

**OKTOC WATER ASSOCIATION**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2021

# OKTOC WATER ASSOCIATION

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Rudolph Franks, CPA (1933-2019)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Oktoc Community Water Association

We have audited the accompanying financial statements of Oktoc Community Water Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

### 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.

### Auditors' Responsibility

Our responsibility is to express an opinion 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 *Governmental 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 from 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 auditors' 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 audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oktoc Community Water Association as of June 30, 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2022 on our consideration of Oktoc Community Water Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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* in considering Oktoc Community Water Association's internal control over financial reporting and compliance.

Franks, Franks, Wilemon & Hagood P.A.

FRANKS, FRANKS, WILEMON & HAGOOD, P.A.  
Tupelo, Mississippi  
March 21, 2022

## FINANCIAL STATEMENTS

**OKTOC WATER ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2021**

	2021
<b><u>ASSETS</u></b>	
<u>Current Assets</u>	
Cash	\$ 482,131
Certificates of deposit	155,087
Accounts receivable, net	1,777
Prepaid expenses	1,110
Total current assets	640,105
<u>Restricted Assets</u>	
Certificates of deposit - restricted	52,232
<u>Property, Plant and Equipment</u>	
Capital assets	
Land	20,439
Plant and water lines	2,676,721
Equipment	52,811
Buildings	1,639
	2,751,610
Less: Accumulated depreciation	(1,149,254)
Total capital assets	1,602,356
<u>Other Noncurrent Assets</u>	
Deposits	27
Total other noncurrent assets	27
Total noncurrent assets	1,602,383
Total assets	\$ 2,294,720

See accompanying notes to the financial statements.

**OKTOC WATER ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2021**

	<u>2021</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<u>Current Liabilities</u>	
Current maturities of long-term debt	\$ 17,668
Accounts payable	28,187
Accrued expenses	1,739
Meter deposits	<u>10,845</u>
Total current liabilities	<u>58,439</u>
<u>Noncurrent Liabilities</u>	
Long-term debt, less current maturities	<u>753,426</u>
Total noncurrent liabilities	<u>753,426</u>
<u>Net Assets</u>	
Unrestricted	<u>1,482,855</u>
Total liabilities and net assets	<u>\$ 2,294,720</u>

See accompanying notes to the financial statements.

**OKTOC WATER ASSOCIATION  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2021**

	2021
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>	
<u>Revenues</u>	
Water sales	\$ 342,390
Investment return	1,076
Recovery of bad debts	832
Miscellaneous income	6,784
Total revenues	351,082
<u>Expenses:</u>	
Program services	309,244
Management and general	4,919
Total expenses	314,163
Total Increase (Decrease) in Unrestricted Net Assets from Operating Activities	36,919
Total Increase (Decrease) in Unrestricted Net Assets	36,919
Net Assets, Beginning of Year Unrestricted Net Assets	1,445,936
Net Assets, End of Year Unrestricted Net Assets	\$ 1,482,855

See accompanying notes to the financial statements.



**OKTOC WATER ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2021

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total</u>
Advertising	53	-	53
Automobile	1,673	-	1,673
Bank fees	799	-	799
Board education programs	-	4,919	4,919
Chemicals	2,601	-	2,601
Cut offs/ons	6,430	-	6,430
Depreciation	37,879	-	37,879
Dues	646	-	646
Insurance	13,632	-	13,632
Interest	33,894	-	33,894
Internet expense	468	-	468
Meter reading	18,892	-	18,892
Miscellaneous	28,851	-	28,851
Office supplies	3,689	-	3,689
Outside services	31,149	-	31,149
Postage	6,268	-	6,268
Professional services	12,400	-	12,400
Repairs and maintenance	59,406	-	59,406
Supplies	17,661	-	17,661
Telephone	6,747	-	6,747
Utilities	26,106	-	26,106
	<u>309,244</u>	<u>4,919</u>	<u>314,163</u>
Total expenses	<u>\$ 309,244</u>	<u>\$ 4,919</u>	<u>314,163</u>

See accompanying notes to the financial statements.

**OKTOC WATER ASSOCIATION  
STATEMENT OF CASH FLOWS  
For the year ended June 30, 2021**

	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Increase (Decrease) in Net Assets	\$ 36,919
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and amortization expense	37,879
(Increase) Decrease in:	
Accounts receivable	942
Increase(Decrease) in:	
Accounts payable	7,206
Accrued expenses	(12,718)
Net Cash Provided by Operating Activities	70,228
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of certificates of deposit	(107,319)
Net Cash Used in Investing Activities	(107,319)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>	
Principal payments on long-term debt	(6,079)
Net Cash Used in Financing Activities	(6,079)
<b>INCREASE (DECREASE) IN CASH</b>	(43,170)
<b>CASH AT BEGINNING OF YEAR</b>	525,301
<b>CASH AT END OF YEAR</b>	\$ 482,131
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>	
Cash Paid During the Year For:	
Interest expense	\$ 33,894

See accompanying notes to the financial statements.

**OKTOC WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 - NATURE OF THE ORGANIZATION**

Oktoc Water Association (the Association) is a non-share rural water system corporation responsible for the water supply and its quality to various rural areas in the Mississippi county of Oktibbeha. The Association has approximately 923 customers to which it provides service. The Association is a non-for-profit association exempt from state and federal income taxes under IRS Code Section 501 C (12).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described below:

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all demand deposit accounts and certificates of deposit with an original maturity of three months or less from the date of acquisition to be cash equivalents. The Association had cash and cash equivalents in the amount of \$60,390 at June 30, 2021, that were not covered by federal deposit insurance.

