

**CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020**

**CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 30, 2021 AND 2020**

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**CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
CITY DIRECTORY**

MAYOR

Richard Hartsfield

CITY COUNCIL

Albert (Lanny) Woodhull

Karen Griffin

John Morgan

Winnie Hale

Mary Radley

Ina Layne

CITY OFFICIALS

Raye Morgan, City Recorder

**CITY OF HARTFORD, AR
MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

As management of the Department of Hartford AR Water and Sewer Department (the Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended December 31, 2021 and 2020.

Financial Highlights

The net position of the Department at the close of the years ended December 31, 2021 and 2020, was \$94,073 and \$45,043, respectively (assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position). Of this amount \$10,317 and \$0 (portion of the net position unrestricted) may be used to meet the Department's ongoing obligations to citizens and creditors as of December 31, 2021 and 2020, respectively.

The Department's total net position increased by \$49,030 and \$11,339 for the years ended December 31, 2021 and 2020, respectively.

Revenues for water services provided to customers represent 100 percent of total operating revenues.

The Department expended \$9,300 and \$36,675 on capital assets during the years ended December 31, 2021 and 2020, respectively.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of two components: 1) financial statements and 2) notes to the financial statements.

Proprietary Fund

The City of Hartford, AR, Water and Sewer Department (the Department) is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the public. These activities are financed primarily by user charges and measurement of financial activity focuses on net income measurement similar to the private sector. The fund is used to record the revenues and expenses from the operation of the water and sewer system.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12 - 18 of this report.

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

Financial Analysis of the Department's

Statement of Financial Position

	2021	2020
ASSETS		
Other Assets	\$ 178,713	\$ 176,867
Capital Assets	736,410	761,740
TOTAL ASSETS	915,123	938,607
LIABILITIES		
Current Liabilities	97,275	155,227
Long-term Liabilities	723,775	738,337
TOTAL LIABILITIES	821,050	893,564
NET POSITION		
Net Investment in Capital Assets	(28,590)	(24,013)
Restricted	112,346	110,579
Unrestricted	10,317	(41,523)
TOTAL NET POSITION	\$ 94,073	\$ 45,043

Net position of the Proprietary Fund at the end of the year amounted to \$94,073 and \$45,043 as of December 31, 2021 and 2020, respectively. The total increase in net position of the Proprietary Fund was \$49,030 and \$11,339 for December 31, 2021 and 2020 respectively. The reason for the increase in net assets is due to the Department classifying debt between it and the City's general fund to contributions for the year ended December 31, 2021 in which the City council agreed to write-off the interfund debt instead of repaying it which resulted in a increase to Transfers In in the amount of \$65,148.

Statement of Revenues, Expenses, and Changes in Net Position

	2020	2019
REVENUES		
PROGRAM REVENUES		
Charges for Services	\$ 235,933	\$ 246,283
Interest Income	68	299
TOTAL REVENUES	236,001	246,582
PROGRAM EXPENSES		
Water and Sewer	340,067	251,368
TOTAL EXPENSES	340,067	251,368
INCREASE (DECREASE) IN NET POSITION BEFORE TRANSFERS	(104,066)	(4,786)
OPERATING TRANSFERS IN (OUT)	153,096	16,125
INCREASE(DECREASE) IN NET POSITION	49,030	11,339
BEGINNING NET POSITION	45,043	33,704
Prior Period Adjustment	-	-
ENDING NET POSITION	\$ 94,073	\$ 45,043

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

Charges for services decreased during the year due to matters such as COVID-19 and residents moving out of the City as a result of the school and mine shutdown.

Capital Asset & Debt Administration

Capital Assets

The Department's investment in capital assets for its business-type activities as of December 31, 2021 and 2020, amounts to \$736,410 and \$761,740, respectively (Net of Accumulated Depreciation). This Investment in Capital Assets includes Land, Buildings and Improvements, Distribution System, Vehicles, and Equipment. There were no major capital asset events as of December 31, 2021 and 2021.

Additional information on the Department's Capital Assets can be found on page 14 of the notes within this report.

