

CITY OF HARTMAN WATER DEPARTMENT

DECEMBER 31, 2021 AND 2020

CITY OF HARTMAN, ARKANSAS
WATER DEPARTMENT
DECEMBER 31, 2021 AND 2020

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

Board of Directors and Management
City of Hartman Water Department
Hartman, Arkansas

We have performed the procedures enumerated below, which were agreed to by the members of the Board of Directors, as specified in the Agreed Upon Procedures as required under Arkansas Code Annotated 14-234-119, solely to assist the specified parties in evaluating the City of Hartman Water Department's compliance with the *Guidelines and Rules* specified below, as of December 31, 2021 and 2020. The City of Hartman Water Department's management is responsible for the compliance with those requirements.

The procedures and associated findings are as follows:

Cash

1. a. Prepared a proof of cash for the year for all accounts.
- b. Reconciled year-end bank balances to book balances, within 5% or \$500, whichever is greater.
- c. Acquired deposit confirmations for all accounts and agreed them to the proof of cash, ending bank statement balance and book balance.

We found no exceptions as a result of the procedures.

Receipts

2. a. Agreed ten customer payments to the billing documents and to the customers' accounts receivable subsidiary account.
- b. Agreed cash receipts journal total to deposits per proof of cash within 5% or \$500, whichever is greater.
- c. Agreed one deposit's cash/check composition with receipt information.

We found no exceptions as a result of the procedures.

Accounts Receivable

3. a. Agreed ten customer billings to the meter readings and to the customers' accounts receivable subsidiary account.
- b. Selected five customer adjustments and validated they were approved.
- c. Agreed accounts receivable payments per A/R ledger to cash receipts within 5% or \$500, whichever is greater.
- d. Agreed accounts receivable ledger to year-end book balance.

All adjustments were approved by the water clerk, and we found no exceptions as a result of the procedures.

Disbursements

4. a. Selected and reviewed documentation for 12 disbursements.
- b. Reviewed expenses to determine amounts spent on operating and maintenance.
- c. Scheduled and reviewed all employee and board member disbursements.
- d. Agreed cash disbursements journal to disbursements per proof of cash within 5% or \$500, whichever is greater.
- e. Agreed payroll to payroll reports.

We found no exceptions as a result of the procedures.

Property, Plant, and Equipment

5. Confirmed there were no fixed assets owned by the water department within the scope of the compilation.

Long-term Debt

6. a. Schedule long-term debt and verify changes in all balances for the year.
- b. Confirm loans, bonds, notes and contracts payable with lender/trusted/contractor.
- c. Determine that the appropriate debt service accounts have been established and maintained.

We found no exceptions as a result of the procedures.

General

7. a. Reviewed cash balances for adequacy to support operating and maintenance expenditures.
- b. Determined the number of customers.
- c. Determined the rate structure.
- d. Reviewed the minutes of the governing body's meetings, and if applicable, determined that any items of financial significance were therein approved and documented.

We found no exceptions as a result of the procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, on the effectiveness of internal controls over compliance. Accordingly, we do not express such an opinion or conclusion. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you. The sufficiency of the procedures is solely the responsibility of the Board Members and Management. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose.

This report is intended solely for the information and use of the City of Hartman Board of Directors, Management of the Water Department, and Arkansas Department of Finance and Administration, Office of Intergovernmental Services and is not intended to be and should not be used by anyone other than these specified parties.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
December 8, 2022

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.

HARTMAN WATER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents: (Note 2)		
Unrestricted	\$ 426,558	\$ 446,431
Restricted	216,670	187,520
Accounts Receivable (Note 3)	39,363	39,939
Prepaid Expenses	4,390	4,563
	<u>686,981</u>	<u>678,453</u>
 Property and Equipment (Note 4)		
Water System	1,624,612	1,606,812
Equipment	48,670	48,670
Office Equipment	15,045	15,045
Land	5,359	5,359
	<u>1,693,686</u>	<u>1,675,886</u>
Less: Accumulated Depreciation	633,800	605,998
	<u>1,059,886</u>	<u>1,069,888</u>
	 <u><u>\$ 1,746,867</u></u>	 <u><u>\$ 1,748,341</u></u>

LIABILITIES

Accounts Payable	34,199	29,846
Accrued Expenses	2,787	3,163
Accrued Interest	471	480
Customer Deposits	86,731	80,531
Long-term Liabilities: (Note 5)		
Due Within 1 Year	9,676	9,413
Due in More Than 1 Year	511,673	521,339
	<u>645,537</u>	<u>644,772</u>

