

EMMET WATER AND SEWER SYSTEM



EMMET, ARKANSAS

DECEMBER 31, 2021

EMMET WATER AND SEWER SYSTEM  
EMMET, ARKANSAS

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# **TURNER, RODGERS, MANNING & PLYLER, PLLC**

***Certified Public Accountants***

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

To the Mayor and City Council  
Emmet Water and Sewer System

We have performed the procedures enumerated below on the accounting records of Emmet Water and Sewer System as of and for the year ended December 31, 2021. Emmet Water and Sewer System's management is responsible for the entity's accounting records.

Emmet Water and 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 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 Emmet 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 Emmet 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 Emmet 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 Emmet 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

August 15, 2022

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

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To the City Council and Management  
of Emmet Water and Sewer System  
Emmet, Arkansas

Management is responsible for the accompanying financial statements of Emmet Water and Sewer System, which comprise the balance sheets as of December 31, 2021 and 2020, and 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, which collectively comprise the System's basic financial statements as listed in the table of contents, 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. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has omitted the budgetary comparison schedule that the Governmental Accounting Standards Board requires 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 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 Emmet Water and Sewer System, which is an enterprise fund of the City of Emmet, and are not intended to present fairly the financial position of the City of Emmet, 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  
August 15, 2022

EMMET WATER AND SEWER SYSTEM  
BALANCE SHEETS  
DECEMBER 31, 2021 AND 2020

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	<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:			
Cash and Cash Equivalents		\$ 7,243	\$ 15,947
Certificates of Deposit		54,454	53,718
Accounts Receivable		13,020	13,951
TOTAL CURRENT ASSETS		<u>74,717</u>	<u>83,616</u>
RESTRICTED ASSETS:			
Cash - Depreciation		34,575	32,446
Cash - Meter Deposits		17,120	17,970
Certificates of Deposit		44,478	43,883
TOTAL RESTRICTED ASSETS		<u>96,173</u>	<u>94,299</u>
CAPITAL ASSETS:			
Water and Sewer System		925,598	925,598
Equipment		44,866	44,866
		<u>970,464</u>	<u>970,464</u>
Less Accumulated Depreciation		<u>(491,235)</u>	<u>(465,524)</u>
TOTAL CAPITAL ASSETS		479,229	504,940
TOTAL ASSETS		<u><u>\$ 650,119</u></u>	<u><u>\$ 682,855</u></u>

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

EMMET WATER AND SEWER SYSTEM  
BALANCE SHEETS  
DECEMBER 31, 2021 AND 2020

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LIABILITIES AND FUND EQUITY

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,564	\$ 2,357
Accrued Interest Payable	574	637
Sales Tax Payable	509	512
Revenue Bond Payable	25,666	24,442
TOTAL CURRENT LIABILITIES	<u>28,313</u>	<u>27,948</u>
LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Customers' Meter Deposits	<u>17,120</u>	<u>17,970</u>
LONG-TERM LIABILITIES:		
Revenue Bonds Payable	296,608	322,275
TOTAL LIABILITIES	<u>342,041</u>	<u>368,193</u>
FUND EQUITY:		
Contributed Capital	48,594	48,594
Retained Earnings:		
Reserved	79,053	76,329
Unreserved	180,431	189,739
TOTAL FUND EQUITY	<u>308,078</u>	<u>314,662</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 650,119</u>	<u>\$ 682,855</u>

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

EMMET WATER AND SEWER SYSTEM  
STATEMENTS OF REVENUE, EXPENSES AND  
CHANGES IN FUND EQUITY  
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

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	<u>2021</u>	<u>2020</u>
OPERATING REVENUE:		
Water and Sewer Revenue	\$ 142,699	\$ 142,378
Connection/Inspection Fees	1,050	475
TOTAL REVENUE	<u>143,749</u>	<u>142,853</u>
OPERATING EXPENSES:		
Salaries	26,505	25,609
Contract Labor	1,608	763
Utilities and Telephone	16,320	15,683
Taxes and Licenses	8,753	7,655
Supplies	14,014	9,258
Repairs and Maintenance	29,348	25,276
Insurance	2,644	236
Depreciation	25,711	25,873
Miscellaneous	5,751	5,200
Legal and Professional	2,906	1,875
Office Supplies	2,087	2,355
TOTAL OPERATING EXPENSES	<u>135,647</u>	<u>119,783</u>
OPERATING INCOME (LOSS)	<u>8,102</u>	<u>23,070</u>
NON-OPERATING REVENUE (EXPENSES):		
Interest Earned	1,416	2,627
Interest Expense	(16,102)	(17,271)
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(14,686)</u>	<u>(14,644)</u>
NET INCOME (LOSS)	<u>(6,584)</u>	<u>8,426</u>
FUND EQUITY - BEGINNING OF YEAR	314,662	306,236
FUND EQUITY - END OF YEAR	<u>\$ 308,078</u>	<u>\$ 314,662</u>

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



EMMET WATER AND SEWER SYSTEM  
STATEMENTS OF CASH FLOWS  
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

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	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers / Others	\$ 144,680	\$ 142,498
Cash Payments for Goods and Services	(84,227)	(67,490)
Cash Payments to Employees	(26,505)	(25,609)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>33,948</u>	<u>49,399</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Increase (Decrease) in Meter Deposits	<u>(850)</u>	<u>525</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Debt Payment	(24,443)	(23,276)
Interest Paid	(16,165)	(17,331)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(40,608)</u>	<u>(40,607)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Maturity of Certificates of Deposit	97,601	95,100
Purchases of Certificates of Deposit	(98,932)	(101,904)
Interest Received	1,416	2,627
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>85</u>	<u>(4,177)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(7,425)</u>	<u>5,140</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,363	61,223
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 58,938</u>	<u>\$ 66,363</u>

