

**CITY OF HAMBURG
CITY WATER, RURAL WATER,
AND CITY SEWER SYSTEM**

Financial Statements

Year Ended December 31, 2021

Richard L. Maxwell & Associates, PLLC
Certified Public Accountants
Crossett, Arkansas

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
December 31, 2021

Table of Contents

	Page
INDEPENDENT AUDITORS' REPORT	1
Management's Discussion and Analysis	4
FINANCIAL STATEMENTS	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18

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Independent Auditors' Report

Members of the City Council
City of Hamburg City Water, Rural Water, and City Sewer System
Hamburg, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the City of Hamburg City Water, Rural Water, and City Sewer System of Hamburg, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Hamburg City Water, Rural Water, and City Sewer System of Hamburg, Arkansas, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our 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 General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hamburg City Water, Rural Water, and City Sewer System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our 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 our opinions. 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*, we:

Exercise professional judgement 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 Hamburg City Water, Rural Water, and City Sewer System'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.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hamburg City Water, Rural Water, and City Sewer System's ability to continue as a going concern for a reasonable period of time.

We are 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 we 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 on page 3 be presented to supplement the basic financial statements. Such 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 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 Information

As discussed in Note 1, the financial statements present only the City of Hamburg City Water, Rural Water and City Sewer System and do not purport to, and do not present fairly the financial position of the City of Hamburg, Arkansas, as of December 31, 2021, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. As of December 31, 2021, the City of Hamburg has not adopted GASB 34. Accordingly, these financial statements are presented in accordance with the financial reporting model in effect prior to that described in *GASB Statement No. 34*.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2022, on our consideration of the City of Hamburg City Water, Rural Water, and City Sewer System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Hamburg City Water, Rural Water, and City Sewer System's internal control over financial reporting and compliance.



RICHARD L. MAXWELL & ASSOCIATES, PLLC
Certified Public Accountants

Crossett, Arkansas
November 23, 2022

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
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MANAGEMENT'S DISCUSSION AND ANALYSIS

October 11, 2021

Our discussion and analysis of the City of Hamburg, City Water, Rural Water, and City Sewer System's financial performance provides an overview of the entity's financial activities for the year ended December 31, 2021. Please read it in conjunction with the financial statements that begin on page 6.

FINANCIAL HIGHLIGHTS

- Assets exceeded liabilities (net position) by \$2,068,009 for the year ended December 31, 2021 compared to \$2,226,826 for December 31, 2021, resulting in an decrease in net assets over liabilities of \$158,817 from the prior year end.
- City Water - Revenues increased by 7%; expenses increased by 33%
Rural Water - Revenues increased by 8%; expenses increased by 31%
City Sewer - Revenues increased by 8%; expenses increased by 14%
- Ending balance of cash accounts was \$1,690,376, \$506,534 of which is restricted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows (on pages 6, 7, and 8) provide information about the activities of the City of Hamburg, City Water, Rural Water, and City Sewer System (the System), proprietary funds. These statements report operations in detail by providing information about each of the System's three major funds individually.

Reporting the District's Most Significant Funds

Proprietary funds use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid. The three funds of the System are: City Water, Rural Water, and City Sewer.

THE SYSTEM AS A WHOLE

Net Position

As Table 1 shows, the System's combined net position showed an decrease of 7%, to \$2.06 million from \$2.23 million. Explanations of increases and decreases are as follows:

Current and other assets - increase in cash of \$139,199 and accounts receivable of \$12,050.

Capital assets - acquisitions totaled \$15,765, depreciation expense totaled \$204,106.

Current liabilities - increased due to an increase in pension liabilities and deferred inflow of resources for the city of \$292,906.

Long-term liabilities - reduced by principal payments.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 1,335,315	\$ 1,169,972	\$ 1,083,366
Restricted assets	506,534	467,959	431,984
Capital assets	<u>3,781,139</u>	<u>3,969,479</u>	<u>4,117,518</u>
Total assets	<u>5,622,988</u>	<u>5,607,410</u>	<u>5,632,868</u>
Current liabilities	586,706	290,235	232,342
Long-term liabilities	<u>2,968,273</u>	<u>3,090,349</u>	<u>3,215,000</u>
Total liabilities	<u>3,554,979</u>	<u>3,380,584</u>	<u>3,447,342</u>
Net position:			
Contributed capital	92,831	92,831	92,831
Net investment in capital assets	3,747,368	3,926,792	4,083,747
Restricted	506,534	467,959	431,984
Unrestricted	<u>(2,278,724)</u>	<u>(2,260,756)</u>	<u>(2,423,036)</u>
Total net position	<u>\$ 2,068,009</u>	<u>\$ 2,226,826</u>	<u>\$ 2,185,526</u>