Property, Plant and Equipment

Depreciable assets are recorded at cost. The Association's policy is to capitalize all capital expenditures that exceed \$500. Depreciation is computed by the straight line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2021 was \$37,879. The estimated useful lives are as follows:

Distribution and collection systems –	
Water systems	40 - 50 years
Wells and water tanks	20 - 25 years
Buildings	25 - 40 years
Equipment	5 - 10 years

Basis of Accounting

Oktoc Water Association recognizes revenues and expenses under the accrual method of accounting. Accordingly, revenues are recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation

The financial statements of the Association have been prepared in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. Under this standard, the Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions.

**OKTOC WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Fair Value of Financial Instruments

The Association's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The Association's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the statement of net position. The carrying amount of these financial instruments approximate fair value because of their nature and short maturity.

Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501 C (12). Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Association has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Association has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements. Tax returns for years subsequent to June 30, 2017 are subject to examination by federal and state tax authorities.

Advertising Costs

Advertising costs are charged to operations when incurred. Total advertising costs for the year ended June 30, 2021 was \$53.

Accounts Receivable

Accounts receivable consist of amounts due from customers of the Association. The Association provides an allowance account that is based on a review of outstanding balances. Normal receivables are due within 30 days and are considered delinquent after 60 days. The allowance for doubtful accounts for the year ended June 30, 2021 was \$2,639.

**NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Association has \$689,450 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash of \$482,131 and certificates of deposit of \$207,319. \$52,232 of financial assets is subject to contractual restrictions related to debt reserve covenants that make them unavailable for general expenditure within one year of the statement of financial position date.

**OKTOC WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 4 – FIXED ASSETS**

A summary of building and equipment assets at June 30, 2021:

	2021
Land	\$ 20,439
Plant and Water Lines	2,676,721
Buildings	1,639
Furniture, Fixtures, and Equipment	52,811
Construction in Progress	-
 Total Assets at Cost	 2,751,610
 Less: Accumulated Depreciation	 1,149,254
 NET	 \$ 1,602,356

Depreciation in the amount of \$37,879 has been charged to expense for the year ended June 30, 2021.

**NOTE 5 - LONG TERM DEBT**

At June 30, 2021 long-term debt consisted of the following:

Note payable to a governmental lending agency, collateralized by the water system, with interest at 4.75%; due in monthly installments of \$885, maturing in 2038	\$ 104,356
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Note payable to a governmental lending agency, collateralized by the water system, with interest at 4.5%; due in monthly installments of \$3,505.28, maturing in 2049	666,738
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Total Long-Term Debt	\$ 771,094
Less: Current Maturities of Long-Term Debt	17,668
Net Long-Term Debt	\$ 753,426

**OKTOC WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 5 - LONG TERM DEBT (continued)**

Future maturities of long-term debt for the next five years are as follows:

2022	\$	17,668
2023		18,493
2024		19,358
2025		20,262
2026		21,209
2027-2031		121,875
2032-2036		152,056
2037-2041		132,361
2042-2046		165,689
2047-2451		<u>102,123</u>
	\$	<u>771,094</u>

There are debt covenants that exist between the Association and the United States Department of Agriculture. The Association was in compliance with these covenants at June 30, 2021.

**NOTE 6 - CONCENTRATIONS OF CREDIT RISK**

Since the Association's customer base consists entirely of residents of Oktibbeha County, the operations of the Association are dependent on the general economy of that area.

**NOTE 7 - USE OF ESTIMATES**

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.

**NOTE 8 – RISK MANAGEMENT**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 – ENVIRONMENTAL CONDITIONS**

As a distributor of water, there is the possibility that environmental conditions may arise which would require the Association to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect the Association's financial position or future cash flows.

**OKTOC WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 10 – RELATED PARTY TRANSACTIONS**

A director of Oktoc Water Association has contracted with the Association to perform secretarial/treasurer duties and customer accounting with fees totaling \$25,378 for the year ended June 30, 2021.

**NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 21, 2022, the date on which the financial statements were available to be issued.

OTHER AUDITORS' REPORT



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**INDEPENDENT AUDITORS' 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**

To The Board of Directors  
Oktoc Community Water Association

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 Oktoc Community Water Association (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Oktoc Community Water Association'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 Oktoc Community Water Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oktoc Community Water Association's internal control.

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 a combination of 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 by those charged with governance.

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2021-01 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Oktoc Community Water Association's financial statements are free from 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*.

### **Oktoc Community Water Association, Inc.'s Response to Findings**

Oktoc Community Water Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Oktoc Community Water Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Franks, Franks, Wilmon & Hagood P.A.*

FRANKS, FRANKS, WILEMON & HAGOOD, P.A.  
Tupelo, Mississippi  
March 21, 2022

SCHEDULE OF FINDINGS AND RESPONSES

**OKTOC WATER ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2021**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS:**

**FINDING NO. 2021-01**

**Criteria:** The Association is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

**Cause:** The Association's internal control structure does not provide for adequate segregation of duties due to the small size and small number of employees of the Association.

**Recommendation:** The Association's Board of Directors should continue to be actively involved in a supervisory position in the Association's operations.

**Response:** The Board of Directors has hired an outside CPA to reconcile the bank accounts monthly and to make all entries into the accounting system. The Board of Directors has also made arrangements to allow customers to pay their bill through bank draft authorization, in office, drop box, or mail, which transfers the handling of cash to an outside party.

Finding number 2021-01 is considered a material weakness.