

Financial Statements

Hardin Public Water Authority

For the Year Ended September 30, 2020
(with Independent Auditor's Reports thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hardin Public Water Authority
White Hall, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hardin Public Water Authority as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Hardin Public Water Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hardin Public Water Authority as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hardin Public Water Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Hardin Public Water Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hardin Public Water Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

**Hardin Public Water Authority
Independent Auditor's Report (Continued)**

- Obtain an understanding of internal control relevant to the audit 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 Hardin Public Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hardin Public Water Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2023 on our consideration of Hardin Public Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of 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 Hardin Public Water Authority's internal control over financial reporting and compliance.



Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

April 6, 2023

Hardin Public Water Authority
10919 US 270
White Hall, Arkansas 71602

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of the financial performance of Hardin Public Water Authority (the "Authority") provides an overview of the Authority's financial activities for the year ended September 30, 2020.

Financial Highlights

- In 2020, the Authority converted from a not-for-profit water association to a public water authority pursuant to the provisions of Arkansas Code Annotated Section 4-35-101, the "Water Authority Act."
- Total assets increased from \$3,479,022 in 2019 to \$5,319,532 in 2020, an increase of \$1,840,510 (52.9%), due primarily to the construction in progress pertaining to the waterline relocation on Highway 270.
- Capital assets increased \$1,745,972 (87.1%) from \$2,003,753 in 2019 to \$3,749,725 in 2020 due primarily to the ongoing waterline relocation project on Highway 270.
- The Authority's long-term debt increased \$1,613,845 (208.9%) from \$772,485 in 2019 to \$2,386,330 in 2020. This increase is primarily due to additional debt acquired from AR Department of Transportation to finance the waterline relocation project.
- The Authority reported operating income of \$185,943 in 2020 compared to an operating income of \$69,015 in 2019, which represents an increase of \$116,928 in operating income. The increase in operating income resulted from a \$137,512 (17.2%) increase in operating revenues net of an increase of \$20,584 (2.8%) in operating expenses.
- Change in Net Position increased from income of \$52,106 in 2019 to \$221,511 in 2020, an increase of \$169,405. The increase resulted primarily from the rate increase that went into effect September 2019.
- The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all Governmental Accounting Standards Authority ("GASB") pronouncements.

Using this Annual Report

The Authority's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, regulators or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any organization's finances is, "Did the organization as a whole end the year better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's net position and changes in them. The Authority's total net position – the difference between assets and liabilities – are one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or declining.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions such as which activity provided cash, which activity used cash and what was the change in cash balances during the reporting period.

Financial Analysis

Table 1: Assets, Liabilities and Net Position

	2020	2019
Assets		
Current assets	\$ 1,569,807	\$ 1,475,269
Capital assets, net of depreciation	3,749,725	2,003,753
Total Assets	\$ 5,319,532	\$ 3,479,022
Liabilities		
Current liabilities	\$ 174,784	\$ 169,630
Non-current liabilities	2,386,330	772,485
Total Liabilities	\$ 2,561,114	\$ 942,115
Net Position		
Net investment in capital assets	1,341,835	1,210,604
Unrestricted	1,416,583	1,326,303
Total Net Position	2,758,418	2,536,907
Total Liabilities and Net Position	\$ 5,319,532	\$ 3,479,022

The Authority's net position represents the difference between its assets and liabilities reported in the Statement of Net Position. \$1,341,835 of the Authority's net position, (48.6%), signifies the Authority's investment in capital assets (i.e., land, Authority plant, buildings and improvements, machinery and equipment and construction in progress), less any outstanding debt used to acquire those assets. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources since the capital assets themselves cannot be liquidated to satisfy outstanding debt obligations.

The remaining \$1,416,583 (51.4%) of the Authority's net position was unrestricted and may be used to meet ongoing obligations to customers and creditors.

Table 2:

Changes In Net Position	2020	2019
Operating revenues	\$ 938,154	\$ 800,642
Operating expenses	752,211	731,627
Operating income (loss)	185,943	69,015
Non-operating revenues (expenses)	35,568	(16,909)
Change in net position	221,511	52,106
Net position, beginning of year	2,536,907	2,484,801
Net position, end of year	\$ 2,758,418	\$ 2,536,907

Operating Results and Changes in Net Position

The Authority's change in net position was \$221,511 in 2020 compared to \$52,106 in 2019, an increase of \$169,405 as shown in Table 2. This increase was primarily due to an increase in operating income of \$116,928 as a result of increased water rates that went into effect September 2019.

