

SPARKMAN WATER AND SEWER SYSTEM



SPARKMAN, ARKANSAS

DECEMBER 31, 2022

SPARKMAN WATER AND SEWER SYSTEM
SPARKMAN, ARKANSAS

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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Mayor and City Council
Sparkman, Arkansas

We have performed the procedures enumerated below on the accounting records of Sparkman Water and Sewer System as of and for the year ended December 31, 2022. Sparkman Water and Sewer System's management is responsible for the entity's accounting records.

Sparkman Water and Sewer System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of satisfying annual reporting requirements of the Arkansas Division of Legislative Audit. Additionally, the Arkansas Legislative Joint Auditing Committee has agreed to and acknowledged that the procedures performed are appropriate for their purposes. 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 procedures and associated findings are as follows:

1. Cash and Investments

- a. Perform a proof of cash for the year and reconcile year-end bank balances to book balances.
- b. Confirm with depository institutions the cash on deposit and investments.
- c. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

We found no exceptions as a result of the procedures.

2. Receipts

- a. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
- b. Agree ten customer payments on the accounts receivable sub ledger to deposit and billing documents.
- c. For ten deposits, agree the cash/check composition of the deposit with the receipt information.

We found no exceptions as a result of the procedures.

3. Accounts Receivable

- a. Agree ten customer billings to the accounts receivable sub ledger.
- b. Determine that five customer adjustments were properly authorized.

We found no exceptions as a result of the procedures.

4. Disbursements

- a. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$500, whichever is greater.
- b. Analyze all property, plant and equipment disbursements.
- c. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

We found no exceptions as a result of the procedures.

5. Property, Plant, and Equipment

- a. Determine that additions and disposals were properly accounted for in the records. (Materiality level – 5% of total equipment or \$500, whichever is greater.)

We found no exceptions as a result of the procedures.

6. Long-Term Debt

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

We found no exceptions as a result of the procedures.

7. General

- a. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

We found no exceptions as a result of the procedures.

We were engaged by Sparkman Water and Sewer System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records of Sparkman Water and Sewer System. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

This report is intended solely for the information and use of Sparkman Water and Sewer System and the Arkansas Legislative Joint Auditing Committee, and is not intended to be and should not be used by anyone other than those specified parties.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

July 6, 2023

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Mayor and City Council
Sparkman Water and Sewer System
Sparkman, Arkansas

Management is responsible for the accompanying financial statements of Sparkman Water and Sewer System, which comprise the statements of net position as of December 31, 2022 and 2021, and related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule on page 12 be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context.

As discussed in Note 1, the financial statements referred to above present only Sparkman Water and Sewer System, which is an enterprise fund of the City of Sparkman, and are not intended to present fairly the financial position of the City of Sparkman, and the results of its operations and the cash flows of its other funds in conformity with generally accepted accounting principles.

Turner, Rodgers, Manning & Plyler, PLLC
Arkadelphia, Arkansas
July 6, 2023

SPARKMAN WATER AND SEWER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

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ASSETS

	2022	2021
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 164,066	\$ 87,859
Accounts Receivable	32,456	32,645
Unbilled Revenue	8,876	8,197
Prepaid Insurance	9,707	5,327
TOTAL CURRENT ASSETS	<u>215,105</u>	<u>134,028</u>
RESTRICTED ASSETS:		
Restricted Cash and Cash Equivalents	<u>64,503</u>	<u>78,366</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	3,394	3,394
Water and Sewer System	4,333,913	4,333,913
Equipment	72,745	72,745
Vehicles	42,532	42,532
	<u>4,452,584</u>	<u>4,452,584</u>
Less: Accumulated Depreciation	<u>(1,831,041)</u>	<u>(1,714,738)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>2,621,543</u>	<u>2,737,846</u>
TOTAL ASSETS	<u>\$ 2,901,151</u>	<u>\$ 2,950,240</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts Payable	\$ 11,480	\$ 8,343
Payroll Taxes Payable	3,047	2,300
Sales Tax Payable	2,135	1,945
Payroll Due to General Fund	29,930	-
Accrued Interest Payable	1,729	3,047
Current Maturities of Long-Term Debt	30,000	15,000
TOTAL CURRENT LIABILITIES	<u>78,321</u>	<u>30,635</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer Meter Deposits	<u>37,532</u>	<u>36,712</u>
LONG-TERM DEBT:		
Revenue Bonds Payable (Net of Unamortized Bond Issue Costs of \$46,446 and \$48,557)	<u>818,554</u>	<u>846,443</u>
TOTAL LONG-TERM DEBT	<u>818,554</u>	<u>846,443</u>
TOTAL LIABILITIES	<u>934,407</u>	<u>913,790</u>
NET POSITION:		
Invested in Capital Assets, Net of Related Debt	1,772,989	1,876,403
Restricted	26,971	41,654
Unrestricted	166,784	118,393
TOTAL NET POSITION	<u>1,966,744</u>	<u>2,036,450</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,901,151</u>	<u>\$ 2,950,240</u>