Long-Term Debt. The Department had long-term debt outstanding as of December 31, 2021 and 2020 in the amounts of \$765,000 and \$785,753, respectively. The City refinanced its debts with USDA and ANRC Bonds in December 2021 in which it consolidated these notes and bonds into one note balance with the bank Communities Unlimited. Additional information on the Department's long-term debt can be found on pages 15 – 16 of the notes within this report.

Economic Factors and Next Year's Budgets & Rates

The Department expects increase in the water revenues in the upcoming year due to an increase in the water rates as a result of the newly refinanced loan. Communities Unlimited requested the Department to increase its water rates by 40% in order to satisfy the debt requirements.

Request for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Raye Morgan, City Recorder of the City Hartford, AR Water and Sewer Department at 109 Broadway Street, Hartford, AR 72938, call (479)-639-2219, or email hartfordarwaterworks@gmail.com.

Christopher A. Turner, PLLC CPA

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INDEPENDENT AUDITOR'S REPORT

Honorable Richard Hartsfield, Mayor
and the City Council
City of Hartford, AR Water and Sewer Department
Hartford, AR

Opinion

I have audited the accompanying financial statements of the City of Hartford, AR Water and Sewer Department, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Hartford, AR Water and Sewer Department, as of December 31, 2021 and 2020, and the statements of revenues, expenses, and changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my 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 of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Hartford, AR Water and Sewer Department, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the water and sewer department and do not purport to, and do not, present fairly the financial position of the City of Hartford, AR, as of December 31, 2021 and 2020, 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. My opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted auditing standards and Government Auditing Standards 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 generally accepted auditing standards and Government Auditing Standards, I:

- 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.
- 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 the City of Hartford, AR Water and Sewer Department'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.

I am 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 I 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 information 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 February 17, 2023, on our consideration of the City of Hartford, AR Water and Sewer Department'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 the City of Hartford, AR Water and Sewer Department's 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 the City of Hartford, AR Water and Sewer Department's internal control over financial reporting and compliance.

Christopher A. Turner PLLC, CPA

Christopher A. Turner PLLC, CPA
February 17, 2023

Christopher A. Turner, PLLC CPA

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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

Honorable Richard Hartsfield, Mayor
and the City Council
City of Hartford, AR Water and Sewer Department
Hartford, AR

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 City of Hartford, AR Water and Sewer Department, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise City of Hartford, AR Water and Sewer Department's basic financial statements and have issued our report thereon dated February 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hartford, AR Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartford, AR Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hartford, AR Water and Sewer Department'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2021-01 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartford, AR Water and Sewer Department'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 financial statements. 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hartford, AR Water and Sewer Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Hartford, AR Water and Sewer Department's response to the findings identified in our audit and described in the accompanying schedule of findings. The City of Hartford, AR Water and Sewer Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christopher A. Turner PLLC, CPA

Christopher A. Turner PLLC, CPA
February 17, 2023

**CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 13,368	\$ 15,704
Accounts Receivable (net)	17,406	17,833
Restricted - Cash and Cash Equivalents	147,939	143,330
TOTAL CURRENT ASSETS	178,713	176,867
CAPITAL ASSETS		
Water and Sewer System	1,251,078	1,245,050
Machinery, Equipment and Vehicles	43,742	40,470
Less Accumulated Depreciation	(558,410)	(523,780)
TOTAL CAPITAL ASSETS (NET)	736,410	761,740
TOTAL ASSETS	\$ 915,123	\$ 938,607
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 19,244	\$ 14,931
Accrued Expenses and Other Liabilities	10,005	3,332
Customer Meter Deposits	26,801	24,400
Due to General Fund	-	65,148
Bonds, Notes, and Capital Lease Payable (Current Portion)	41,225	47,416
TOTAL CURRENT LIABILITIES	97,275	155,227
NONCURRENT LIABILITIES		
Bonds, Notes, and Capital Lease Payable (Noncurrent Portion)	723,775	738,337
TOTAL NONCURRENT LIABILITIES	723,775	738,337
TOTAL LIABILITIES	\$ 821,050	\$ 893,564
NET POSITION		
Net Investment in Capital Assets	\$ (28,590)	\$ (24,013)
Restricted for Debt Service	18,754	17,991
Restricted for Capital Improvements	93,592	92,588
Unrestricted	10,317	(41,523)
TOTAL NET POSITION	\$ 94,073	\$ 45,043