Operating Income (Loss)

The first component of the overall change in net position is the Authority's operating income – generally, the difference between customer charges and other operating revenues and the expenses incurred to provide those services. Operating revenues increased \$137,512 (17.2%) due primarily to the increase in water rates. The increase in operating expenses of \$20,584 (2.8%) was primarily due to inflation and a general increase in cost of operations.

Non-operating Revenues and Expenses

Non-operating revenues (expenses) of \$35,568 consisted of interest income of \$8,545 and capital grant income of \$61,433 which were offset by interest expense of \$34,410.

Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2020, the Authority had \$3,749,725 invested in capital assets, net of accumulated depreciation. In 2020, the Authority recorded total capital additions of \$1,885,785 related to the waterline relocation project and \$11,508 for new equipment. These purchases are part of the Authority's long-term plan to maintain and improve its plant and equipment. Depreciation expense totaled \$151,321 in 2020. At September 30, 2020, the Authority had a construction contract commitment in place on the waterline relocation project for \$2,544,590. Payments were made to the contractor during the year totaling \$1,695,752 leaving a remaining commitment of \$848,838.

Long-term Debt

At September 30, 2020, the Authority had long-term debt of \$2,386,330 which consisted of two note payables of \$752,011 and \$1,634,319. The Authority issued the second note payable during 2020 for the purpose of financing the waterline relocation project. The Authority retired \$19,578 of long-term debt during the year.

Other Economic Factors

In 2020, the Authority converted from a not-for-profit water association to a public water authority pursuant to the provisions of Arkansas Code Annotated Section 4-35-101, the "Water Authority Act." This conversion allowed the Authority to access better financing options and to provide retirement benefits to its employees through the Arkansas Public Employees' Retirement Plan.

Requests for Information

The financial report is designed to provide a general review of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to Manager, Hardin Public Water Authority, 10919 Highway 270, White Hall, Arkansas 71602 or call 870-247-9639.

Hardin Public Water Authority
Statement of Net Position
September 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash - operations	\$ 1,072,405
Cash - certificates of deposit	313,456
Accounts receivable	145,154
Inventory	33,995
Prepaid expenses	4,797
Total Current Assets	<u>1,569,807</u>
Non-current Assets	
Capital assets, not being depreciated	1,927,966
Capital assets, being depreciated, net	1,821,759
Total Non-current Assets	<u>3,749,725</u>
Total Assets	<u>5,319,532</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 5,319,532</u></u>

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable	\$ 23,523
Accrued liabilities	54,760
Accrued payroll liabilities	7,656
Refundable meter deposits	67,285
Current portion of notes payable	21,560
Total Current Liabilities	<u>174,784</u>
Non-current Liabilities	
Long-term debt	2,386,330
Total Liabilities	<u>2,561,114</u>
Net Position	
Net investment in capital assets	1,341,835
Unrestricted	1,416,583
Total Net Position	<u>2,758,418</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 5,319,532</u></u>

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

Hardin Public Water Authority
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended September 30, 2020

Operating Revenues	
Water sales	\$ 876,201
Billing and collection fees	17,555
Connection fees	11,900
Late charges	27,163
Other income	5,335
	<hr/>
Total Operating Revenues	938,154
 Operating Expenses	
Auto expenses	11,631
Bad debt expense	-
Continuing education and conferences	508
Depreciation	151,321
Director's fees	2,046
Dues and subscriptions	7,470
Insurance	58,535
Miscellaneous expense	1,112
Office expense	6,794
Postage	8,623
Professional fees	20,995
Repairs and maintenance	16,804
Retirement expense	12,164
Salaries and wages	167,208
System locates	1,430
Supplies	27,203
Taxes and licenses	13,827
Telephone	5,306
Uniform expense	844
Utilities	14,494
Water purchases	223,896
	<hr/>
Total Operating Expenses	752,211
	<hr/>
Operating Income (Loss)	185,943
 Nonoperating Revenues (Expenses)	
Interest income	8,545
Capital grant	61,433
Interest expense	(34,410)
	<hr/>
Total Nonoperating Revenues (Expenses)	35,568
	<hr/>
Change in Net Position	221,511
 Net Position, Beginning	 2,536,907
	<hr/>
Net Position, Ending	\$ 2,758,418
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The accompanying notes are an integral part of these financial statements.