Changes in Fund Net Position

Total revenues increased compared to the prior year by 8%. Total expenses increased compared to the prior year by 26%.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Charges for services:			
City water	\$ 376,413	\$ 353,045	\$ 371,133
Rural water	624,359	577,611	510,002
City sewer	<u>199,539</u>	<u>185,022</u>	<u>187,095</u>
Total charges for services	<u>1,200,311</u>	<u>1,115,678</u>	<u>1,068,230</u>
Other non-operating revenues:			
City water	2,571	7,718	7,968
Rural water	2,135	2,998	3,357
City sewer	<u>3,215</u>	<u>3,433</u>	<u>6,840</u>
Total non-operating revenues	<u>7,921</u>	<u>11,149</u>	<u>18,165</u>
Total revenues	<u>1,208,232</u>	<u>1,126,827</u>	<u>1,086,395</u>
Operating expenses:			
City water	500,736	374,625	393,896
Rural water	538,407	409,864	366,659
City sewer	<u>229,550</u>	<u>201,108</u>	<u>209,175</u>
Total operating expenses	<u>1,268,693</u>	<u>985,597</u>	<u>969,730</u>
Non-operating expenses			
City water	0	0	0
Rural water	96,378	102,227	214,855
City sewer	0	0	0
Interfund transfers	<u>1,978</u>	<u>(2,297)</u>	<u>49,245</u>
Total non-operating expenses	<u>98,356</u>	<u>99,930</u>	<u>264,100</u>
Total expenses	<u>1,367,049</u>	<u>1,085,527</u>	<u>1,233,830</u>
Net income	<u>\$ (158,817)</u>	<u>\$ 41,300</u>	<u>\$ (147,435)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The System had \$0 of improvements made in 2021. Some improvements were made in 2008 and the cost for labor and materials to complete these improvements has been capitalized as water system improvements and depreciated accordingly. More improvements will be made as funds are available in the coming year. No other scheduled maintenance or additions are expected.

Debt

The System has revenue bonds outstanding having a remaining principal balance of \$2,825,000 which \$135,000 is to be paid in the year ended December 31, 2021. The bonds were obtained as a method to refinance sewer system infrastructure which was placed in service in 1973, and improvements which were placed in service in 2000 and 2001.

CONTACTING THE SYSTEM'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the System's finances and show the System's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Hamburg at P. O. Box 72, Hamburg, AR 71646, or telephone at 870-853-5300.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Statement of Net Position
December 31, 2021

ASSETS	<u>City Water</u>	<u>Rural Water</u>	<u>City Sewer</u>	<u>Total</u>
Current Assets				
Cash and cash equivalents (Note 2)	\$ 297,955	\$ 442,186	\$ 284,805	\$ 1,024,946
Certificate of deposit (Notes 2)	87,603	0	71,293	158,896
Accounts receivable, net	31,119	48,713	15,323	95,155
Receivable, Water Cap Improvement CD	2,253	0	0	2,253
Receivable, Depreciation Fund	0	720	40,226	40,946
Deferred outflow of resources	5,035	5,035	2,517	12,537
Interest receivable	160	103	269	532
Total current assets	<u>424,125</u>	<u>496,757</u>	<u>414,433</u>	<u>1,335,315</u>
Restricted Assets				
Certificates of deposit (Notes 2 & 3)	<u>154,950</u>	<u>351,584</u>	<u>0</u>	<u>506,534</u>
Total restricted assets	<u>154,950</u>	<u>351,584</u>	<u>0</u>	<u>506,534</u>
Fixed Assets				
Property, plant, and equipment, net (Note 4)	616,370	2,548,404	582,594	3,747,368
Land	<u>20,333</u>	<u>0</u>	<u>13,438</u>	<u>33,771</u>
Total fixed assets	<u>636,703</u>	<u>2,548,404</u>	<u>596,032</u>	<u>3,781,139</u>
Total assets	<u>\$1,215,778</u>	<u>\$ 3,396,745</u>	<u>\$1,010,465</u>	<u>\$ 5,622,988</u>