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Charge for Services	\$ 235,933	\$ 246,283
TOTAL OPERATING REVENUES	<u>235,933</u>	<u>246,283</u>
OPERATING EXPENSES		
Water	189,463	123,810
Sewer	25,246	25,624
Sanitation	33,660	31,680
Depreciation	34,630	33,821
TOTAL OPERATING EXPENSES	<u>282,999</u>	<u>214,935</u>
OPERATING INCOME (LOSS)	<u>(47,066)</u>	<u>31,348</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Revenue	68	299
Interest Expense and Fees	(57,068)	(36,433)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(57,000)</u>	<u>(36,134)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(104,066)	(4,786)
TRANSFERS AND EXTRODINARY ITEMS		
Transfers From (To) Other Funds	153,096	16,125
TOTAL TRANSFERS AND EXTRODINARY ITEMS	<u>153,096</u>	<u>16,125</u>
CHANGE IN NET POSITION	49,030	11,339
TOTAL NET POSITION - BEGINNING	45,043	33,704
TOTAL NET POSITION - ENDING	<u>\$ 94,073</u>	<u>\$ 45,043</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF HARTFORD, AR
WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 236,360	\$ 252,561
Payments to Suppliers	(170,831)	(123,172)
Cash Paid to Employees	(64,151)	(48,046)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,378</u>	<u>81,343</u>
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES		
Change in Amount Due to or From Other Funds	(65,148)	23,715
Operating Transfers In (Out)	153,096	16,125
NET CASH PROVIDED BY NONCAPITAL AND FINANCING ACTIVITIES	<u>87,948</u>	<u>39,840</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(9,300)	(36,675)
Proceeds Received on Bonds, Notes, and Leases	765,000	-
Bond, Note and Lease Principal Payments	(785,753)	(47,415)
Interest Payments	(57,068)	(36,433)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(87,121)</u>	<u>(120,523)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	68	299
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>68</u>	<u>299</u>
NET INCREASE IN CASH	2,273	959
CASH - BEGINNING OF YEAR	159,034	158,075
CASH - END OF YEAR	<u>\$ 161,307</u>	<u>\$ 159,034</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating Income (Loss)	\$ (47,066)	\$ 31,348
Depreciation Expense	34,630	33,821
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	427	6,278
Increase (Decrease) in Accounts Payable	4,313	14,931
Increase (Decrease) in Accrued Expenses and Other Liabilities	6,673	(6,355)
Increase (Decrease) in Customer Meter Deposits	2,401	1,320
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,378</u>	<u>\$ 81,343</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

Notes to the Financial Statements

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Note (1) Summary of Significant Accounting Policies

Organization

The City of Hartford, AR, Water and Sewer Department (the Department) is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the public. These activities are financed primarily by user charges and measurement of financial activity focuses on net income measurement similar to the private sector. The fund is used to record the revenues and expenses from the operation of the water and sewer system.

Basis of Presentation

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of net revenue from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities, associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, restricted for debt service, and unrestricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United states of America require management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments with a maturity of thirty days or less when purchased to be cash equivalents.

Receivables and Allowance for Bad Debts– Fund Financial Statements

The Department's material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise most of the Department's receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. As of December 31, 2021 and 2021, the City had no such allowances and considers all water receivables collectible at this time.

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Department. The budget is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriates lapse at the fiscal year-end.

Capital Assets

The cost of additions and major replacement of assets purchased or constructed are capitalized at historical cost. The Department defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life more than two years. Costs includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses, and changes in net position. The cost of current maintenance and repairs are charged to operations as incurred. Construction in progress primarily relates to upgrades of existing facilities.

Capital assets are depreciated using the straight-line methods with the following estimated useful lives: machinery, equipment, and vehicles 5 – 15 and water sewer systems 15 – 39 years.