Hardin Public Water Authority
Statement of Cash Flows
For the Year Ended September 30, 2020

Cash Flows from Operating Activities

Cash collected from customers	\$ 947,630
Other cash receipts	5,335
Cash payments to employees and related costs	(228,135)
Cash payments to suppliers for goods and services	(376,625)
Net cash provided by operating activities	<u>348,205</u>

Cash Flows from Capital and Related Financing Activities

Principal payments on debt	(19,578)
Proceeds from capital grant	61,433
Cash proceeds from issuance of debt	1,634,319
Cash payments for interest	(34,411)
Purchases of capital assets	(1,897,293)
Net cash (used in) capital and related financing activities	<u>(255,530)</u>

Cash Flows from Investing Activities

Interest income	8,545
Net cash provided by capital and related financing activities	<u>8,545</u>

Net Increase in Cash and Cash Equivalents 101,220

Cash and Cash Equivalents at Beginning of Year	1,284,641
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,385,861</u></u>

Cash and cash equivalents are presented in the statement of net position as follows:

Cash - operations	1,072,405
Cash - certificates of deposit	313,456
	<u><u>\$ 1,385,861</u></u>

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used in) Operating Activities:

Operating income (loss)	\$ 185,943
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	151,321
(Increase) decrease in current assets:	
Accounts receivable	6,960
Inventory	(276)
Increase (decrease) in current liabilities:	
Accounts payable	(1,783)
Accrued liabilities	(1,436)
Accrued payroll liabilities	(375)
Customer deposit liability	7,851
Total adjustments	<u>162,262</u>
Net cash provided by operating activities	<u><u>\$ 348,205</u></u>

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

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity – Hardin Public Water Authority (the “Authority”) was established in 1965 as a domestic not-for-profit corporation under the laws of the State of Arkansas. In 2019, the Authority converted from a not-for-profit water association to a public water authority pursuant to the provisions of Arkansas Code Annotated Section 4-35-101, the “Water Authority Act.”

The Authority was formed to provide rural water service to its members in the Hardin community and surrounding areas in Jefferson County, Arkansas and is governed by an elected board of directors. The Authority is an independent entity and conducts its operations in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods and services to its members is recovered through user charges. The principal revenues of the Authority are charges to customers for water sales.

The Authority is considered a primary governmental entity since it satisfies all of the following criteria: (a) no entity appoints a voting majority of its governing body; (b) it is legally separate from other entities; and (c) it is fiscally independent of other state and local governments. The financial statements of the Authority include all operations and activities of the Authority for which it has financial accountability as defined above.

Basis of Accounting and Presentation – The Authority is accounted for as an enterprise fund and uses the accrual basis of accounting. The Authority’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund’s ongoing operations. The principal operating revenues of the Authority are charges to customers for water and wastewater sales and services. Operating expenses for the Authority include the cost of pumping, treating and delivering water and wastewater 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 Authority’s policy is to use restricted resources first, as required, and 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the presentation of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand, demand deposit accounts, money market deposits accounts and certificates of deposit. Cash includes amounts in demand and time deposit accounts.

Receivables – Accounts receivable include balances due from customers for services or water provided and is reported net of an allowance for doubtful accounts in order to represent the Authority’s estimate of the amount that will be ultimately realized in cash. The allowance for doubtful accounts was \$17,607 at September 30, 2020. The adequacy of the allowance for doubtful accounts is reviewed on an ongoing basis, using historic payment trends, write-off experience, as well as a review of specific accounts, and adjustments are made to the allowance as deemed necessary by management.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory – Inventory is stated at the lower of cost or market value using the first-in first-out method.

Capital Assets – It is generally the Authority's policy that assets to be used in operations with an initial cost greater than or equal to \$1,000 and an estimated useful life of greater than one year are reported as 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 following estimated useful lives are being used by the Authority:

Water plant and distribution	20 - 40 years
Machinery and equipment	5 - 20 years

Management evaluates events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Such events or changes may include physical damage, obsolescence, changes in or new laws or regulations, construction stoppage or environmental factors. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There were no impairment losses recorded for the year ended September 30, 2020.