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

SPARKMAN WATER AND SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

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	<u>2022</u>	<u>2021</u>
OPERATING REVENUE:		
Water Revenue	\$ 327,619	\$ 289,751
Sewer Revenue	49,994	51,116
Penalties	7,544	8,488
Connection Fees	2,700	3,000
Other Revenues	44,450	2,476
TOTAL OPERATING REVENUE	<u>432,307</u>	<u>354,831</u>
OPERATING EXPENSES:		
Salaries	96,732	89,666
Contract Labor	7,539	6,943
Employee Benefits	2,792	6,775
Taxes and Licenses	35,390	20,368
Insurance	4,657	10,507
Utilities and Telephone	10,736	9,997
Repairs and Maintenance	30,520	7,079
Depreciation	116,303	119,096
Supplies	34,862	22,611
Professional Fees	-	5,000
Office Expense	4,193	6,616
Water Purchases	73,111	77,974
Fuel and Oil	5,112	4,211
Miscellaneous	59,232	17,318
TOTAL OPERATING EXPENSES	<u>481,179</u>	<u>404,161</u>
OPERATING (LOSS)	<u>(48,872)</u>	<u>(49,330)</u>
OTHER INCOME (EXPENSES):		
Interest Revenue	364	698
Interest Expense	<u>(21,198)</u>	<u>(31,165)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>(20,834)</u>	<u>(30,467)</u>
NET (LOSS)	<u>(69,706)</u>	<u>(79,797)</u>
NET POSITION, BEGINNING OF YEAR	2,036,450	2,116,247
NET POSITION, END OF YEAR	<u>\$ 1,966,744</u>	<u>\$ 2,036,450</u>

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

SPARKMAN WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

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	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 431,817	\$ 363,306
Cash Payments for Goods and Services	(238,520)	(199,120)
Cash Payments to Employees	(96,732)	(89,666)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>96,565</u>	<u>74,520</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Increase in Meter Deposits	<u>820</u>	<u>331</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Paid on Long-Term Debt	(12,889)	(939,387)
Issuance Costs on Long-Term Debt	-	(48,557)
Proceeds from Long-Term Debt	-	910,000
Interest Paid on Long-Term Debt	(22,516)	(31,021)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(35,405)</u>	<u>(108,965)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	364	698
NET CHANGE IN CASH AND RESTRICTED CASH	<u>62,344</u>	<u>(33,416)</u>
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	166,225	199,641
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 228,569</u>	<u>\$ 166,225</u>

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

SPARKMAN WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

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Reconciliation of operating income to net cash provided by operating activities:

	<u>2022</u>	<u>2021</u>
OPERATING (LOSS)	<u>\$ (48,872)</u>	<u>\$ (49,330)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	116,303	119,096
Change in Assets and Liabilities:		
Accounts Receivable and Unbilled Revenue	(490)	8,475
Prepaid Insurance	(4,380)	(657)
Accounts Payable	3,137	(2,788)
Due to General Fund	29,930	-
Accrued Liabilities	<u>937</u>	<u>(276)</u>
TOTAL ADJUSTMENTS	<u>145,437</u>	<u>123,850</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 96,565</u></u>	<u><u>\$ 74,520</u></u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Amortization of Bond Issuance Costs	<u><u>\$ 2,111</u></u>	<u><u>\$ -</u></u>

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

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Note 1. Significant Accounting Policies:

The Sparkman Water and Sewer System is an Enterprise Fund of the City of Sparkman, Arkansas, and is governed by the City Council of the City of Sparkman, Arkansas. The accompanying financial statements and other information reflect the Sparkman Water and Sewer System only and do not include other funds of the City of Sparkman, Arkansas.