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debts issues. Losses occurring from advance refunding of debt are deferred an amortized as interest expense over the remaining life of the old bonds, or the live of the new bonds, whichever is shorter.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These receivables and payables are classified as "due to or from other funds" on the fund-level statements. The Department has a liability due to the general fund in the amount of \$0 and \$65,148 as of December 31, 2021 and 2020, respectively.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expense that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers in or out in the other financing sources of the Statement of Activities.

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Net Position

Net position for the Department is classified as follows:

1. Net Investment in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
2. Restricted net assets—Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Note (2) – Collateralization of Deposits

Custodial Credit Risk for Deposits

As of December 31, 2021 and 2020, the bank balances totaling \$161,307 and \$159,034 were fully insured by FDIC coverage of \$250,000. There was no additional coverage provided by pledged securities.

Note (3) Capital Assets

Capital Asset activity for the years ended December 31, 2021 and 2020 was as follows:

	January 1, 2020	Additions	Disposals	December 31, 2021
Water and Sewer System	\$ 1,245,050	\$ 6,028	\$ -	\$ 1,251,078
Machinery, Equipment and Vehicles	40,469	3,272	-	43,741
TOTAL CAPITAL ASSETS	1,285,519	9,300	-	1,294,819
Less: Accumulated Depreciation	(523,779)	(34,630)	-	(558,409)
TOTAL NET CAPITAL ASSETS	<u>\$ 761,740</u>	<u>\$ (25,330)</u>	<u>\$ -</u>	<u>\$ 736,410</u>

	January 1, 2019	Additions	Disposals	December 31, 2020
Water and Sewer System	\$ 1,228,600	\$ 16,450	\$ -	\$ 1,245,050
Machinery, Equipment and Vehicles	20,244	20,225	-	40,469
TOTAL CAPITAL ASSETS	1,248,844	36,675	-	1,285,519
Less: Accumulated Depreciation	(489,958)	(33,821)	-	(523,779)
TOTAL NET CAPITAL ASSETS	<u>\$ 758,886</u>	<u>\$ 2,854</u>	<u>\$ -</u>	<u>\$ 761,740</u>

Depreciation expense was charged to Business-type Activities in the amounts of \$34,630 and \$33,821 for the years ended December 31, 2021 and 2020, respectively.

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Note (4) Bond and Notes Payable

The Department has direct borrowings from the following debt outstanding for the Department as of December 31, 2021 and 2020:

	Original Balance	Maturity Date	Interest Rates	Debt Balance		Payment Dates
				12/31/2021	12/31/2020	
Proprietary Fund						
USDA	425,100	2045	4.13%	354,096	338,294	Monthly
Communities Unlimited	765,000	2036	2.00%	765,000	-	Monthly
ANRC - 00574-WSSW-D	257,500	2037	5.00%	249,713	232,952	Jan/July
ANRC - Bond 98-13	546,000	2028	4.30%	320,022	214,507	Jan/July

The USDA Water Service Revenue Bond was issued in February 2007 for the purpose of aiding in the construction and installation of betterments and improvements to the water and sewer systems in accordance with State Arkansas Code Sections 14-234-201, 14-235-201, and 14-164-401 and pursuant to the ordinances of the Department.

The ANRC Loan 00574-WSSW-D was issued in May of 2007 for the purpose of aiding the construction and installation of betterments and improvements to the water and sewer systems in accordance with ANRC Rule 506.5. This loan was also set up on deferment payments until June 1, 2018.

The ANRC Bond was issued in February 2001 for the purpose of aiding the construction and installation of betterments and improvements to the water and sewer systems in accordance with Title 15, Chapter 22, Subchapter 6, Sections 15-22-601 through 15-22-622 of the Arkansas Code Annotated of 1987, known as the Arkansas Water Resource Development Act of 1981.

The Communities Unlimited note was issued December 24, 2021 for the purpose of consolidating the USDA note payable and ANRC Bonds and is payable each month from February 2022 to January 2024 in the amount of \$4,922.84 including interest of 2%. The loans minimum payment increases to \$6,049.57 per month until December 7, 2036 where a balloon payment for the remaining balance will be due.