LIABILITIES and NET ASSETS

Current Liabilities				
Accounts payable	\$ 7,606	\$ 6,815	\$ 1,678	\$ 16,099
Payable to city	58,991	0	70,134	129,125
Accrued pension liability	39,462	39,462	19,731	98,655
Deferred inflow of resources	77,700	77,701	38,850	194,251
Current portion of long-term debt (Note 5)	0	135,000	0	135,000
Bond interest payable	<u>0</u>	<u>13,576</u>	<u>0</u>	<u>13,576</u>
Total current liabilities	<u>183,759</u>	<u>272,554</u>	<u>130,393</u>	<u>586,706</u>
Non-Current Liabilities				
Bonds payable, net of amortized discount (Note 5)	0	2,690,000	0	2,690,000
Due to depositors	<u>104,488</u>	<u>78,055</u>	<u>95,730</u>	<u>278,273</u>
Total long-term liabilities	<u>104,488</u>	<u>2,768,055</u>	<u>95,730</u>	<u>2,968,273</u>
NET POSITION				
Net investment in capital assets	616,370	2,548,404	582,594	3,747,368
Restricted for renewal and replacement	154,950	351,584	0	506,534
Unrestricted	<u>156,211</u>	<u>(2,543,852)</u>	<u>201,748</u>	<u>(2,185,893)</u>
Total net position	<u>927,531</u>	<u>356,136</u>	<u>784,342</u>	<u>2,068,009</u>
Total liabilities and net position	<u>\$1,215,778</u>	<u>\$ 3,396,745</u>	<u>\$1,010,465</u>	<u>\$ 5,622,988</u>

See accompanying notes to financial statements and independent auditors' report.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended December 31, 2021

	<u>City Water</u>	<u>Rural Water</u>	<u>City Sewer</u>	<u>Total</u>
Operating Revenues				
Sales	\$ 374,166	\$611,611	\$ 0	\$ 985,777
Charges of services	0	0	197,331	197,331
Other	<u>2,247</u>	<u>12,748</u>	<u>2,208</u>	<u>17,203</u>
Total operating revenue	<u>376,413</u>	<u>624,359</u>	<u>199,539</u>	<u>1,200,311</u>
Operating Expenses				
Salaries and employee benefits	322,239	267,843	155,798	745,880
Maintenance and operations	75,909	63,495	20,882	160,286
Materials and supplies	60,536	77,805	18,080	156,421
Bond fees and premium cost	0	2,000	0	2,000
Depreciation and amortization	<u>42,052</u>	<u>127,264</u>	<u>34,790</u>	<u>204,106</u>
Total operating expenses	<u>500,736</u>	<u>538,407</u>	<u>229,550</u>	<u>1,268,693</u>
Operating income (loss)	<u>(124,323)</u>	<u>85,952</u>	<u>(30,011)</u>	<u>(68,382)</u>
Non-operating Revenue (Expense)				
Investment income	2,571	2,135	3,215	7,921
Interest expense	<u>0</u>	<u>(96,378)</u>	<u>0</u>	<u>(96,378)</u>
Total non-operating revenue (Expense)	<u>2,571</u>	<u>(94,243)</u>	<u>3,215</u>	<u>(88,457)</u>
Income (loss) before contributions and transfers	(121,752)	(8,291)	(26,796)	(156,839)
Interfund transfers, net	<u>(371)</u>	<u>(1,028)</u>	<u>(579)</u>	<u>(1,978)</u>
Change in fund net position	(122,123)	(9,319)	(27,375)	(158,817)
Total fund net position, beginning	<u>1,049,654</u>	<u>365,455</u>	<u>811,717</u>	<u>2,226,826</u>
Total fund net position, ending	<u>\$ 927,531</u>	<u>\$356,136</u>	<u>\$784,342</u>	<u>\$2,068,009</u>

See accompanying notes to financial statements and independent auditors' report.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Statement of Cash Flows
Year Ended December 31, 2021

