

**Independent Accountant's Report and Financial Statements**

**NORPHLET WATER AND SEWER SYSTEM**

**For the Year Ended December 31, 2019**

**NORPHLET WATER AND SEWER SYSTEM**  
**Contents**

	<u>Pages</u>
<b>Independent Accountant's Report</b>	1-2
<b>Financial Statements</b>	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-12
<b>Supplementary Information</b>	
Comparative Statement of Net Position	13
Comparative Statement of Revenues, Expenses and Changes in Net Position	14
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	15-16
<b>Schedule of Findings and Responses</b>	17

# PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

441 NORTH WASHINGTON AVENUE  
EL DORADO, AR 71730  
(870) 862-3401  
FAX (870) 862-0936

MEMBER  
AMERICAN INSTITUTE OF CPAS

MEMBER  
ARKANSAS SOCIETY OF CPAS

## INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Mayor and City Council Members  
Norphlet Water and Sewer System  
Norphlet, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Norphlet Water and Sewer System (the System), as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norphlet Water and Sewer System as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Norphlet Water and Sewer System and do not purport to, and do not, present fairly the financial position of the City of Norphlet, Arkansas as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

Management has omitted the management discussion and analysis 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 Government 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. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2022 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Parks & Company PLC*

November 19, 2022  
El Dorado, Arkansas

**NORPHLET WATER AND SEWER SYSTEM**  
**Statement of Net Position**  
**December 31, 2019**  
**ASSETS AND DEFERRED OUTFLOWS**

<b>Current Assets</b>	
Cash - unrestricted	\$ 25,274
Accounts receivable, net	23,918
Inventory	66,584
Total current assets	115,776
<b>Non-current Assets</b>	
Cash - restricted	80,712
Investments - restricted	3,000
Total non-current assets	83,712
<b>Capital Assets</b>	
Capital assets, not being depreciated	32,866
Capital assets, being depreciated, net	1,504,889
Total capital assets	1,537,755
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 1,737,243</b>

**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

<b>Current Liabilities</b>	
Accounts payable and accrued expenses	\$ 3,076
Customer overpayments	8,279
Note payable - current portion	21,730
Total current liabilities	33,085
<b>Non-current Liabilities</b>	
Customer meter deposits	28,255
Due to Solid Waste Department	175,627
Note payable	1,401,180
Total liabilities	1,638,147
<b>Net Position</b>	
Invested in capital assets, net of related debt	(60,782)
Restricted	55,457
Unrestricted	104,421
Total net position	99,096
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 1,737,243</b>

The accompanying notes are an integral part of these financial statements.

**NORPHLET WATER AND SEWER SYSTEM**  
**Statement of Revenues, Expenses and Change in Net Position**  
**For the Year Ended December 31, 2019**

<b>Operating Revenues</b>	
Water charges	\$ 139,129
Sewer charges	88,289
Other	4,653
Total operating revenues	<u>232,071</u>
<b>Operating Expenses</b>	
Salaries and wages	84,557
Payroll taxes	6,898
Utilities and telephone	35,238
Maintenance, repair and supply	22,035
Insurance	712
Parts and supplies	6,667
Professional fees	38,055
Permits, licenses and fees	2,810
Water analysis and treatment	12,402
Office supplies and postage	2,722
Travel	751
Fuel and oil	1,181
Other	384
Depreciation	72,460
Total operating expenses	<u>286,872</u>
<b>Operating income</b>	<u>(54,801)</u>
<b>Non-operating revenues (expenses)</b>	
Interest revenue	439
Interest expense	(53,494)
Total non-operating revenues (expenses)	<u>(53,055)</u>
<b>Change in net position</b>	(107,856)
<b>Net Position, beginning of year</b>	<u>206,952</u>
<b>Net Position, end of year</b>	<u>\$ 99,096</u>

The accompanying notes are an integral part of these financial statements.