Deferred Outflows/Inflows of Resources – Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then.

Long-term Obligations – Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

Net Position – The Authority's net position is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted net position* presents assets which are restricted either for debt service or capital projects, net of related payables. Net position restricted for debt service is related to assets which are restricted for use pursuant to debt agreements. Net position restricted for capital projects is related to debt proceeds, capital contributions, and contributions receivable which are restricted to certain capital projects. *Unrestricted net position* is the remaining assets less the remaining liabilities that do not meet the definition of *net investment in capital assets* or *restricted net position*.

Revenue Recognition – The Authority recognizes revenue as water services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include amounts billed to customers on a cyclical basis as well as an estimate of charges for services provided but unbilled for the period. Unbilled amounts are calculated by deriving estimates based on average daily usage of the billing cycle immediately following the accounting period.

Customer bills are generated on the last working day of each month, and payment is due by the 15th of the following month. Payments are considered delinquent if not received on or before the 15th, and a 10% late charge is assessed. Sales tax and other taxes that are collected on behalf of government authorities, concurrent with revenue-producing activities, are primarily excluded from revenue.

Income Taxes – As a governmental entity, the Authority is exempt from federal and state income taxes.

Reclassifications – Certain amounts in the 2019 financial statements have been reclassified to conform with the 2020 financial statement presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

At September 30, 2020, the Authority's deposits consisted of demand and time deposit accounts. These balances are classified as cash and cash equivalents in the Authority's Statement of Net Position due to their highly liquid nature.

Custodial Credit Risk – State of Arkansas (the State) statutes require the Authority to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the Authority. To mitigate this risk, it is generally the Authority's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Authority's name by an agent of the Authority. At September 30, 2020, the Authority's cash balances were fully insured.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, (2) certificates of deposit at financial institutions when secured by acceptable collateral, (3) time deposit accounts at financial institutions, to the extent fully insured, (4) any bond, note or other indebtedness insured by U.S. government or those agencies insured and guaranteed by the federal government and (5) in equity securities, to a limited extent.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 42,171	\$ -	\$ -	\$ 42,171
Construction in progress	10	1,885,785	-	1,885,795
Total Capital Assets, Not Being Depreciated	<u>42,181</u>	<u>1,885,785</u>	<u>-</u>	<u>1,927,966</u>
Capital assets, being depreciated:				
Buildings and improvements	239,407	-	-	239,407
Equipment and fixtures	263,162	-	-	263,162
Office equipment	50,394	-	-	50,394
Small tools and equipment	9,987	-	-	9,987
System software	5,920	-	-	5,920
Tanks and distribution system	4,237,243	11,508	-	4,248,751
Total Capital Assets, Being Depreciated	4,806,113	11,508	-	4,817,621
Less: Accumulated Depreciation	2,844,541	151,321	-	2,995,862
Total Capital Assets, Being Depreciated, Net	<u>1,961,572</u>	<u>(139,813)</u>	<u>-</u>	<u>1,821,759</u>
Total Capital Assets, Net	<u><u>\$ 2,003,753</u></u>	<u><u>\$ 1,745,972</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,749,725</u></u>

NOTE 4 – CONCENTRATIONS

The Authority provides water services to its members which are concentrated in the Hardin Community and surrounding areas of Jefferson County, Arkansas. Accordingly, the Authority's water revenues and related receivables are concentrated with members in the service area.

NOTE 5 – LONG-TERM DEBT

The Authority's long-term debt consists of the following:

United States Department of Agriculture (USDA) Note Payable

The USDA note payable was obtained for the purpose of financing a portion of the costs of constructing betterments and improvements to the Authority's water system. The original amount of the note payable was \$1,027,000. The note payable is payable from revenues derived from the water system and has an annual interest rate of 4.25%. Principal and interest payments are due on the 16th of each month with the final payment scheduled in 2043.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2020

NOTE 5 – LONG-TERM DEBT (Continued)

Arkansas Department of Transportation

The ARDOT note payable was obtained for the purpose of financing a portion of the costs of relocating water lines along sections of State Highway 270 in Jefferson County. The original note payable agreement estimated the Authority's share of the costs to be \$2,361,256 but stated the agreement would be modified by ARDOT for total project costs once billing was final. At September 30, 2020, the Authority had drawn \$1,634,319. The note payable has an annual interest rate of 0.0%. Principal payments will be due annually once the note payable agreement is finalized by ARDOT.

