

COVE WATER AND SEWER DEPARTMENT



COVE, ARKANSAS

DECEMBER 31, 2023

COVE WATER AND SEWER DEPARTMENT
COVE, ARKANSAS

TABLE OF CONTENTS
DECEMBER 31, 2023

	<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, 2023 and 2022	4 - 5
Statements of Revenues, Expenses and Changes in Net Position - For Years Ended December 31, 2023 and 2022	6
Statements of Cash Flows - For Years Ended December 31, 2023 and 2022	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, 2023. 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 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 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 procedure.

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
June 28, 2024

INDEPENDENT ACCOUNTANTS' COMPLICATION REPORT

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, 2023 and 2022, 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
June 28, 2024

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

Page 4

ASSETS

	2023	2022
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 48,481	\$ 83,803
Certificates of Deposit	217,311	215,978
Accounts Receivable	25,362	14,506
Sales Tax Receivable	8,009	7,298
Prepaid Expenses	3,964	3,328
TOTAL CURRENT ASSETS	303,127	324,913
RESTRICTED ASSETS:		
Cash - Meter Deposits	12,239	11,680
Certificate of Deposit - Meter Deposits	12,000	12,000
Cash - Depreciation Reserve	-	25,177
TOTAL RESTRICTED ASSETS	24,239	48,857
CAPITAL ASSETS:		
Land	19,788	19,788
Machinery and Equipment	63,367	63,367
Buildings	61,715	61,715
Improvements	24,991	13,790
Water System	662,957	600,623
Sewer System	2,462,054	2,447,230
	3,294,872	3,206,513
Less Accumulated Depreciation	(1,746,479)	(1,649,406)
TOTAL CAPITAL ASSETS	1,548,393	1,557,107
TOTAL ASSETS	\$ 1,875,759	\$ 1,930,877

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

Page 5

LIABILITIES AND NET POSITION

	2023	2022
CURRENT LIABILITIES:		
Accounts Payable	\$ 10,631	\$ 11,325
Sales Tax Payable	582	656
TOTAL CURRENT LIABILITIES	11,213	11,981
LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Customers' Meter Deposits	24,139	23,580
LONG-TERM LIABILITIES:		
None	-	-
TOTAL LIABILITIES	35,352	35,561
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	1,548,393	1,557,107
Retained Earnings:		
Restricted	100	25,277
Unrestricted	291,914	312,932
TOTAL NET POSITION	1,840,407	1,895,316
TOTAL LIABILITIES AND NET POSITION	\$ 1,875,759	\$ 1,930,877

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, 2023 AND 2022

	2023	2022
OPERATING REVENUES:		
Water and Sewer Services	\$ 144,342	\$ 135,265
Late Charges	3,393	3,014
Miscellaneous Income	27,081	66,061
TOTAL REVENUES	174,816	204,340
OPERATING EXPENSES:		
Water Purchases	68,630	62,597
Salaries and Wages	53,031	49,424
Auto Expenses	3,042	2,244
Contract Services	6,979	7,946
Fees and Licenses	2,289	1,600
Dues and Subscriptions	1,141	1,347
Insurance	15,100	13,399
Legal and Professional	2,816	2,760
Office Expense	2,675	2,858
Postage	1,885	1,738
Rental Expenses	11,814	-
Repairs and Maintenance	12,218	52,398
Operating Supplies	1,502	786
Payroll Taxes	4,092	3,928
Sales Tax Expense	7,925	7,653
Utilities and Telephone	15,736	16,958
Depreciation	97,073	87,587
Miscellaneous	1,363	558
TOTAL OPERATING EXPENSES	309,311	315,781
OPERATING INCOME	(134,495)	(111,441)
NON-OPERATING REVENUES (EXPENSES):		
Interest Income	1,478	674
City and County Sales Tax Revenues	78,108	77,873
TOTAL NON-OPERATING REVENUES (EXPENSES)	79,586	78,547
NET INCOME (LOSS)	(54,909)	(32,894)
NET POSITION - BEGINNING OF YEAR	1,895,316	1,928,210
NET POSITION - END OF YEAR	\$ 1,840,407	\$ 1,895,316

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

COVE WATER AND SEWER DEPARTMENT
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 142,644	\$ 136,484
Other Operating Cash Receipts	21,316	64,038
Cash Payments for Goods and Services	(160,611)	(175,719)
Cash Payments to Employees	(53,031)	(49,424)
NET CASH FLOW FROM OPERATING ACTIVITIES	(49,682)	(24,621)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Received from City and County Sales and Use Tax	77,397	81,952
Increase in Meter Deposits	559	584
NET CASH FLOW FROM FINANCING ACTIVITIES	77,956	82,536
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(88,359)	(129,968)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Certificates of Deposit	(1,333)	(547)
Interest Received	1,478	674
NET CASH FLOW FROM INVESTING ACTIVITIES	145	127
NET CHANGE IN CASH AND CASH EQUIVALENTS	(59,940)	(71,926)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	120,660	192,586
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 60,720	\$ 120,660

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

COVE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2023 AND 2022

Page 8

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

	<u>2023</u>	<u>2022</u>
OPERATING INCOME (LOSS)	<u>\$ (134,495)</u>	<u>\$ (111,441)</u>
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation and Amortization	97,073	87,587
Change in Assets and Liabilities:		
Accounts Receivable	(10,856)	(3,818)
Prepaid Expenses	(636)	(459)
Accounts Payable	(694)	3,412
Sales Tax Payable	(74)	98
TOTAL ADJUSTMENTS	<u>84,813</u>	<u>86,820</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u><u>\$ (49,682)</u></u>	<u><u>\$ (24,621)</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, 2023

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 June 28, 2024, 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, 2023

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, 2023 was \$290,006. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$297,514 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, 2023 and 2022 was as follows:

	<u>12/31/2022</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>12/31/2023</u>
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	11,201	-	24,991
Water System	600,623	62,334	-	662,957
Sewer System	<u>2,447,230</u>	<u>14,824</u>	-	<u>2,462,054</u>
	3,206,513	88,359	-	3,294,872
Less Accumulated Depreciation:	(1,649,406)	(97,073)	-	(1,746,479)
NET	<u>\$ 1,557,107</u>	<u>\$ (8,714)</u>	<u>\$ -</u>	<u>\$ 1,548,393</u>

COVE WATER AND SEWER DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2023

Note 3. Capital Assets: (Continued)

	<u>12/31/2021</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>12/31/2022</u>
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>

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, 2023.

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.