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
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FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Bonds and notes payable activity for the years ended December 31, 2021 and 2020, were as follows:

	December 31, 2019	Additions	Reductions	December 31, 2020	Due Within One Year
Proprietary Fund					
USDA	\$ 346,358	\$ -	\$ 8,064	\$ 338,294	\$ 8,064
ANRC - 00574-WSSW-D	241,537	-	8,585	232,952	8,585
ANRC - Bond 98-13	245,273	-	30,766	214,507	30,766
Total Proprietary Fund	\$ 833,168	\$ -	\$ 47,415	\$ 785,753	\$ 47,415

	December 31, 2020	Additions	Reductions	December 31, 2021	Due Within One Year
Proprietary Fund					
USDA	\$ 338,294	\$ -	\$ 338,294	\$ -	\$ -
Communities Unlimited	-	765,000	-	765,000	41,225
ANRC - 00574-WSSW-D	232,952	-	232,952	-	-
ANRC - Bond 98-13	214,507	-	214,507	-	-
Total Proprietary Fund	\$ 785,753	\$ 765,000	\$ 785,753	\$ 765,000	\$ 41,225

Payment requirements for the next five years and thereafter for all bonds and loans outstanding as of December 31, 2021 and 2020 are as follows:

	Principal	Interest	Total
2022	\$ 41,225	\$ 12,926	\$ 54,151
2023	45,132	13,942	59,074
2024	42,304	29,165	71,469
2025	42,042	30,553	72,595
2026	44,187	28,408	72,595
2027 - 2028	95,264	49,925	145,189
2029 - 2030	105,273	39,916	145,189
2031 - 2032	116,311	28,879	145,190
2033 - 2034	128,524	16,665	145,189
2035 - 2036	104,738	3,728	108,466
Total	\$ 765,000	\$ 254,107	\$ 1,019,107

Interest expense on bonds and loans outstanding for the proprietary totaled \$57,068 and \$36,433 for the years ended December 31, 2021 and 2020, respectively.

Note (5) Deficit in Fund Equity

Fund equity contains a deficit balance of \$28,590 and \$24,013 in the net investment in capital assets net of related debt as of December 31, 2021 and 2020, respectively. Fund equity contains a deficit balance of \$25,276 and \$74,274 in unrestricted net position, as of December 31, 2021 and 2020, respectively.

Note (6) Interfund Transfers

The General Fund transferred out funds to the Department to subsidize the deficiency of revenues over expenses in the Utility Fund in the amounts of \$153,096 and \$16,125 for the years ended December 31, 2021 and 2020, respectively.

Note (7) Water and Sewer Rates

The Department has established a usage rate that all users of the Department's water and sewer are required to pay a monthly fee of \$19.00 per 1,000 gallons used or a portion thereof metered water consumption for

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

operating and maintain the system (OM&R). A user is defined as residential, commercial, and industrial for purposes of classification. Residential users are defined as a user whose wastewater is from residential property. Commercial users are defined as a user whose wastewater results from commercial operations, trade, or business. Industrial users are defined as a user whose wastewater results from industrial, manufacturing, or processing. The Department has imposed a minimum \$18.00 charge for domestic waste services to users of the sewage system. This fee is to be used to pay down its debt service obligations in accordance to the Department's ordinance put in place for the water and sewer rates. The Department is to charge a tapping fee not to exceed the actual costs to the Department to its users of the system.

Note (8) Water Supply Contract

The Department has entered into a water contract with the James Fork Regional Water District. James Fork Regional Water District has agreed to supply the Department with treated water. The charge was \$1.96 per 1,000 gallons of treated water for the years ended December 31, 2021 and 2020. The Department incurred \$37,468 and \$34,366 of expenses on the water supply contract for the years ended December 31, 2021 and 2020, respectively.

Note (9) Sewer and Wastewater Operations and Maintenance Contract

The Department has entered into a wastewater sewer contract with The City of Mansfield, AR for sewer and wastewater operations and maintenance. The Department incurred \$16,384 and \$18,456 of expenses on the sewer and wastewater contract for the years ended December 31, 2021 and 2020, respectively.