NET POSITION

Invested in Capital Assets - Net of Related Debt	538,537	539,136
Restricted Net Assets	129,939	106,989
Unrestricted Net Assets	432,854	457,444
	<u>1,101,330</u>	<u>1,103,569</u>
	 <u><u>\$ 1,746,867</u></u>	 <u><u>\$ 1,748,341</u></u>

HARTMAN WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES</u>		
Water Sales	\$ 325,129	\$ 306,061
<u>OPERATING EXPENSES</u>		
Water Purchased	165,479	122,598
Salaries	66,066	64,716
Payroll Taxes	5,054	4,950
Insurance - Employee	3,801	4,214
Supplies	9,656	10,608
Utilities	13,816	10,921
Dues & Fees	3,180	2,337
Truck Expense	3,575	1,733
Repairs & Maintenance	4,203	5,044
Office Expense	5,688	8,803
Professional Fees	4,700	4,800
Travel Expense	803	0
Depreciation	27,802	27,182
	<u>313,823</u>	<u>267,906</u>
Operating Income	11,306	38,155
Other Income (Expense)		
Interest Income	924	1,306
Interest Expense	(14,469)	(15,115)
	<u>(13,545)</u>	<u>(13,809)</u>
INCREASE (DECREASE) IN NET POSITION	(2,239)	24,346
NET POSITION, BEGINNING OF YEAR	<u>1,103,569</u>	<u>1,079,223</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,101,330</u></u>	<u><u>\$ 1,103,569</u></u>

HARTMAN WATER DEPARTMENT
STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Operating Income	\$ 11,306	\$ 38,155
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation & Amortization	27,802	27,182
(Increase) Decrease in Operating Assets:		
Accounts Receivable	576	4,745
Prepaid Expenses	173	(2,188)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	4,353	9,195
Accrued Expenses	(385)	(1,692)
Customer Deposits	6,200	3,404
	<u>38,719</u>	<u>40,646</u>
Net Cash Provided by Operating Activities	<u>50,025</u>	<u>78,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expansion of Distribution System and Purchase of Fixed Assets	(17,800)	(4,000)
Interest Income	924	1,306
Net Cash Used by Investing Activities	<u>(16,876)</u>	<u>(2,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Revenue Bonds and Notes	(9,403)	(8,757)
Interest Paid on Revenue Bonds and Notes	(14,469)	(15,115)
Net Cash Used by Financing Activities	<u>(23,872)</u>	<u>(23,872)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,277	52,235
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>633,951</u>	<u>581,716</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 643,228</u></u>	<u><u>\$ 633,951</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Reconciliation of Cash to the Statement of Net Position		
Unrestricted Cash	\$ 426,558	\$ 446,431
Restricted Cash	216,670	187,520
	<u><u>\$ 643,228</u></u>	<u><u>\$ 633,951</u></u>
Cash Paid During the Year for Interest	<u><u>\$ 14,478</u></u>	<u><u>\$ 15,123</u></u>

See Independent Accountant's Compilation Report and Notes to the Financial Statements

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Hartman Water Department is engaged in providing Water services to the general public located in Hartman, Arkansas, and the surrounding area.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Depreciation

The cost of the utility plant is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

Water System	7-50 years
Equipment	7-50 years
Office Equipment	5-10 years

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$27,802 and \$27,182. Repairs and maintenance are expenses as incurred.

Organization

The Hartman Water Department is a municipally operated system governed by the City Council of the City of Hartman, Arkansas. The Department is a proprietary fund type used to account for activities conducted for the public. The Department applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1998, unless these pronouncements conflict with or contradict GASB pronouncements.

Regulatory Environment

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department.

Income Tax

The Hartman Water Department is municipally owned and is exempt from Federal and State income tax.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Department considers cash to be cash on hand and in banks, including time deposits and cash equivalents held in restricted accounts.

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

The Hartman Water Department services customers in Hartman, Arkansas and the surrounding area. All of the accounts receivable balance reported herein are from these customers. All accounts receivable are recorded at the gross value, and when deemed to be uncollectable, the accounts receivables are charged to bad debt expense using the allowance method for bad debts. Accounts receivables are presented net of the allowance for doubtful accounts.