**NORPHLET WATER AND SEWER SYSTEM**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Sales - use charges	\$ 224,763
Other receipts and deposits	4,653
Salaries and wages	(84,557)
Payroll taxes	(6,898)
Utilities and telephone	(35,238)
Maintenance, repairs and supplies	(79,703)
Insurance	(712)
Parts and supplies	(6,667)
Professional fees	(3,055)
Permits, license and fees	(2,810)
Water analysis	(12,402)
Office supplies and postage	(2,722)
Travel	(751)
Fuel and oil	(1,181)
Other administrative	(383)
	(7,663)
Net cash provided (used) by operating activities	(7,663)

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principal payments on debt	(21,974)
Interest payments on debt	(53,494)
New debt issued	66,888
Equipment purchases	(4,000)
	(12,580)
Net cash used by capital and related financing activities	(12,580)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received from investments	439
Overpayments (overpayments applied) by customers	(170)
Collection (refund) of meter deposits, net	(546)
	(277)
Net cash used by investing activities	(277)
Decrease in cash	(20,520)
Cash, beginning of year	126,506
Cash, end of year	\$ 105,986

**Presented on Statement of Net Position as follows:**

Current assets	
Cash - unrestricted	\$ 25,274
Non-current assets	
Cash - restricted	80,712
	\$ 105,986

The accompanying notes are an integral part of these financial statements.

**NORPHLET WATER AND SEWER SYSTEM**  
**Statement of Cash Flows (continued)**  
**For the Year Ended December 31, 2019**

**Reconciliation of net operating income to  
net cash provided by operating activities:**

Net operating income (loss)	<u>\$ (54,801)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	72,460
Write-off of CIP	35,000
Decrease (increase) in accounts receivable	(3,001)
Decrease (increase) in inventory	(57,667)
Increase (decrease) in payables and payroll liabilities	<u>346</u>
Total adjustments	<u>47,138</u>
Net cash provided (used) by operating activities	<u><u>\$ (7,663)</u></u>

The accompanying notes are an integral part of these financial statements.

## **NORPHLET WATER AND SEWER SYSTEM**

### **Notes to Financial Statements**

**December 31, 2019**

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Reporting Entity***

The Norphlet Water and Sewer System (the "System") is an enterprise fund of the City of Norphlet, Arkansas governed by a 6 member council. The System provides water and sewer services to customers in the City of Norphlet.

##### ***Basis of Accounting and Presentation***

The System's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The System applies all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements when accounting for and reporting its proprietary operations.

The System uses the accrual basis for accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

The System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the System are charges to customers for water and sewer sales and services. Operating expenses for the System include the cost of pumping, treating and delivering water and sewer discharge; administrative services; and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, the System's policy is to use restricted resources first, as required, then unrestricted resources as they are needed.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Deposits and Investments***

Cash includes amounts in demand and time deposit accounts. Certificates of deposit are reported at cost, which approximates fair value. The System had no other investment types at December 31, 2019.

**NORPHLET WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Receivables***

The System uses the allowance methodology for estimating possible uncollectible accounts. The allowance at December 31, 2019 of \$1,500 approximates the balance of customer accounts delinquent more than 60 days.

***Inventories***

Inventories are valued at cost, which approximates market value.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The System uses the following estimated useful lives:

Land improvements	10 – 40 years
Buildings	10 – 40 years
Equipment	5 – 40 years

***Net Position***

Net position of the System is classified in three components. *Net position invested in capital assets, net of related debt*, consists of capital assets net of accumulated depreciation reduced by the outstanding balances of borrowings, if any, used to finance the purchase or construction of those assets. *Restricted net position* represents assets which are restricted either for debt service or capital projects. Net position restricted for debt service is related to assets which are restricted for use pursuant to borrowing agreements. *Unrestricted net position* is the remaining assets less the remaining liabilities that do not meet the definition of net position invested in capital assets, net of related debt; or net position restricted for debt service or capital projects.

***Compensated Absences***

System policies permit full-time employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense is recognized as vacation benefits are used. Vacation benefits are lost if not used by the end of the year. Sick leave benefits are recognized only when the time off occurs.

***Reclassifications***

Certain amounts in the prior year comparative data have been reclassified to conform with the current year presentation.

***Subsequent Events***

Management has evaluated subsequent events through November 19, 2022, the date the financial statements were available to be issued.