	<u>City Water</u>	<u>Rural Water</u>	<u>City Sewer</u>	<u>Totals</u>
Cash Flows from Operating Activities:				
Cash received from customers	\$ 376,143	\$ 624,359	\$ 199,539	\$1,200,041
Payments to suppliers	(34,202)	(41,004)	29,269	(45,937)
Payments to employees	<u>(322,239)</u>	<u>(267,843)</u>	<u>(155,798)</u>	<u>(745,880)</u>
Net cash provided (used) by operating activities:	<u>19,702</u>	<u>315,512</u>	<u>73,010</u>	<u>408,224</u>
Cash Flows from Capital and Related Financing Activities:				
Principal paid on long-term debt	0	(135,000)	0	(135,000)
Interest paid on long-term debt	0	(97,044)	0	(97,044)
Interfund transfers	(370)	(1,028)	(580)	(1,978)
Customer deposits	<u>3,791</u>	<u>5,345</u>	<u>3,788</u>	<u>12,924</u>
Net cash provided (used) by capital and related financing activities	<u>3,421</u>	<u>(227,727)</u>	<u>3,208</u>	<u>(221,098)</u>
Cash Flows from Investing Activities:				
Accrued interest	(5)	70	(11)	54
Purchase of property and equipment	0	0	(15,765)	(15,765)
Net change in certificates of deposit	<u>1,826</u>	<u>(36,024)</u>	<u>1,982</u>	<u>(32,216)</u>
Net cash provided (used) by investing activities	<u>1,821</u>	<u>(35,954)</u>	<u>(13,794)</u>	<u>(47,927)</u>
Net increase (decrease) in cash and cash equivalents	24,944	51,831	62,424	139,199
Cash and cash equivalents, January 1, 2020	<u>273,011</u>	<u>390,355</u>	<u>222,381</u>	<u>885,747</u>
Cash and cash equivalents, December 31, 2021	<u>\$ 297,955</u>	<u>\$ 442,186</u>	<u>\$ 284,805</u>	<u>\$1,024,946</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (loss)	\$(124,323)	\$ 85,952	\$ (30,011)	\$ (68,382)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	42,052	127,264	34,790	204,106
(Increase) decrease:				
Accounts receivable	(4,794)	(5,212)	(2,043)	(12,049)
Deferred outflow of resources	(5,035)	(5,035)	(2,517)	(12,587)
Increase (decrease) in:				
Accounts payable	(5,361)	(4,620)	(1,555)	(11,536)
Payable to the City	0	0	15,765	15,765
Accrued pension liabilities	39,462	39,462	19,731	98,655
Deferred inflow of resources	<u>77,701</u>	<u>77,701</u>	<u>38,850</u>	<u>194,252</u>
Net cash provided (used) by operating activities:	<u>\$ 19,702</u>	<u>\$ 315,512</u>	<u>\$ 73,010</u>	<u>\$ 408,224</u>

See accompanying notes to financial statements and independent auditors' report.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Hamburg City Water, Rural Water and City Sewer System (the System) serves property located within the corporate limits of the City of Hamburg (the City) and certain properties outside the city limits.

The financial statements of the System have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The System applies all relevant GASB pronouncements. The System also 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. The more significant of the System's accounting policies are described below.

Basis of Accounting

The System is comprised of enterprise funds, which are proprietary fund types. They are financed and operated in a manner similar to private business enterprises, where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges, issuance of bonds, and long-term debt.

Proprietary fund types are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Cash Equivalents

For the purposes of the statement of cash flows, the System considers all highly liquid assets (including restricted assets, if any) with a maturity of three months or less when purchased to be cash equivalents.

Liquidity

Financial position statements assets are presented according to nearness of conversion to cash and liability according to the maturity and resulting use of cash. The City of Hamburg City Water, Rural Water, and City Sewer System has \$1,320,475 of financial assets available within one year of the statement of financial position date to meet cash needs for general and operating expenditures. The financial assets available consist of cash totaling \$1,183,842, accounts receivable totaling \$138,354, and interest receivable totaling \$532. In addition to those resources the organization expects to collect \$1,200,311 in revenue in the upcoming year.

Property, Plant, and Equipment

Additions to the System are recorded at cost or, if contributed property, at estimated fair value at time of contribution. Repairs and maintenance are charged to expense as incurred. Major renewals and improvements are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the results of operations. Depreciation has been calculated on each class of depreciable property using the straight-line method, with one-half year's depreciation in the year of acquisition, over the estimated useful life of the asset. Estimated useful lives are forty years for water and sewer lines and improvements, and five to ten years for equipment and fixtures.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Use of Estimates

The preparation of financial statements in conformity with 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.