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2021 and 2020, the System had unrestricted and restricted cash shown as follows:

	<u>2021</u>	<u>2020</u>
<u>Unrestricted</u>		
Operations and Maintenance Fund	\$ 334,825	\$ 351,929
Water System General Funds	42,672	42,632
Certificates of Deposit	<u>49,061</u>	<u>51,870</u>
	<u>426,558</u>	<u>446,431</u>
<u>Restricted</u>		
Meter Fund	86,731	80,531
Debt Service Fund	13,566	11,170
Short-lived Asset Replacement Reserve Fund	<u>116,373</u>	<u>95,819</u>
	<u>216,670</u>	<u>187,520</u>
	<u>\$ 643,228</u>	<u>\$ 633,951</u>

The Department is required to transfer an amount into reserve in the event the Department lacks adequate funds to meet the Department's payments. This reserve is maintained until all bonds have been retired. The required reserve for these loans at December 31, 2021 and 2020 are \$129,939 and \$106,989.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts Receivable consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Amounts Billed to Customers	\$ 31,071	\$ 32,769
Accrued Revenues	<u>13,792</u>	<u>12,670</u>
	44,863	45,439
Less Allowance for Doubtful Accounts	<u>5,500</u>	<u>5,500</u>
	<u>\$ 39,363</u>	<u>\$ 39,939</u>

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4: PROPERTY AND EQUIPMENT

Activity of the Property and Equipment consists of the following:

	<u>Balance at</u> <u>December 31, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>December 31, 2021</u>
Water System	\$ 1,606,812	\$ 17,800		\$ 1,624,612
Equipment	48,670			48,670
Office Equipment	15,045			15,045
Land	5,359			5,359
	<u>\$ 1,675,886</u>	<u>\$ 17,800</u>		<u>\$ 1,693,686</u>

NOTE 5: LONG-TERM NOTES AND BONDS PAYABLE

Long-term revenue notes and bonds payable collateralized by pledge of Water revenue consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
United States Department of Agriculture, Rural Development Agency (RDA9201) 2.75% revenue bonds, with monthly installments of \$1,990 including interest. The bonds will mature in 2055.	\$ 521,349	\$ 530,752
Less current installments	<u>9,676</u>	<u>9,413</u>
	<u>\$ 511,673</u>	<u>\$ 521,339</u>

The principal and interest payments due on long-term notes and bonds payable for the fiscal years succeeding December 31, 2021 are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 9,676	\$ 14,204	\$ 23,880
2023	9,945	13,935	23,880
2024	10,222	13,658	23,880
2025	10,506	13,374	23,880
2026	10,799	13,081	23,880
2027-2031	58,679	60,721	119,400
2032-2036	67,317	52,083	119,400
2037-2041	77,228	42,172	119,400
2042-2046	88,598	30,802	119,400
2047-2051	101,641	17,759	119,400
2052-2055	76,738	3,645	80,383
	<u>\$ 521,349</u>	<u>\$ 275,434</u>	<u>\$ 796,783</u>

Activity of the long-term notes and bonds payable consists of the following:

	<u>Balance at</u> <u>December 31, 2020</u>	<u>Debt</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance at</u> <u>December 31, 2021</u>
United States Department of Agriculture Rural Development	\$ 530,752		\$ 9,403	\$ 521,349

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 6: INTEREST EXPENSE

Total interest expense incurred in the years ended December 31, 2021 and 2020 amounted to \$14,469 and \$15,115, respectively.

NOTE 7: WATER PURCHASE CONTRACT

The Department entered into a water purchase contract with Clarksville Connected Utilities. This contract allows the Department to purchase treated water at a price of \$2.63 per 1,000 gallons. For the years ended December 31, 2021 and 2020 the Department purchased 55,8400,236 gallons and 41,114,947 gallons for \$163,543 and \$119,558 respectively.

NOTE 8: CONCENTRATION OF RISK

The Department maintains cash balances with a local bank. The balances at this bank are secured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The Department has obtained pledged securities for all funds that exceed this Federal Deposit Insurance limit. The following is a summary of the insured and pledged coverage as of December 31, 2021.

Funds insured by the Federal Deposit Insurance Corporation	\$ 250,000
Funds collateralized by securities held by the financial institution's trust department or agent	<u>393,228</u>
	<u>\$ 643,228</u>

NOTE 9: CUSTOMERS

The number of customers using the Water services as of December 31, 2021 and 2020 were 376 and 377 respectively.

NOTE 10: SCHEDULE OF RATES

	Through November 1, 2021	Starting December 1, 2021
Monthly Water Rates - Inside City	\$ 26.79 Minimum Charge 5.52 per 1,000 gallons	\$ 26.79 Minimum Charge 5.58 per 1,000 gallons
Monthly Water Rates - Outside City and Bulk	29.46 Minimum Charge 6.05 per 1,000 gallons	29.46 Minimum Charge 6.11 per 1,000 gallons

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated events through December 8, 2022, which is the date the financial statements were available to be issued.