## NORPHLET WATER AND SEWER SYSTEM

### Notes to Financial Statements

December 31, 2019

#### NOTE 2: DEPOSITS AND INVESTMENTS

At December 31, 2019, the System's deposits consisted of demand deposits and time deposits in the form of certificates of deposit. The system had no investments at December 31, 2019.

##### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2019, the System held no debt securities.

##### **Custodial Risk**

Custodial risk is the risk that, in the event of failure of a depository institution, the System will not be able to recover deposits or collateral securities that are in the possession of an outside party.

At December 31, 2019, the System had bank balances of \$109,411 and book balances of \$108,836, which were fully insured by FDIC.

##### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the System's investing activities are managed under the stewardship of the Norphlet City Council. Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of the United States government (for which the full faith and credit of the United States government are pledged), (2) certificates of deposit at savings and loan associations or federally-insured banks when secured by acceptable collateral, (3) savings accounts at savings and loan associations and banks, to the extent fully insured, and (4) any bond, note or other indebtedness insured by the United States government or those agencies insured and guaranteed by the federal government.

The System can legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts in excess of insured amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

##### **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not purchase foreign investments.

##### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System had concentrations of credit risk of over 5% by issuer that are required to be disclosed as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total Deposits and Investments</u>
Smackover State Bank	Cash and certificates of deposit	\$ 108,836	100.00%

**NORPHLET WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

***Fair Value Measurements***

U.S. GAAP requires the System to disclose fair value measurements at the statement of net position date. The FASB has established a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). At December 31, 2019, the System had no investments subject to fair value measurement.

***Investment Income***

Investment income consisted of \$439 earned on demand deposit accounts and certificates of deposit.

**NOTE 3: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2019, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b><i>Capital assets, not being depreciated</i></b>					
Construction in progress	\$ 35,000	-	(35,000)	-	-
Land	28,866	4,000	-	-	32,866
<b><i>Total Capital assets, not being depreciated</i></b>	<b>63,866</b>	<b>4,000</b>	<b>(35,000)</b>	<b>-</b>	<b>32,866</b>
<b><i>Capital assets, being depreciated</i></b>					
Buildings, tanks and towers	175,090	-	-	-	175,090
Water wells	90,685	-	-	-	90,685
Water lines and extensions	238,269	-	-	-	238,269
Fire hydrants & water valves	97,396	-	-	-	97,396
Sewer System	589,985	-	-	-	589,985
Equipment	107,480	-	-	-	107,480
Water/Sewer project	1,483,637	-	-	-	1,483,637
<b><i>Total capital assets, being depreciated</i></b>	<b>2,782,542</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,782,542</b>
Less accumulated depreciation:	1,205,193	72,460	-	-	1,277,653
<b>Total capital assets, net</b>	<b>\$ 1,641,215</b>				<b>\$ 1,537,755</b>

Depreciation expense for the year ended December 31, 2019 was \$72,460.

At the January 9, 2019 City Council meeting, an engineering consultant recommended improvements to the City's sewer pond to address issues identified by ADEQ with regard to the System's discharge from its sewer pond. Prior to meeting with the current consulting engineer, the System incurred \$35,000 in engineering fees relating to a project to resolve the System's sewer discharge issues that would involve the laying of a sewer discharge line to Smackover Creek at a substantial cost to the System.

Subsequent to the January 9, 2019 meeting, the System's successor engineer prepared and sent a report to the Arkansas Department of Environmental Quality (ADEQ) requesting the renewal of the City's discharge permit based on modifications to the System's sewer pond as recommended in the report. On January 13, 2020, the consulting engineer reported that the permit had been issued. The result of the successful efforts to refurbish the current sewer pond rather than laying the discharge line to Smackover Creek resulted in a write-off of \$35,000 in capitalized costs in 2019.

**NORPHLET WATER AND SEWER SYSTEM**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE 4 – RISK MANAGEMENT**

The System is exposed to various risks of loss from: torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption.

