

CITY OF HARTMAN, ARKANSAS
WATER DEPARTMENT
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT
ON APPLYING AGREED-UP PROCEDURES
AND FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

CITY OF HARTMAN, ARKANSAS
WATER DEPARTMENT
DECEMBER 31, 2022 AND 2021

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INDEPENDENT ACCOUNTANTS' 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, 2022 and 2021. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. 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 by the water clerk.
- 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.

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. Determine that all additions and disposals were properly accounted for in the records.

We found no additions or disposals in Property, Plant and Equipment.

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.

We are required to be independent of the City of Hartman Water Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
December 6, 2023

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

HARTMAN WATER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents: (Note 2)		
Unrestricted	\$ 409,513	\$ 426,558
Restricted	245,927	216,670
Accounts Receivable (Note 3)	43,180	39,363
Prepaid Expenses	4,501	4,390
	<u>703,121</u>	<u>686,981</u>
Property and Equipment (Note 4)		
Water System	1,624,612	1,624,612
Equipment	48,670	48,670
Office Equipment	15,045	15,045
Land	5,359	5,359
	<u>1,693,686</u>	<u>1,693,686</u>
Less: Accumulated Depreciation	661,479	633,800
	<u>1,032,207</u>	<u>1,059,886</u>
	<u><u>\$ 1,735,328</u></u>	<u><u>\$ 1,746,867</u></u>

LIABILITIES

Accounts Payable	40,325	34,199
Accrued Expenses	4,893	2,787
Accrued Interest	462	471
Customer Deposits	93,010	86,731
Long-term Liabilities: (Note 5)		
Due Within 1 Year	9,945	9,664
Due in More Than 1 Year	501,740	511,685
	<u>650,375</u>	<u>645,537</u>

NET POSITION

Invested in Capital Assets - Net of Related Debt	520,522	538,537
Restricted Net Assets	152,917	129,939
Unrestricted Net Assets	411,514	432,854
	<u>1,084,953</u>	<u>1,101,330</u>
	<u><u>\$ 1,735,328</u></u>	<u><u>\$ 1,746,867</u></u>

HARTMAN WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Water Sales	\$ 338,035	\$ 325,129
Payments from City General Fund	4,725	0
	<u>342,760</u>	<u>325,129</u>
<u>OPERATING EXPENSES</u>		
Water Purchased	182,065	165,479
Salaries	72,413	66,066
Payroll Taxes	6,023	5,054
Insurance - Employee	4,214	3,801
Bad Debts Expense	10,000	0
Supplies	8,028	9,656
Utilities	15,891	13,816
Dues & Fees	3,075	3,180
Truck Expense	2,955	3,575
Repairs & Maintenance	3,755	4,203
Office Expense	7,248	5,688
Professional Fees	2,300	4,700
Travel Expense	0	803
Depreciation	27,680	27,802
	<u>345,647</u>	<u>313,823</u>
Operating Income	<u>(2,887)</u>	<u>11,306</u>
Other Income (Expense)		
Interest Income	717	924
Interest Expense	(14,207)	(14,469)
	<u>(13,490)</u>	<u>(13,545)</u>
INCREASE (DECREASE) IN NET POSITION	(16,377)	(2,239)
NET POSITION, BEGINNING OF YEAR	<u>1,101,330</u>	<u>1,103,569</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,084,953</u></u>	<u><u>\$ 1,101,330</u></u>

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

HARTMAN WATER DEPARTMENT
STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 330,497	\$ 331,905
Other Operating Cash Receipts	4,725	0
Payments to Suppliers	(214,118)	(197,965)
Payments to Employees	(80,352)	(75,232)
Payments for Other Admin Costs	(5,375)	(8,683)
Net Cash Provided by Operating Activities	<u>35,377</u>	<u>50,025</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	0	(17,800)
Interest Received	717	924
Net Cash Provided (Used) by Investing Activities	<u>717</u>	<u>(16,876)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Paid on Notes Payable	(14,218)	(14,469)
Repayment of Notes Payable	(9,664)	(9,403)
Net Cash Used by Financing Activities	<u>(23,882)</u>	<u>(23,872)</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	12,212	9,277
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>643,228</u>	<u>633,951</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 655,440</u></u>	<u><u>\$ 643,228</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Reconciliation of Cash to Statements of Financial Position		
Unrestricted Cash	\$ 409,513	\$ 426,558
Restricted Cash	245,927	216,670
	<u><u>\$ 655,440</u></u>	<u><u>\$ 643,228</u></u>

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

HARTMAN WATER DEPARTMENT
STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ (2,887)	\$ 11,306
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	27,680	27,802
(Increase) Decrease in Accounts Receivable	(3,817)	576
(Increase) Decrease in Prepaid Expenses	(111)	173
Increase (Decrease) in Accounts Payable	6,126	4,353
Increase (Decrease) in Accrued Expenses	2,107	(385)
Increase (Decrease) in Customer Deposits	6,279	6,200
	<u>38,264</u>	<u>38,719</u>
Net Cash Provided by Operating Activities	<u><u>\$ 35,377</u></u>	<u><u>\$ 50,025</u></u>

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 amounted to \$27,680 and \$27,802 respectively. 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 with maturities of 3 months or less held in restricted accounts.

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

Spadra – Goose Camp Water Association has a significant outstanding balance and circumstances that are a concern to the Management and Board of Directors of Hartman Water. Therefore, they have elected to increase the allowance for doubtful accounts by \$10,000.

