

SPARKMAN WATER AND SEWER SYSTEM



SPARKMAN, ARKANSAS

DECEMBER 31, 2023

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, 2023. 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 procedure.

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 procedure.

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

August 5, 2024

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, 2023 and 2022, 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
August 5, 2024

SPARKMAN WATER AND SEWER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 165,477	\$ 164,066
Accounts Receivable	37,272	32,456
Unbilled Revenue	9,991	8,876
Prepaid Insurance	11,099	9,707
TOTAL CURRENT ASSETS	<u>223,839</u>	<u>215,105</u>
 RESTRICTED ASSETS:		
Restricted Cash and Cash Equivalents	<u>90,246</u>	<u>64,503</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>(1,943,174)</u>	<u>(1,831,041)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>2,509,410</u>	<u>2,621,543</u>
 TOTAL ASSETS	<u>\$ 2,823,495</u>	<u>\$ 2,901,151</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts Payable	\$ 9,292	\$ 11,480
Payroll Taxes Payable	663	3,047
Sales Tax Payable	2,357	2,135
Payroll Due to General Fund	48,434	29,930
Accrued Interest Payable	1,671	1,729
Current Maturities of Long-Term Debt	30,000	30,000
TOTAL CURRENT LIABILITIES	<u>92,417</u>	<u>78,321</u>
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer Meter Deposits	<u>40,269</u>	<u>37,532</u>
 LONG-TERM DEBT:		
Revenue Bonds Payable (Net of Unamortized Bond Issue Costs of \$44,335 and \$46,446)	<u>790,665</u>	<u>818,554</u>
TOTAL LONG-TERM DEBT	<u>790,665</u>	<u>818,554</u>
 TOTAL LIABILITIES	<u>923,351</u>	<u>934,407</u>
 NET POSITION:		
Invested in Capital Assets, Net of Related Debt	1,688,745	1,772,989
Restricted	49,977	26,971
Unrestricted	161,422	166,784
TOTAL NET POSITION	<u>1,900,144</u>	<u>1,966,744</u>
 TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,823,495</u>	<u>\$ 2,901,151</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, 2023 AND 2022

	2023	2022
OPERATING REVENUE:		
Water Revenue	\$ 306,803	\$ 327,619
Sewer Revenue	46,891	49,994
Penalties	8,214	7,544
Connection Fees	2,175	2,700
Other Revenues	402	68
TOTAL OPERATING REVENUE	364,485	387,925
OPERATING EXPENSES:		
Salaries	99,220	96,732
Contract Labor	12,591	7,539
Employee Benefits	1,233	2,792
Taxes and Licenses	38,501	35,390
Insurance	10,424	4,657
Utilities and Telephone	8,925	10,736
Repairs and Maintenance	30,199	30,520
Depreciation	112,133	116,303
Supplies	4,343	34,862
Professional Fees	9,868	-
Office Expense	4,859	4,193
Water Purchases	67,641	73,111
Fuel and Oil	3,803	5,112
Miscellaneous	7,093	14,850
TOTAL OPERATING EXPENSES	410,833	436,797
OPERATING INCOME (LOSS)	(46,348)	(48,872)
OTHER INCOME (EXPENSES):		
Interest Revenue	370	364
Interest Expense	(20,622)	(21,198)
TOTAL OTHER INCOME (EXPENSES)	(20,252)	(20,834)
NET (LOSS)	(66,600)	(69,706)
NET POSITION, BEGINNING OF YEAR	1,966,744	2,036,450
NET POSITION, END OF YEAR	\$ 1,900,144	\$ 1,966,744

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 358,554	\$ 431,817
Cash Payments for Goods and Services	(186,718)	(238,520)
Cash Payments to Employees	(99,220)	(96,732)
NET CASH PROVIDED BY OPERATING ACTIVITIES	72,616	96,565
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Increase in Meter Deposits	2,737	820
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Paid on Long-Term Debt	(27,889)	(12,889)
Interest Paid on Long-Term Debt	(20,680)	(22,516)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(48,569)	(35,405)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	370	364
NET CHANGE IN CASH AND RESTRICTED CASH	27,154	62,344
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	228,569	166,225
CASH AND RESTRICTED CASH - END OF YEAR	\$ 255,723	\$ 228,569