**NOTE 5: ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2019, consisted of the following:

Water	\$ 14,498
Sewer	9,580
Penalties	331
Miscellaneous fees	1,009
Total	25,418
Allowance for doubtful accounts	(1,500)
Accounts receivable, net	<u>\$ 23,918</u>

**NOTE 6: METER DEPOSITS**

The System maintains a detailed list of water and sewer deposits from customers. Total deposits were \$28,255 at December 31, 2019.

The following bank deposits are designated for repayment of member deposits:

Commercial checking	\$ 25,924
Certificates of deposit	3,000
Total	<u>\$ 28,924</u>

**NOTE 7: WATER AND SEWER RATES**

Residential customer's water charges are \$14.00 for the first 1,000 gallons of water consumption per month or portion thereof. For consumption in excess of 1,000 gallons, the charge is \$4.00 per 1,000 gallons used for the next 4,000 gallons, \$2.02 per 1,000 gallons used for the next 5,000 gallons, \$1.15 per 1,000 gallons used for the next 1,000,000 gallons and \$1.00 per 1,000 gallons used over 1,010,000 gallons. The sewer rate is \$20.00 for the first 1,000 gallons per month, \$6.50 per 1,000 gallons for the next 4,000 gallons and \$2.00 per 1,000 gallons over 5,000 gallons. Non-residential rates are \$30.00 (minimum) for the first 5,000 gallons and \$2.05 per 1,000 gallons over 5,000 gallons.

**NOTE 8 – RESTRICTED NET POSITION**

At December 31, 2019, the System had restricted net position of \$55,457, which was comprised of designated accounts for customer meter deposits in the amount of \$28,924 less deposit liabilities of \$28,255 plus \$54,788 of funds in debt service reserve accounts.

**NORPHLET WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 9: LONG-TERM DEBT**

Long-term debt as of December 31, 2019 consists of the following:

CoBank loan payable; variable term interest 3.79% Matures October 2021	66,888
3.75% USDA Rural Development loan payable in monthly installments of \$3,299 including interest through November 2051 secured by irrevocable pledge of and lien on the system's revenue	623,292
3.75% USDA Rural Development loan payable in monthly installments of \$2,807 including interest through November 2051 secured by irrevocable pledge of and lien on the system's revenue	732,730
	1,422,910
Less: Current portion of long-term debt	(21,730)
Long-term debt net of current portion	1,401,180

The aggregate maturities of the long-term debt at December 31, 2019 are as follow

	Principal	Interest
2020	21,730	54,077
2021	89,463	52,809
2022	23,454	52,518
2023	24,366	48,906
2024	25,314	47,958
2025-2029	142,125	224,235
2030-2034	172,001	194,359
2035-2039	208,157	158,203
2039-2044	251,913	114,447
2045-2049	304,867	61,493
2049-2052	159,520	7,525
Total	1,422,910	1,016,530

**NOTE 10 – INSURANCE**

The City of Norphlet utilizes the State of Arkansas Workers' Compensation Plan. Under this plan, the City is billed by the state for the City's claims.

Employees are covered under the state blanket bond coverage through Arkansas Fidelity Bond Trust with \$250,000 Employee Bond Coverage with a \$1,000 deductible. This bond covers all City employees in cash handling positions including those at the System.

**SUPPLEMENTARY INFORMATION**

**NORPHLET WATER AND SEWER SYSTEM**  
**Comparative Statement of Net Position**  
**December 31, 2019**

**ASSETS AND DEFERRED OUTFLOWS**

	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash - unrestricted	\$ 25,274	\$ 53,408
Accounts receivable, net	23,918	20,917
Inventory	66,584	8,916
Other assets	-	-
Total current assets	115,776	83,241
<b>Non-current Assets</b>		
Cash - restricted	80,712	73,099
Investments - restricted	3,000	3,000
Total non-current assets	83,712	76,099
<b>Capital Assets</b>		
Capital assets, not being depreciated	32,866	63,866
Capital assets, being depreciated, net	1,504,889	1,577,348
Total capital assets	1,537,755	1,641,214
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 1,737,243</b>	<b>\$ 1,800,554</b>