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2022 and 2021, the System had unrestricted and restricted cash shown as follows:

	<u>2022</u>	<u>2021</u>
<u>Unrestricted</u>		
Operations and Maintenance Fund	\$ 321,242	\$ 334,825
Water System General Funds	42,734	42,672
Certificates of Deposit	<u>45,537</u>	<u>49,061</u>
	<u>409,513</u>	<u>426,558</u>
<u>Restricted</u>		
Meter Fund	93,010	86,731
Debt Service Fund	15,965	13,566
Short-lived Asset Replacement Reserve Fund	<u>136,952</u>	<u>116,373</u>
	<u>245,927</u>	<u>216,670</u>
	<u>\$ 655,440</u>	<u>\$ 643,228</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, 2022 and 2021 are \$129,681 and \$106,989 respectively.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts Receivable consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Amounts Billed to Customers	\$ 44,338	\$ 31,071
Accrued Revenues	<u>14,342</u>	<u>13,792</u>
	58,680	44,863
Less Allowance for Doubtful Accounts	<u>15,500</u>	<u>5,500</u>
	<u>\$ 43,180</u>	<u>\$ 39,363</u>

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4: PROPERTY AND EQUIPMENT

Activity of the Property and Equipment consists of the following:

	<u>Balance at</u> <u>December 31, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>December 31, 2022</u>
Water System	\$ 1,624,612			\$ 1,624,612
Equipment	48,670			48,670
Office Equipment	15,045			15,045
Land	<u>5,359</u>			<u>5,359</u>
	<u>\$ 1,693,686</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, 2022 and 2021:

	<u>2022</u>	<u>2021</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.	\$ 511,685	\$ 521,349
Less current installments	<u>9,945</u>	<u>9,664</u>
	<u>\$ 501,740</u>	<u>\$ 511,685</u>

The principal and interest payments due on long-term notes and bonds payable for the fiscal years succeeding December 31, 2022 are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	11,100	12,780	23,880
2028-2032	60,313	59,087	119,400
2033-2037	69,192	50,208	119,400
2038-2042	79,379	40,021	119,400
2043-2047	91,065	28,335	119,400
2048-2052	104,472	14,928	119,400
2053-2055	<u>54,692</u>	<u>1,810</u>	<u>56,502</u>
	<u>\$ 511,685</u>	<u>\$ 261,217</u>	<u>\$ 772,902</u>

NOTE 6: INTEREST EXPENSE

Total interest expense incurred in the years ended December 31, 2022 and 2021 amounted to \$14,207 and \$14,469, respectively.

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 per 1,000 gallons as follows:

01/01/2021 – 09/30/2021	\$ 2.83
10/01/2021 – 09/30/2022	2.86
10-01-2022 – 12/31/2022	2.95

For the years ended December 31, 2022 and 2021 the Department purchased 59,325,719 gallons and 55,840,236 gallons for \$177,291 and \$163,543 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, 2022.

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>405,440</u>
	<u>\$ 655,440</u>

NOTE 9: CUSTOMERS

The number of customers using the Water services as of December 31, 2022 and 2021 were 381 and 376 respectively.

NOTE 10: SCHEDULE OF RATES

Water rates for the 2022 fiscal year were as follows:

	<u>Through Nov 30, 2022</u>	<u>Starting Dec 1, 2022*</u>
Monthly Water Rates - Inside City	\$ 26.79 Minimum Charge 5.58 per 1,000 gallons	\$ 26.79 Minimum Charge is for first 1,000 gallons 5.58 per 1,000 gallons
Monthly Water Rates - Outside City and Bulk	\$ 29.46 Minimum Charge 6.11 per 1,000 gallons	\$ 29.46 Minimum Charge is for first 1,000 gallons 6.11 per 1,000 gallons

*Effective December 1, 2022 the calculation of the water quantity charge changed slightly...

The Minimum Charge will now include the first 1,000 gallons used. Then the additional 'per 1,000 gallons' charge will be added for each full or partial 1,000 gallons used.

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Water rates for the 2021 fiscal year were as follows:

	<u>Through Nov 30, 2021</u>	<u>Starting Dec 1, 2021</u>
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 6, 2023, which is the date the financial statements were available to be issued.

HARTMAN WATER DEPARTMENT
BUDGET COMPARISON SCHEDULE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
REVENUES			
Water Revenues	\$ 338,035	\$ 362,500	(24,465)
Payments from City General Fund	4,725	0	4,725
	<u>342,760</u>	<u>362,500</u>	<u>(19,740)</u>
EXPENSES			
Water Purchased	182,065	161,000	21,065
Salaries	72,413	67,000	5,413
Payroll Taxes	6,023	18,000	(11,977)
Insurance - Employee	4,214	6,700	(2,486)
Bad Debts Expense	10,000	0	10,000
Supplies	8,028	31,000	(22,972)
Utilities	15,891	14,000	1,891
Dues & Fees	3,075	8,500	(5,425)
Truck Expense	2,955	3,500	(545)
Repairs & Maintenance	3,755	0	3,755
Office Expense	7,248	4,000	3,248
Professional Fees	2,300	1,500	800
Depreciation	27,680	0	27,680
	<u>345,647</u>	<u>315,200</u>	<u>30,447</u>
INCOME FROM OPERATIONS	<u>(2,887)</u>	<u>47,300</u>	<u>(50,187)</u>
OTHER INCOME (EXPENSE)			
Interest Income	717	250	467
Interest Expense	(14,207)	0	(14,207)
	<u>(13,490)</u>	<u>250</u>	<u>(13,740)</u>
INCREASE IN NET ASSETS	<u>\$ (16,377)</u>	<u>\$ 47,550</u>	<u>\$ (63,927)</u>