></u>	<u><u>\$ 1,928,210</u></u>

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 7

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 136,484	\$ 135,423
Other Operating Cash Receipts	64,038	-
Cash Payments for Goods and Services	(175,719)	(125,983)
Cash Payments to Employees	(49,424)	(48,135)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>(24,621)</u>	<u>(38,695)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Received from City and County Sales and Use Tax	81,952	84,610
Transfers from General Fund	-	201,088
Increase in Meter Deposits	584	1,337
NET CASH FLOW FROM FINANCING ACTIVITIES	<u>82,536</u>	<u>287,035</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(129,968)	(5,636)
Principal Debt Payment	-	(246,492)
Interest Paid	-	(4,296)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(129,968)</u>	<u>(256,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Certificates of Deposit	(547)	(1,407)
Proceeds from Maturity of Certificate of Deposit	-	40,000
Interest Received	674	1,854
NET CASH FLOW FROM INVESTING ACTIVITIES	<u>127</u>	<u>40,447</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(71,926)</u>	<u>32,363</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	192,586	160,223
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 120,660</u>	<u>\$ 192,586</u>

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

Page 8

Reconciliation of operating income to net cash flow from operating activities:

	<u>2022</u>	<u>2021</u>
OPERATING INCOME (LOSS)	<u>\$ (111,441)</u>	<u>\$ (126,328)</u>
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation and Amortization	87,587	87,961
Change in Assets and Liabilities:		
Accounts Receivable	(3,818)	(1,738)
Prepaid Expenses	(459)	(247)
Accounts Payable	3,412	1,580
Sales Tax Payable	<u>98</u>	<u>77</u>
TOTAL ADJUSTMENTS	86,820	87,633
NET CASH FLOW FROM OPERATING ACTIVITIES	<u><u>\$ (24,621)</u></u>	<u><u>\$ (38,695)</u></u>

SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

None

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

COVE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 9

Note 1. Significant Accounting Policies:

The Cove Water and Sewer Department, “the System”, is an Enterprise Fund of the Town of Cove, Arkansas and is governed by the Board of Directors of the Town of Cove, Arkansas. The accompanying financial statements and other information reflect the Cove Water and Sewer Department fund only and do not include other funds of the Town of Cove, Arkansas.

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with generally accepted accounting principles under which revenues are recognized when earned, and expenses are recorded when incurred. The System applies all relevant Government 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.

Bad debts, which are immaterial in amount after applying customers’ meter deposits, are recognized based on the direct charge-off of individual accounts considered uncollectible.

Capital Assets are stated at cost or customer cost of construction on contributed assets. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	10 - 30 Years
Water and Sewer System	5 - 40 Years
Machinery and Equipment	5 - 10 Years

For purposes of the Statement of Cash Flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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.

Management has evaluated subsequent events through May 30, 2023, the date the financial statements were available for issuance.

Note 2. Public Fund Deposits and Investments:

State law generally requires that City 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 where principal and interest 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 Cove Water and Sewer in financial institutions permitted by law.

COVE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 10

Note 2. Public Fund Deposits and Investments: (Continued)

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. Cove Water and Sewer Department does not have a policy for custodial credit risk. The carrying value of the System's accounts and investments at December 31, 2022 was \$348,613. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$356,181 before adjustment for outstanding items.

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 Cove Water and Sewer accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all Town of Cove accounts and investments at a financial institution. However, securities with a total market value of \$1,000,000 were pledged as collateral by the depository institution and held by the pledging institution's agent in the Town of Cove's name.

Investment Interest Rate Risk: The System does not have an investment interest rate risk. All investments are short-term certificates of deposit and the System is under no obligation to renew upon maturity.

Investment Credit Risk: The System does not have a formal investment policy. All investments are short-term certificates of deposit with banks authorized by state law to receive deposits of public funds and with which the System has a collateral agreement.

Foreign Currency Risk: The System has no exposure to foreign currency risk.

Note 3. Capital Assets:

Capital Assets activity for the years ended December 31, 2022 and 2021 was as follows:

	12/31/2021	INCREASES	DECREASES	12/31/2022
Capital Assets at Historical Costs:				
Land	\$ 19,788	\$ -	\$ -	\$ 19,788
Machinery and Equipment	63,367	-	-	63,367
Buildings	61,715	-	-	61,715
Improvements	13,790	-	-	13,790
Water System	502,486	98,137	-	600,623
Sewer System	2,415,399	31,831	-	2,447,230
	<u>3,076,545</u>	<u>129,968</u>	<u>-</u>	<u>3,206,513</u>
Less Accumulated Depreciation:	(1,561,819)	(87,587)	-	(1,649,406)
NET	<u>\$ 1,514,726</u>	<u>\$ 42,381</u>	<u>\$ -</u>	<u>\$ 1,557,107</u>

COVE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Page 11

Note 3. Capital Assets: (Continued)

	12/31/2020	INCREASES	DECREASES	12/31/2021
Capital Assets at Historical Costs:				
Land	\$ 19,788	\$ -	\$ -	\$ 19,788
Machinery and Equipment	63,367	-	-	63,367
Buildings	61,715	-	-	61,715
Improvements	13,790	-	-	13,790
Water System	502,486	-	-	502,486
Sewer System	2,409,763	5,636	-	2,415,399
	<u>3,070,909</u>	<u>5,636</u>	<u>-</u>	<u>3,076,545</u>
Less Accumulated Depreciation:	(1,473,858)	(87,961)	-	(1,561,819)
NET	<u>\$ 1,597,051</u>	<u>\$ (82,325)</u>	<u>\$ -</u>	<u>\$ 1,514,726</u>

Note 4. Liabilities:

Accounts payable, reported as a current liability, is composed of operating expenses for December. These amounts were paid subsequent to December 31, 2022.

Note 5. Risk Management:

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The System maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the System.