**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,076	\$ 2,730
Customer overpayments	8,279	8,449
Note payable - current portion	21,730	20,917
Total current liabilities	33,085	32,096
<b>Long-term Liabilities</b>		
Customer meter deposits	28,255	28,801
Due to Solid Waste Department	175,627	175,627
Note payable	1,401,180	1,357,078
Total liabilities	1,638,147	1,593,602
<b>Net Position</b>		
Invested in capital assets, net of related debt	(60,782)	87,592
Restricted	55,457	47,298
Unrestricted	104,421	72,062
Total net position	99,096	206,952
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 1,737,243</b>	<b>1,800,554</b>

**NORPHLET WATER AND SEWER SYSTEM**  
**Comparative Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Usage charges	\$ 227,418	\$ 234,032
Other income	4,653	6,645
Total operating revenues	<u>232,071</u>	<u>240,677</u>
<b>Operating Expenses</b>		
Salaries and wages	83,717	80,784
Payroll taxes	6,898	6,133
Contract labor	840	1,440
Utilities and telephone	35,238	29,332
Maintenance, repair and supply	22,035	19,926
Insurance	712	2,851
Parts and supplies	6,667	2,279
Professional fees	38,055	195
Permits, license, fees	2,810	4,808
Water analysis and treatment	12,400	4,446
Office supplies and postage	2,722	2,546
Travel	751	1,936
Fuel and oil	1,181	1,408
Other	384	3,045
Depreciation	72,460	72,148
Total operating expenses	<u>286,870</u>	<u>233,277</u>
<b>Operating income</b>	<u>(54,799)</u>	<u>7,400</u>
<b>Non-operating revenues (expenses)</b>		
Interest revenue	439	356
Interest expense	(53,494)	(52,106)
Total non-operating revenues (expenses)	<u>(53,055)</u>	<u>(51,750)</u>
<b>Change in net assts</b>	<u>(107,854)</u>	<u>(44,350)</u>
<b>Net Position, beginning of year</b>	<u>206,952</u>	<u>251,304</u>
<b>Net Position, end of year</b>	<u>\$ 99,096</u>	<u>\$ 206,952</u>

# PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

441 NORTH WASHINGTON AVENUE  
EL DORADO, AR 71730

(870) 862-3401

FAX (870) 862-0936

MEMBER  
AMERICAN INSTITUTE OF CPAS

MEMBER  
ARKANSAS SOCIETY OF CPAS

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and City Council Members  
City of Norphlet, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Norphlet Water and Sewer System (the System), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated July 19, 2022.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

*A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.*

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified. We identified deficiency 2019-001 in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness.

**Norphlet Water and Sewer System**  
**Report on Internal Control over Financial Reporting and Compliance (continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Parks & Company PLC*

November 19, 2022  
El Dorado, Arkansas

**NORPHLET WATER AND SEWER SYSTEM**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2019**

**Findings – Financial Statement Audits**

**2019-001 Segregation of duties**

Condition: The System has only one employee who posts transactions to customer accounts.

Criteria: Internal controls should be in place to provide adequate segregation of duties with regard to cash receipts, disbursements and posting of customer activity to individual accounts. When proper segregation of duties is not possible due to staff size limitations, the City Council or other city employees should act as a mitigating control.

Cause: The System has only one person in the office.

Effect: Due to lack of proper segregation of duties there is the potential for material misstatement of the financial statements or material misappropriation of assets due to error or fraud occurring and not being prevented or detected in a timely manner.

Recommendation: Procedures should be implemented whereby:

- 1) A person other than the water/sewer clerk receives all payments (mail or in person); makes a log of payments received, provides the log to a different person (not the water/sewer clerk) who should then prepare and make the bank deposit. The log and deposit slips should be given to the water/sewer clerk for entry into the water/sewer accounting system
- 2) All customer account adjustments should be reviewed by an adequate level of management.
- 3) All credits and adjustments to customer accounts should be reviewed and approved by the City Council when adequate segregation of duties at the staff level is not possible.

**Response:** The City Council acknowledges the lack of segregation of duties in the water department. It is the goal of the Council to implement the recommendations to the best of their ability and to serve as a mitigating control due to the small staff size. The City Council reviews and approves adjustments to customer accounts at its regular monthly council meetings.