

**Town of Oak Grove
Water Department
Oak Grove, Arkansas**

Independent Accountant's Report on Applying
Agreed-Upon Procedures
December 31, 2020

***TOWN OF OAK GROVE WATER DEPARTMENT.
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON
PROCEDURES
DECEMBER 31, 2020***

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Town of Oak Grove Water Department
Oak Grove, Arkansas

I have performed the procedures enumerated on the accompanying schedule of procedures and findings, which were agreed to by the Town of Oak Grove Water Department (the Department), solely to assist you with respect to the accounting records of the Department for the year ended December 31, 2020. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable professional standards, including the AICPA's *Code of Professional Conduct*, and its ethical principles of integrity, objectivity, professional competence, and due care. The sufficiency of these procedures is solely the responsibility of those charged with governance of the Department. Consequently, I make no representation regarding the sufficiency of the procedures described on the accompanying schedule either for the purpose for which this report has been requested or for any other purpose.

I was not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements of the Department taken as a whole. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Oak Grove Water Department, the Arkansas Legislative Joint Auditing Committee, and the USDA and should not be used by anyone other than these specified parties.

The Killingsworth Firm CPA, PLLC
The Killingsworth Firm CPA, PLLC

Berryville, Arkansas
April 4, 2023

**TOWN OF OAK GROVE WATER DEPARTMENT
SCHEDULE OF PROCEDURES AND FINDINGS
DECEMBER 31, 2020
(See Independent Accountant's Report)**

General

1. Procedure – Determined that all items of financial significance were approved and documented in the minutes of the governing body's meetings.

Finding – No exceptions; all matters of financial significance appeared to be approved and documented in the minutes of the town council meetings.

Cash and Investments

1. Procedure – Performed a proof of cash for the year and reconciled year-end bank balances to book balances within 5% or \$500, whichever was greater.

Finding – No exceptions noted.

2. Procedure – Confirmed with depository institutions the cash on deposit.

Finding – No exceptions noted.

Cash Receipts

1. Procedure – Agreed the deposits per the proof of cash for the year with the deposits per the cash receipts journal within 5% or \$500, whichever was greater.

Finding – No exceptions noted.

2. Procedure - Agreed ten customer payments on the accounts receivable sub-ledger to deposit and billing documents.

Finding – No exceptions noted.

TOWN OF OAK GROVE WATER DEPARTMENT
SCHEDULE OF PROCEDURES AND FINDINGS
DECEMBER 31, 2020
(See Independent Accountant's Report)

Cash Receipts (Continued)

3. Procedure - For one deposit, agreed the cash/check composition of the deposit with receipt information.

Finding – No exceptions noted.

Accounts Receivable

1. Procedure – Agreed ten customer billings to the accounts receivable sub-ledger.

Finding – No exceptions noted.

2. Procedure – Determined that five customer adjustments were properly authorized.

Finding – Five customer adjustments from September through December were selected to determine if authorization for the adjustment was documented. No documentation of approval from anyone other than the office manager, who made the adjustments, was found. According to the current office manager, there was no policy requiring approval from management or those charged with governance in order to make adjustments. The council has addressed this policy in 2021.

Cash Disbursements

1. Procedure - Agreed the disbursements per the proof of cash for the year with the disbursements per the cash disbursements journal within 5% or \$500, whichever was greater.

Finding – No exceptions noted.

TOWN OF OAK GROVE WATER DEPARTMENT
SCHEDULE OF PROCEDURES AND FINDINGS
DECEMBER 31, 2020
(See Independent Accountant's Report)

Cash Disbursements (Continued)

2. Procedure – Analyzed all property, plant, and equipment disbursements.

Finding – No disbursements noted.

3. Procedure – Selected all disbursements paid to employees other than payroll and ten other disbursements and determined if they were adequately documented.

Finding – No exceptions noted.

Property, Plant, and Equipment

1. Procedure – Determined that additions and disposals were properly accounted for in the records.

Finding – No additions or disposals noted.

Long-Term Debt

1. Procedure – Scheduled long-term debt and verified changes in all balances for the year.

Finding – No exceptions noted.

2. Procedure – Confirmed loans, bonds, notes, and contracts payable with lender.

Finding – There is only one note payable, which is to the United States Department of Agriculture. The annual statement provided by USDA is well-known to this firm. This was provided by the Department, and with the risk of irregularity considered low for this area, the decision was made to pass on the actual confirmation and rely upon the annual statement.