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, 2023 AND 2022

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

	2023	2022
OPERATING INCOME (LOSS)	\$ (46,348)	\$ (48,872)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	112,133	116,303
Change in Assets and Liabilities:		
Accounts Receivable and Unbilled Revenue	(5,931)	(490)
Prepaid Insurance	(1,392)	(4,380)
Accounts Payable	(2,188)	3,137
Due to General Fund	18,504	29,930
Accrued Liabilities	(2,162)	937
TOTAL ADJUSTMENTS	118,964	145,437
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 72,616	\$ 96,565
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Amortization of Bond Issuance Costs	\$ 2,111	\$ 2,111

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

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 August 5, 2024, the date the financial statements were available for issuance.

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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, 2023 and 2022 was \$19,194 and \$19,253, 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, 2023 and 2022 was \$40,269 and \$37,532, respectively.

The System maintains funds in depreciation accounts for water and sewer, restricted accounts, which totaled \$56,544 and \$30,892 at December 31, 2023 and 2022, 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, 2023 was as follows:

	12/31/2022 BALANCE	INCREASES	DECREASES	12/31/2023 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
	<u>4,452,584</u>	<u>-</u>	<u>-</u>	<u>4,452,584</u>
Less Accumulated Depreciation	(1,831,041)	(112,133)	-	(1,943,174)
NET	<u>\$ 2,621,543</u>	<u>\$ (112,133)</u>	<u>\$ -</u>	<u>\$ 2,509,410</u>

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
	<u>4,452,584</u>	<u>-</u>	<u>-</u>	<u>4,452,584</u>
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>

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 5. Long-Term Debt:

Long-Term Debt as of December 31, 2023 and 2022 consisted of the following:

	12/31/2023	12/31/2022
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.	\$ 769,945	\$ 796,648
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.	95,055	98,352
	865,000	895,000
Less portion considered current	(30,000)	(30,000)
Total long-term debt	\$ 835,000	\$ 865,000

Aggregate maturities of long-term debt as of December 31, 2023 are as follows:

	Principal	Interest	Total
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
2028	35,000	16,861	51,861
Thereafter	700,000	122,480	822,480
Total	\$ 865,000	\$ 214,776	\$1,079,776

SPARKMAN WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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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, 2023, the carrying value of the System's accounts, deposits and investments was \$255,723. The bank balances before reduction of outstanding items were \$258,915. 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, 2023 and 2022 totaled \$67,641 and \$73,111, respectively. Accounts payable to River Valley Water System at December 31, 2023 and 2022 was \$7,404 and \$6,749, 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, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES:			
Sales and Services	\$ 364,000	\$ 353,694	\$ (10,306)
Penalties	-	8,214	8,214
Tie on Fees	-	2,175	2,175
Other Revenues	-	402	402
TOTAL OPERATING REVENUES	<u>364,000</u>	<u>364,485</u>	<u>485</u>
OPERATING EXPENSES:			
Salaries	100,000	99,220	780
Contract Labor	10,000	12,591	(2,591)
Employee Benefits	5,600	1,233	4,367
Taxes and Licenses	38,000	38,501	(501)
Insurance	2,250	10,424	(8,174)
Utilities and Telephone	10,500	8,925	1,575
Repairs and Maintenance	47,300	30,199	17,101
Depreciation	-	112,133	(112,133)
Supplies	-	4,343	(4,343)
Professional Fees	5,000	9,868	(4,868)
Office Expense	15,100	4,859	10,241
Water Purchases	80,000	67,641	12,359
Fuel and Oil	6,000	3,803	2,197
Miscellaneous	60,200	7,093	53,107
TOTAL OPERATING EXPENSES	<u>379,950</u>	<u>410,833</u>	<u>(30,883)</u>
OPERATING INCOME (LOSS)	<u>(15,950)</u>	<u>(46,348)</u>	<u>(30,398)</u>
OTHER INCOME (EXPENSES):			
Interest Revenue	-	370	370
Interest Expense	-	(20,622)	(20,622)
TOTAL OTHER INCOME (EXPENSES)	<u>-</u>	<u>(20,252)</u>	<u>(20,252)</u>
NET INCOME (LOSS)	<u>\$ (15,950)</u>	<u>\$ (66,600)</u>	<u>\$ (50,650)</u>

See Independent Auditors' Report.