The financial statements are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The System applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

Bad debts, which are immaterial in amount after applying customers' meter deposits, are recognized based on the direct charge-off of individual accounts considered uncollectible.

Plant and equipment are stated at cost or customer cost of construction on contributed assets, and depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Water Plant and Distribution	7 - 40 Years
Sewer Plant and Collection System	7 - 40 Years
Vehicles and Equipment	5 - 10 Years

The System requires every customer to pay a cash meter deposit before service is provided. Concentrations of credit risk with respect to trade receivables are limited because a large number of diverse customers make up the System's customer base, thus spreading the trade risk.

For purposes of the Statement of Cash Flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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

Management submits to the City Council, for its approval, an executive budget for operation of the System. The approval by the City Council of the budget amounts to an appropriation of funds that are lawfully applicable to items therein.

Management has evaluated subsequent events through July 6, 2023, the date the financial statements were available for issuance.

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Note 2. Restricted Assets:

Restricted accounts are segregated on the balance sheet in accordance with the requirements of bond obligation agreements and internally designed restrictions. Cash restricted for debt service requirements at December 31, 2022 and 2021 was \$19,253 and \$4,500, respectively.

The System maintains cash equal to customers' meter deposits in a certificate of deposit and a meter deposit checking account. These accounts are reflected as restricted assets and the corresponding liability as a liability payable from restricted assets. Cash restricted for meter deposits at December 31, 2022 and 2021 was \$37,532 and \$36,712, respectively.

The System maintains funds in depreciation accounts for water and sewer, restricted accounts, which totaled \$30,892 and \$37,154 at December 31, 2022 and 2021, respectively.

Note 3. Liabilities Payable from Restricted Assets:

Interest accrued but unpaid and a portion of the current maturity on the outstanding revenue bonds are reflected as liabilities to be liquidated with the revenue bond funds. The additional current maturities are reflected as a liability to be liquidated with current assets.

Note 4. Property, Plant and Equipment:

Property, plant and equipment activity for the year ended December 31, 2022 was as follows:

	12/31/2021 BALANCE	INCREASES	DECREASES	12/31/2022 BALANCE
Property, Plant and Equipment:				
Land	\$ 3,394	\$ -	\$ -	\$ 3,394
Water and Sewer System	4,333,913	-	-	4,333,913
Equipment	72,745	-	-	72,745
Vehicles	42,532	-	-	42,532
	4,452,584	-	-	4,452,584
Less Accumulated Depreciation	(1,714,738)	(116,303)	-	(1,831,041)
NET	<u>\$ 2,737,846</u>	<u>\$ (116,303)</u>	<u>\$ -</u>	<u>\$ 2,621,543</u>

Property, plant and equipment activity for the year ended December 31, 2021 was as follows:

	12/31/2020 BALANCE	INCREASES	DECREASES	12/31/2021 BALANCE
Property, Plant and Equipment:				
Land	\$ 3,394	\$ -	\$ -	\$ 3,394
Water and Sewer System	4,333,913	-	-	4,333,913
Equipment	72,745	-	-	72,745
Vehicles	42,532	-	-	42,532
	4,452,584	-	-	4,452,584
Less Accumulated Depreciation	(1,595,642)	(119,096)	-	(1,714,738)
NET	<u>\$ 2,856,942</u>	<u>\$ (119,096)</u>	<u>\$ -</u>	<u>\$ 2,737,846</u>

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Note 5. Long-Term Debt:

Long-Term Debt as of December 31, 2022 and 2021 consisted of the following:

	<u>12/31/2022</u>	<u>12/31/2021</u>
Bond payable to Malvern National Bank/Riverside Bank; original amount \$910,000; due in annual installments beginning June 2022 (interest due semi-annually), interest at 2.35%, secured by the System's revenue, current portion is \$26,703, maturing in June 2044.	\$ 796,648	\$ 810,000
Bond payable to Riverside Bank; original amount \$100,000; due in annual installments beginning June 2022 (interest due semi-annually), interest at 2.35%, secured by the System's revenue, current portion is \$3,297, maturing in June 2044.	<u>98,352</u>	<u>100,000</u>
	895,000	910,000
	<u>(30,000)</u>	<u>(15,000)</u>
Less portion considered current	<u>\$ 865,000</u>	<u>\$ 895,000</u>
Total long-term debt		

Aggregate maturities of long-term debt as of December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	30,000	20,680	\$ 50,680
2024	30,000	19,975	49,975
2025	30,000	19,270	49,270
2026	35,000	18,506	53,506
2027	35,000	17,684	52,684
Thereafter	<u>735,000</u>	<u>143,159</u>	<u>878,159</u>
Total	<u>\$ 895,000</u>	<u>\$ 239,274</u>	<u>\$1,134,274</u>

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Note 6. Contributed Capital:

The balance in this account represents the value of System additions paid for by customers, other outside sources, and grants received to assist in financing construction of new additions to the System.

Note 7. Public Fund Deposits and Investments:

State law generally requires that City funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits.

Public funds may also be invested in direct obligations of the United States of America and obligations where the principal and interest are fully guaranteed by the United States of America. All cash funds of the System, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of the Sparkman Water and Sewer System in financial institutions permitted by law.

At December 31, 2022, the carrying value of the System's accounts, deposits and investments was \$228,569. The bank balances before reduction of outstanding items were \$231,179.70. Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Sparkman Water and Sewer System's accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Sparkman accounts and investments at a financial institution.

Note 8. Major Supplier:

The Sparkman Water and Sewer System purchases 100% of its water from the River Valley Water System. Water purchases for the years ending December 31, 2022 and 2021 totaled \$73,111 and \$77,974, respectively. Accounts payable to River Valley Water System at December 31, 2022 and 2021 was \$6,749 and \$6,857, respectively.

Note 9. Risk Management:

The Sparkman Water and Sewer System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the System. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

SPARKMAN WATER AND SEWER SYSTEM
BUDGETARY COMPARISON SCHEDULE
FOR YEAR ENDED DECEMBER 31, 2022

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	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES:			
Sales and Services	\$ 340,199	\$ 377,613	\$ 37,414
Penalties	-	7,544	7,544
Tie on Fees	2,500	2,700	200
Other Revenues	16,200	44,450	28,250
TOTAL OPERATING REVENUES	<u>358,899</u>	<u>432,307</u>	<u>73,408</u>
OPERATING EXPENSES:			
Salaries	90,587	96,732	(6,145)
Contract Labor	10,071	7,539	2,532
Employee Benefits	6,700	2,792	3,908
Taxes and Licenses	32,415	35,390	(2,975)
Insurance	5,500	4,657	843
Utilities and Telephone	9,900	10,736	(836)
Repairs and Maintenance	24,200	30,520	(6,320)
Depreciation	15,500	116,303	(100,803)
Supplies	16,200	34,862	(18,662)
Professional Fees	5,000	-	5,000
Office Expense	3,300	4,193	(893)
Water Purchases	84,307	73,111	11,196
Fuel and Oil	4,500	5,112	(612)
Miscellaneous	35,791	59,232	(23,441)
TOTAL OPERATING EXPENSES	<u>343,971</u>	<u>481,179</u>	<u>(137,208)</u>
OPERATING INCOME (LOSS)	<u>14,928</u>	<u>(48,872)</u>	<u>(63,800)</u>
OTHER INCOME (EXPENSES):			
Interest Revenue	200	364	164
Interest Expense	(72,716) *	(21,198)	51,518
TOTAL OTHER INCOME (EXPENSES)	<u>(72,516)</u>	<u>(20,834)</u>	<u>51,682</u>
NET INCOME (LOSS)	<u>\$ (57,588)</u>	<u>\$ (69,706)</u>	<u>\$ (12,118)</u>

See Independent Auditors' Report.

* Budgeted amount includes total principal and interest payments.