Allowance for Possible Losses

Accounts receivable are stated at the estimated amount of cash that will be realized, based on the allowance method. Under this method, an estimate is made of the accounts receivable that will eventually prove to be un-collectible. The current year provision to adjust the allowance is charged to bad debt write-off. When specific amounts are written off, they are charged against the allowance for possible losses. Allowances at December 31, 2021 are as follows:

City Water	\$285
Rural Water	\$5,927
City Sewer	\$235

Equity Classification

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of 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.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors or law or regulations of other governments or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Note 2 - Cash and Certificates of Deposit

At December 31, 2021, the balances of the City of Hamburg City Water, Rural Water and City Sewer System deposits with Southern Bancorp, Hamburg, Arkansas, were \$783,098. The bank balances were covered up to \$250,000 by federal depository insurance. At December 31, 2021, Southern Bancorp had collateral with a fair market value of \$563,625 pledged in the name of the City of Hamburg City Water, Rural Water, and City Sewer System. There were no uninsured cash balances at December 31, 2021.

At December 31, 2021, the balances of the City of Hamburg City Water, Rural Water, and City Sewer System deposits with Simmons Bank, Hamburg, Arkansas, were \$510,905. The bank balances were covered up to \$250,000 by federal depository insurance. At December 31, 2021, Simmons Bank did not have collateral pledged in the name of the City of Hamburg City Water, Rural Water, and City Sewer Fund. Management’s opinion is that the bank is well capitalized and the associated risk is minimal.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

At December 31, 2021 the balances of the City of Hamburg City Water, Rural Water, and City Sewer System deposits with Century Next Bank, Arkansas were \$239,993. The bank balances were covered up to \$250,000 by federal depository insurance.

Note 3 - Restricted Assets

At December 31, 2021, restricted assets consisted of the following cash accounts:

	<u>City Water</u>	<u>Rural Water</u>	<u>City Sewer</u>
Capital improvements, CD	<u>\$154,950</u>	<u>\$351,584</u>	<u>\$ 0</u>
	<u>\$154,950</u>	<u>\$351,534</u>	<u>\$ 0</u>

Note 4 - Property, Plant, and Equipment

A summary of changes in property, plant, and equipment for the year ended December 31, 2021 follows:

	<u>City Water</u>	<u>Rural Water</u>	<u>City Sewer</u>	<u>Total</u>
Balance, Dec. 31, 2020	\$ 2,180,900	\$ 5,091,473	\$ 2,267,583	\$ 9,539,956
Additions	0	0	15,765	15,765
Deletions	0	0	0	0
	2,180,900	5,091,473	2,283,348	9,555,721
Accumulated depreciation	<u>(1,564,530)</u>	<u>(2,543,069)</u>	<u>(1,700,755)</u>	<u>(5,808,354)</u>
	616,370	2,548,404	582,593	3,747,367
Land	<u>20,333</u>	<u>0</u>	<u>13,438</u>	<u>33,771</u>
Balance, Dec. 31, 2021	<u>\$ 636,703</u>	<u>\$ 2,548,404</u>	<u>\$ 596,031</u>	<u>\$ 3,781,138</u>

Note 5 - Long-term Debt

Long-term debt at December 31, 2021, consisted of the following:

Water and Sewer Revenue Refunding Bonds Series 2019; bearing an interest rate of 3.00%; due in semi-annual installments of \$65,000; maturing November 2038; secured by sewer revenue and rural water revenue

	<u>\$2,825,000</u>
Less current portion	<u>2,825,000</u> <u>(135,000)</u>
	<u>\$2,690,000</u>

The maturities of long-term debt are as follows:

2022	\$135,000
2023	140,000
2024	145,000
2025	150,000
2026	157,500
2027	157,500
2028-30	325,000
2031-33	500,000
2034-48	950,000

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Note 6 - Insurance

The System carries outside commercial insurance for coverage related to its risk of loss of physical facilities.