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

EMMET WATER AND SEWER SYSTEM  
STATEMENTS OF CASH FLOWS  
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

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

	<u>2021</u>	<u>2020</u>
OPERATING INCOME	<u>\$ 8,102</u>	<u>\$ 23,070</u>
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	25,711	25,873
Change in Assets and Liabilities:		
Accounts Receivable	931	(355)
Accounts Payable	(793)	974
Accrued Expenses	<u>(3)</u>	<u>(163)</u>
TOTAL ADJUSTMENTS	<u>25,846</u>	<u>26,329</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u><u>\$ 33,948</u></u>	<u><u>\$ 49,399</u></u>

SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

None

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

EMMET WATER AND SEWER SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
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Note 1. Significant Accounting Policies:

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

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, and depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Water and Sewer System	39 Years
Vehicles and Equipment	5 - 7 Years

The System requires every customer to pay a meter deposit before service is provided. Concentrations of credit risk with respect to trade receivables are limited because a large number of diverse customers make up the System's customer base, thus spreading the trade risk.

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.

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.

Management has evaluated subsequent events through August 15, 2022, the date the financial statements were available for issuance.

Note 2. Current Assets:

Accounts receivable at December 31, 2021 of \$13,020 is for December 2021 water usage except for \$1,744 which is for accounts in arrears.

EMMET WATER AND SEWER SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

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Note 3. Restricted Assets:

Emmet Water and Sewer System has a Certificate of Deposit pledged as debt reserve at the Bank of Prescott. The certificate of deposit balance as of December 31, 2021 was \$44,478. The System's debt service reserve requirement as of December 31, 2021 was \$40,608.

Note 4. Capital Assets:

Capital Assets activity for the year ended December 31, 2021 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets at Historical Costs:				
Water and Sewer System	\$ 925,598	\$ -	\$ -	\$ 925,598
Equipment	44,866	-	-	44,866
	<u>970,464</u>	<u>-</u>	<u>-</u>	<u>970,464</u>
Less Accumulated Depreciation:				
Water and Sewer System	(430,243)	(23,549)	-	(453,792)
Equipment	(35,281)	(2,162)	-	(37,443)
Total Depreciation	<u>(465,524)</u>	<u>(25,711)</u>	<u>-</u>	<u>(491,235)</u>
NET	<u>\$ 504,940</u>	<u>\$ (25,711)</u>	<u>\$ -</u>	<u>\$ 479,229</u>

Capital Assets activity for the year ended December 31, 2020 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets at Historical Costs:				
Water and Sewer System	\$ 925,598	\$ -	\$ -	\$ 925,598
Equipment	40,563	4,303	-	44,866
	<u>966,161</u>	<u>4,303</u>	<u>-</u>	<u>970,464</u>
Less Accumulated Depreciation:				
Water and Sewer System	(406,694)	(23,549)	-	(430,243)
Equipment	(32,957)	(2,324)	-	(35,281)
Total Depreciation	<u>(439,651)</u>	<u>(25,873)</u>	<u>-</u>	<u>(465,524)</u>
NET	<u>\$ 526,510</u>	<u>\$ (21,570)</u>	<u>\$ -</u>	<u>\$ 504,940</u>

Note 5. 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 Emmet Water and Sewer in financial institutions permitted by law.

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NOTES TO FINANCIAL STATEMENTS  
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Note 5. 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. Emmet Water and Sewer does not have a policy for custodial credit risk. The carrying value of the System's accounts and investments at December 31, 2021 was \$157,869. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$161,448 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 Emmet Water and Sewer accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Emmet accounts and investments at a financial institution.

**Investment Interest Rate Risk:** Emmet Water and Sewer 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:** Emmet Water and Sewer 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:** Emmet Water and Sewer System has no exposure to foreign currency risk.

Note 6. Liabilities:

Accounts payable, reported as a current liability, is composed of operating expenses for December. These amounts were paid subsequent to December 31, 2021.

Note 7. Revenue Bonds Payable:

Revenue bonds payable consists of the following as of December 31, 2021 and 2020, respectively:

	2021	2020
USDA Rural Development Bond Payable, \$1,798 Monthly, Including Interest at 4.75%, Maturing in November 2037, Collateralized by the System's Revenue	\$ 240,293	\$ 250,199
USDA Rural Development Bond Payable, \$1,586 Monthly, Including Interest at 5.0%, Maturing in November 2026, Collateralized by the System's Revenue	81,981	96,518
	322,274	346,717
Less portion considered current	(25,666)	(24,442)
Total long-term debt	\$ 296,608	\$ 322,275

EMMET WATER AND SEWER SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

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Note 7. Revenue Bonds Payable: (Continued)

The future maturities of long-term debt are as follows:

Years Ending December 31:	Principal	Interest	Total
2022	\$ 25,666	\$ 14,942	\$ 40,608
2023	26,952	13,656	40,608
2024	28,303	12,305	40,608
2025	29,721	10,887	40,608
2026	28,564	9,402	37,966
Thereafter	183,068	51,728	234,796
	<u>\$ 322,274</u>	<u>\$ 112,920</u>	<u>\$ 435,194</u>

Note 8. Contributed Capital and Retained Earnings:

Contributed Capital represents the value of system additions paid for by customers, other outside sources, and grants received to assist in financing construction of new additions to the system.

Retained Earnings in the amount of \$259,484 consists of the accumulated earnings of the water and sewer system of \$180,431 and the excess of restricted assets over liabilities payable from restricted assets of \$79,053.

Note 9. Risk Management:

The System is exposed to various risks of loss related to torts; 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.