Changes in long-term debt for the year ended September 30, 2020, are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
USDA Note Payable	\$ 793,149	\$ -	\$ (19,578)	\$ 773,571	\$ 21,560
ARDOT Note Payable	-	1,634,319	-	1,634,319	-
Total Long-Term Debt	\$ 793,149	\$ 1,634,319	\$ (19,578)	\$ 2,407,890	\$ 21,560

The annual principal and interest requirements to retire debt outstanding as of September 30, 2020 are as follows:

Year ending September 30,	USDA Note Payable		ARDOT Note Payable Projected Maturities		Total
	Principal	Interest	Principal	Interest	
2021	\$ 21,560	\$ 32,428	\$ -	\$ -	\$ 53,988
2022	22,494	31,494	-	-	53,988
2023	23,469	30,519	118,063	-	172,051
2024	24,486	29,502	118,063	-	172,051
2025	25,547	28,441	118,063	-	172,051
2026-2030	145,334	124,606	590,314	-	860,254
2031-2035	179,677	90,263	590,314	-	860,254
2036-2040	222,135	47,805	99,502	-	369,442
2041-2045	108,869	5,079	-	-	113,948
Total Long-term Maturities	\$ 773,571	\$ 420,137	\$ 1,634,319	\$ -	\$ 2,828,027

NOTE 6 – RETIREMENT BENEFITS

Prior to conversion to a public water authority, the Authority maintained a profit sharing 401K plan (the Plan) which covered substantially all of the Authority's employees. Eligible employees were able to contribute up to 3% of their compensation to the plan, and the Authority contributed 6% of each eligible employee's salary. During the year ended September 30, 2020, the Authority contributed \$12,164 to the Plan.

NOTE 7 – RISK MANAGEMENT

The Authority 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 is purchased for claims arising from such matters other than business interruption.

Settled claims have not materially exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in fiscal year 2020.

Hardin Public Water Authority
Notes to the Financial Statements
September 30, 2020

NOTE 8 – COMMITMENTS

At September 30, 2020, the Authority had a construction contract commitment in place on the following project:

Project Description	Project Authorization	Paid through 09/30/20	Remaining Commitment
Highway 270 waterline relocation	\$ 2,544,590	\$ 1,695,752	\$ 848,838

NOTE 9 – UNCERTAINTIES AND CONTINGENCIES

The United States and global markets experienced significant economic turmoil resulting from uncertainty caused by the world-wide coronavirus pandemic. The impact on the Authority's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Authority's customers, employees, and vendors, all of which at present, cannot be determined. The accompanying financial statements do not include adjustments relating to the effects of the pandemic.

NOTE 10 – SUBSEQUENT EVENTS

Arbitration Proceeding – Subsequent to September 30, 2020, a construction company initiated an arbitration proceeding with the Authority to bring claims against the Authority for breach of contract and quantum meruit claims, and the Authority has countered. Based on consultation of the Authority's legal counsel, the Authority believes the contractor's claims are defensible. In fact, newly discovered information has resulted in an amendment to the counterclaim and increases the likelihood that the Authority will prevail over the contractor. However, the ultimate outcome of the arbitration proceeding cannot be determined. The arbitration case is currently scheduled for the week of July 31, 2023, but may be continued again depending on the investigation of newly discovered information. The newly discovered information involves the contractor's use of foreign materials in violation of the Buy America provision of the contract. That issue has also been reported to the Arkansas Department of Transportation to determine the impact of the breach on the project.

Management has evaluated subsequent events through April 6, 2023, the date the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S 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
Hardin Public Water Authority
White Hall, 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 Hardin Public Water Authority, which comprise the statement of net position as of September 30, 2020 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2023.

Internal Control over Financial Reporting

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

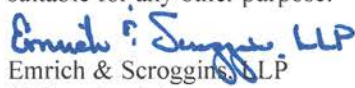
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin Public Water Authority'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*.

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 Hardin Public Water Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hardin Public Water Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Emrich & Scroggins, LLP
El Dorado, Arkansas

April 6, 2023