Note 7 - Pension Plan

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability of \$768,837,303 was measured as of June 30, 2021, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Deferred outflows of resources and deferred inflows of resources related to pensions for the City of Hamburg are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$6,692	\$(18,752)
Changes in Proportion and differences between employer contributions and proportionate share of contribution	\$30,611	\$(39,674)
Changes of assumptions	\$0	\$(2,048)
Net difference between projected and actual earnings on pension plan investments	\$0	\$(513,239)
Total	\$37,303	\$(573,713)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

2022	2023	2024	2025	2026	Thereafter
\$(137,856)	\$(123,908)	\$(118,893)	\$(155,753)	\$ 0	\$ 0

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method

Entry Age Normal

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Amortization Method	Level of Percent of Payroll, closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	26 years (7.6 years for District Judges New Plan/Paid Off Old Plan and 16 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.9676

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2021 are summarized in the table below:

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	<u>18%</u>	0.57%
Total	100%	
Total Real Rate of Return		4.93%
Plus: Price Inflation- Actuary Assumption		<u>2.50%</u>
Net Expected Return		7.43%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate

1% Lower	Discount Rate	1% Higher
6.15%	7.15%	8.15%
<u>\$874,645</u>	<u>\$292,387</u>	<u>\$(188,474)</u>

Note 8 - City Water and Sewer Sales

On September 28, 2021, Ordinance No. 2020-04 increased the City Sewer rates to the first 1,000 gallons or less monthly minimum charge of: 5/8 inch meter \$7.00; one inch meter \$9.80; two inch meter \$33.20. The next 7,000 gallons, up to 8,000 gallons is \$1.25 per 1,000 gallons. The next 6,000 gallons, up to 14,000 gallons \$1.07 per 1,000 gallons. Over 14,000 gallons per month \$.92 per 1,000 gallons.

On September 28, 2020, Ordinance No. 2020-04 increased the City Water rates to the first 1,000 gallons or less monthly minimum charge of: 5/8 inch meter \$9.10; one inch meter \$16.00; two inch meter \$60.00. The next 7,000 gallons, up to 8,000 gallons \$2.25 per 1,000 gallons. The next 6,000 gallons, up to 14,000 gallons \$1.90 per 1,000 gallons. Over 14,000 gallons per \$1.00 per 1,000 gallons.

CITY OF HAMBURG
CITY WATER, RURAL WATER, AND CITY SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

On October 28, 2013, Ordinance No. 2013-9 increased the City Rural Water Residential & Commercial consumed to \$26.00 monthly. The next 9,000 gallons of water consumed per month to \$3.00 per 1,000 gallons. For all water consumption in excess of 10,000 gallons of water per month \$2.50 per 1,000 gallons. This ordinance also increased the City Rural Sewer rates to the first 1,000 gallons of water consumed or a portion to \$6.00 per month (which is the monthly charge). The next 6,000 gallons of water consumed per month \$1.50 per 1,000 gallons. The next 7,000 gallons of water consumed or a portion is \$1.20 per 1,000 gallons. For all water consumption in excess of 14,000 gallons per month \$1.50 per 1,000 gallons.

The above mentioned ordinance also issued the following rate change to “customers in the area generally described as “Martinville” immediately north of and adjacent to the City which is to be served by the Sewer System who do not connect to the Water System”: a charge of \$26.00 per month which is equal to the minimum monthly charge for water and sewer customers.

Note 9 - Subsequent Events

Subsequent events were evaluated through November 23, 2022, which is the date the financial statements were available to be issued.

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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*

Members of the City Council
City of Hamburg City Water, Rural Water, and City Sewer System
Hamburg, Arkansas

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 Hamburg City Water, Rural Water, and City Sewer System as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Hamburg City Water, Rural Water, and City Sewer System's basic financial statements, and have issued our report thereon dated November 23, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hamburg City Water, Rural Water, and City Sewer System's internal control over financial reporting (internal control) to determine the 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 the City of Hamburg City Water, Rural Water, and City Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hamburg City Water, Rural Water, and City Sewer System'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.

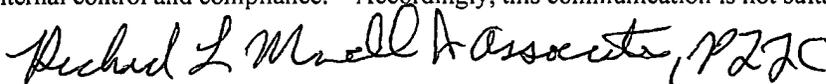
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hamburg City Water, Rural Water, and City Sewer System's financial statements are free of 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 determination of financial statement amounts. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



RICHARD L. MAXWELL & ASSOCIATES, PLLC
Certified Public Accountants

Crossett, Arkansas
November 23, 2022