Note (10) Sanitation Contract

The Department has entered into a sanitation contract with the City of Mansfield, AR. The Department incurred \$33,660 and \$31,680 of expenses on the sanitation contract for the years ended December 31, 2021 and 2020, respectively

Note (11) Risk Financing and Related Insurance Issues

In the normal course of business, The Department is exposed to risks of loss from a number of sources including fire and casualty losses, errors of omissions by council members and employees, negligent acts by employees including law enforcement officers, automobile and mobile equipment accidents, and injuries to employees during the course of performing during the course of performing duties for The Department.

The Department attempts to cover these losses by the purchase of insurance. Currently the Department purchases 100% of its risk-related insurance through the Arkansas Municipal League Intergovernmental Risk Pool. The Department purchases insurance from the pool with annual maximum limits and to the extent of these maximum limits the Department will incur no additional liability due to excess insurance purchases by the risk pool. The Department would be liable for claims in excess of the policy limits. In management's estimation, there are no current loss claims that exceed the insured maximum limits. Significant loss experiences could subject the Department to significant premium increases.

Note (12) Subsequent Events

Management has reviewed its records for subsequent events that may or will occur as of February 17, 2023. Based on the Management's review, there are no such events that need disclosure or accounted for at this time

CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

for the years ended December 31, 2021 and 2020. The Department has made the financial statements available as of February 17, 2023.

Note (13) Restricted Assets

Restricted assets consist of cash reserves restricted for specific use and cash deposits for meters by customers.

The following is a list of the restricted cash as of December 31,

	<u>2021</u>	<u>2020</u>
Customer Deposits	\$ 35,593	\$ 32,751
Construction and Capital Improvements	93,592	92,588
Debt Service	18,754	17,991
Total Restricted Cash	<u><u>\$ 147,939</u></u>	<u><u>\$ 143,330</u></u>

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

Current Audit Matters

Reference 2021-01

Finding: Payroll Expense and Transfer In adjustment

Criteria – All financial statement accounts should be properly reconciled and stated prior to close of the City's books at month and year end by the City's Finance Department staff. City management is responsible for establishing effective internal controls over financial policies.

Condition - Payroll expense was omitted in the water and sewer department due to the City only records expenses related to payroll when they reimburse the general fund. In turn, the amount of payroll expenses paid on behalf of the water and sewer department by the general fund resulted in omission of revenue from other financing sources under transfers in.

Context – The net effect of this issue identified was payroll expense was understated by \$51,530 and transfers in was understated by \$61,179 as of December 31, 2021.

Effect – Potentially material misstatements in the financial statements or significant weakness in internal controls where misstatements in assets, liabilities, revenues, and expenditures could occur due to error or fraud and not be prevented or detected in a timely manner.

Cause – The city only recorded payroll expenses when disbursements were made back to the general fund. This caused ending balances to not be assessed for completeness and accuracy by the City's Finance Department.

Recommendation – Finance Department should review all asset, liability, revenue, and expense accounts of the financial statements to determine if any adjusting entries are necessary as part of the year end and month end closing process. Generally accepted accounting principles should be applied to produce fairly stated financial statements.

Views of Responsible Officials – See Corrective Action Plan

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
CORRECTIVE ACTION PLAN
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

2021-01 Significant Deficiency in Internal Controls – Payroll recording and procedures for reconciling

Concur: The Finance Department included a correction in the December 31, 2021 and 2020 financial statements that reflects a payroll expense in the amount of \$51,530 and a transfer in of \$61,179 which increased the City's net position by \$9,649. The City will implement procedures to implement recording of the water and sewer's payroll expenses and the related contra account for financial assistance from other funds in the near future for financial reporting matters.

**CITY OF HARTFORD, AR WATER AND SEWER DEPARTMENT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

Prior Audit Matters

Financial Statement Findings:

Reference 2020-01 – Internal Controls over Financial Reporting – Unadjusted opening balances, debt payments posted as expenditures rather than as reduction of debt and related interest expenses, and non-posting of payroll expense paid on behalf of water department by the general fund.

Status: During the year ended December 31, 2020, the City resolved all but one of the matters. The unadjusted opening balance and debt payment matters has been resolved. However, the payroll posting matter has been repeated as 2021-01 as the prior year corrective action has not been implemented yet.