3. Procedure – Determined that the appropriate debt service accounts have been established and maintained.

Finding – No exceptions noted.

**Town of Oak Grove
Water Department
Oak Grove, Arkansas**

Compiled Financial Statements
Years Ended December 31, 2020 and 2019

**TOWN OF OAK GROVE WATER DEPARTMENT
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Town of Oak Grove Water Department
Oak Grove, Arkansas

Management is responsible for the accompanying financial statements of the Town of Oak Grove Water Department, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and equity, and cash flows for the years then ended, and the related notes to the financial statements. I 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. I did not audit or review the financial statements, nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion nor provide any form of assurance on these financial statements.

The Killingsworth Firm CPA, PLLC
The Killingsworth Firm CPA, PLLC

Berryville, Arkansas
April 4, 2023

**TOWN OF OAK GROVE WATER DEPARTMENT
BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019**

ASSETS

	2020	2019
Current Assets		
Cash and Cash Equivalents	\$ 46,014	\$ 30,516
Accounts Receivable	2,712	2,719
Total Current Assets	48,726	33,235
Restricted Assets		
Meter Deposits	13,250	12,633
Water Reserve	14,945	14,829
Debt Reserve	24,092	22,868
Certificates of Deposit	23,180	22,723
Total Restricted Assets	75,467	73,053
Property and Equipment, at Cost		
Office Furniture and Equipment	5,780	5,780
Water System	617,912	617,912
Accumulated Depreciation	(355,025)	(345,000)
Net Property and Equipment	268,667	278,692
Total Assets	\$ 392,860	\$ 384,980

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable and Accruals	\$ 7,192	\$ 1,551
Current Portion of Long-term Debt	7,450	7,116
Total Current Liabilities	14,642	8,667
Liabilities Payable from Restricted Assets		
Customer Meter Deposits	9,901	9,284
Total Liabilities Payable from Restricted Assets	9,901	9,284
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	77,102	84,497
	77,102	84,497
Total Liabilities	101,645	102,448
Equity		
Unrestricted	225,649	218,763
Restricted	65,566	63,769
Total Equity	291,215	282,532
Total Liabilities and Equity	\$ 392,860	\$ 384,980

See Independent Accountant's Report and Notes to Financial Statements.

**TOWN OF OAK GROVE WATER DEPARTMENT
STATEMENTS OF INCOME AND EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water Charges and Connections	\$ 68,002	\$ 64,812
Tower Rent	600	600
Total Operating Revenues	<u>68,602</u>	<u>65,412</u>
Operating Expenses		
Sales Tax	5,114	5,082
Payroll and Payroll Taxes	18,902	21,542
Utilities	5,321	5,613
Supplies, Maintenance and Fuel	8,360	78,375
Insurance	397	244
Depreciation	10,025	10,025
Legal and Accounting	5,690	1,500
Office	2,273	3,543
Travel	-	900
Total Operating Expenses	<u>56,082</u>	<u>126,824</u>
Net Earnings from Operations	<u>12,520</u>	<u>(61,412)</u>
Other Income (Expense)		
Interest Income	610	966
Interest Expense	(4,447)	(4,766)
Total Other Income (Expense)	<u>(3,837)</u>	<u>(3,800)</u>
Net Earnings	<u>8,683</u>	<u>(65,212)</u>
Equity, Beginning of Year	<u>282,532</u>	<u>347,744</u>
Equity, End of Year	<u><u>\$ 291,215</u></u>	<u><u>\$ 282,532</u></u>

See Independent Accountant's Report and Notes to Financial Statements

**TOWN OF OAK GROVE WATER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Net Earnings	\$ 8,683	\$ (65,212)
Depreciation	10,025	10,025
Changes in Assets and Liabilities:		
Accounts Receivable	7	679
Accounts Payable and Accruals	5,641	912
Customer Deposits	617	(673)
Net Cash Provided By (Used In) Operating Activities	<u>24,973</u>	<u>(54,269)</u>
Cash Flows from Investing Activities		
Purchases of Property and Equipment	-	-
(Increase) Decrease in Cash Investments	(2,414)	66,054
Net Cash Provided By (Used In) Investing Activities	<u>(2,414)</u>	<u>66,054</u>
Cash Flows from Financing Activities		
Proceeds from Long-Term Debt	-	-
Payments on Long-Term Debt	(7,061)	(6,743)
Net Cash Provided By (Used In) Financing Activities	<u>(7,061)</u>	<u>(6,743)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	15,498	5,042
Cash and Cash Equivalents, Beginning of Year	<u>30,516</u>	<u>25,474</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 46,014</u></u>	<u><u>\$ 30,516</u></u>

SUPPLEMENTAL DISCLOSURES

Cash Paid for Interest	<u><u>\$ 4,447</u></u>	<u><u>\$ 4,766</u></u>
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See Independent Accountant's Report and Notes to Financial Statements.

TOWN OF OAK GROVE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(See Independent Accountant's Compilation Report)

Note 1 – Organization and Financial Reporting Entity

The Town of Oak Grove, Arkansas operates under a town council form of government and provides general administrative services as authorized by its charter. Water services are provided by the Water Department. The financial reporting entity in these financial statements is the Town of Oak Grove Water Department (the Department), which is a part of the Town of Oak Grove, Arkansas. The financial statements presented herein do not include any other funds or component units of the Town of Oak Grove, Arkansas.

Note 2 – Summary of Significant Accounting Policies

The accounting policies of the Department conform to generally accepted accounting principles applicable to proprietary funds of governments. The following is a summary of the more significant accounting policies:

Fund Accounting – The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts of the Department are grouped, in the financial statements presented, into one fund type, known as an enterprise fund, which is a proprietary fund type. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting – The Department utilizes the accrual basis of accounting, as permitted by state statutes and required by generally accepted accounting principles. Under this basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of when paid.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Department considers the operating account to be the cash account. All other deposits and certificates of deposit are considered to be investments.

TOWN OF OAK GROVE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(See Independent Accountant's Compilation Report)

Note 2 – Summary of Significant Accounting Policies (Continued)

Vacation and Sick Leave – Utilization of accumulated vacation and sick leave by employees in futures years is not expected to have a material impact on Department expenditures in any one year.

Budgets and Budgetary Practices – Annual budgets are submitted to USDA for approval and used as a management tool for control of expenses.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the Department. At present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Depreciation – Fixed Assets are recorded at cost. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line basis.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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, and the differences could be material.

Note 3 – Restricted Cash and Fund Equity

Cash and the corresponding fund equity is considered restricted when it is transferred to the meter deposit account, required debt reserve, and required depreciation reserve.

Note 4 – Accounts Receivable

Accounts receivable consists of amounts due from water customers. Based on past experience with customers water utility collections, management has determined that an allowance for doubtful accounts is not necessary.

TOWN OF OAK GROVE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(See Independent Accountant's Compilation Report)

Note 5 – Property, Plant and Equipment

Capital assets and their related accumulated depreciation were as follows on December 31, 2020:

<u>Description</u>	<u>Method/Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Water System	SL 20/50 years	\$ 617,912	\$ 349,245
Office Equipment	SL 7 years	<u>5,780</u>	<u>5,780</u>
		<u>\$ 623,692</u>	<u>\$ 355,025</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$10,025 and \$10,025, respectively.

Note 6 – Long-Term Debt

Long-Term Debt at December 31, 2020 consisted of a note, payable to USDA Rural Development in monthly installments of \$959 including interest at 5%, Secured by the water system.

\$ 84,552

Less: Current portion

7,450
\$ 77,102

Future maturities of Long-Term Debt are as follows:

2021	\$ 7,450
2022	7,862
2023	8,262
2024	8,686
2025	9,136
Thereafter	<u>43,156</u>
	<u>\$ 84,552</u>

Interest expense for the years ended December 31, 2020 and 2019 was \$ 4,447 and \$ 4,766, respectively.

TOWN OF OAK GROVE WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(See Independent Accountant's Compilation Report)

Note 7 – Customer Meter Deposits

Customer meter deposits vary from \$20 to \$50 depending on the date service began. Meter deposits are refundable and may be used toward the final water bill.

Note 8 – Subsequent Events

Management has evaluated subsequent events through April 4, 2023, the date the financial statements were available to be issued.

The spread of COVID-19 continues to impact many local economies. The Department has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of the response, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Department for future periods.

Note 9 – Concentrations of Credit Risk

Financial instruments that potentially subject the Department to concentrations of risk consist primarily of accounts receivables. The Department's accounts are from customers in Oak Grove, Arkansas. However, the Department has not experienced any problems in the past and does not anticipate any future problems related to their receivables.