

CITY OF HARTMAN, ARKANSAS
WATER DEPARTMENT

DECEMBER 31, 2019 AND 2018

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WATER DEPARTMENT
DECEMBER 31, 2019 AND 2018

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JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 WEST B STREET

P O BOX 945

RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552
FAX (479) 968-8855

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

Board of Directors
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, 2019 and 2018. The City of Hartman Water Department's management is responsible for the compliance with those requirements.

The procedures and associated findings are as follows:

Cash

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

We found no exceptions as a result of the procedures.

Receipts

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

We found no exceptions as a result of the procedures.

Accounts Receivable

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

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

Disbursements

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

We found no exceptions as a result of the procedures.

Property, Plant, and Equipment

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

Long-term Debt

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

We found no exceptions as a result of the procedures.

General

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

We found no exceptions as a result of the procedures.

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

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

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
December 1, 2020

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

HARTMAN WATER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and Cash Equivalents: (Note 2)		
Unrestricted	\$ 420,568	\$ 405,881
Restricted	161,148	134,130
Accounts Receivable (Note 3)	44,684	52,694
Prepaid Expenses	2,375	638
	628,775	593,343
Property and Equipment (Note 10)		
Water System	1,602,812	1,590,046
Equipment	48,670	48,670
Office Equipment	15,045	15,045
Land	5,359	5,359
	1,671,886	1,659,120
Less: Accumulated Depreciation	578,816	551,871
	1,093,070	1,107,249
	\$ 1,721,845	\$ 1,700,592

LIABILITIES

Accounts Payable	20,651	24,059
Accrued Expenses	4,847	4,682
Accrued Interest	488	476
Customer Deposits	77,127	73,055
Long-term Liabilities: (Note 4)		
Due Within 1 Year	9,158	8,910
Due in More Than 1 Year	530,351	539,509
	642,622	650,691

NET POSITION

Invested in Capital Assets - Net of Related Debt	553,561	558,830
Restricted Net Assets	84,021	61,075
Unrestricted Net Assets	441,641	429,996
	1,079,223	1,049,901
	\$ 1,721,845	\$ 1,700,592

HARTMAN WATER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUES</u>		
Water Sales	\$ 318,411	\$ 343,685
<u>OPERATING EXPENSES</u>		
Water Purchased	127,241	114,179
Salaries	64,649	70,121
Payroll Taxes	4,943	4,979
Insurance - Employee	9,780	10,233
Supplies	8,301	21,396
Utilities	11,763	11,876
Dues & Fees	6,477	4,264
Truck Expense	4,253	5,346
Repairs & Maintenance	5,968	23,026
Office Expense	3,506	4,013
Professional Fees	1,400	1,800
Depreciation	26,945	32,868
	<u>275,226</u>	<u>304,101</u>
Operating Income	43,185	39,584
Other Income (Expense)		
Interest Income	1,119	749
Interest Expense	(14,982)	(16,802)
	<u>(13,863)</u>	<u>(16,053)</u>
INCREASE IN NET POSITION	29,322	23,531
NET POSITION, BEGINNING OF YEAR	<u>1,049,901</u>	<u>1,026,370</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,079,223</u></u>	<u><u>\$ 1,049,901</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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 43,185	\$ 39,584
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation & Amortization	26,945	32,868
(Increase) Decrease in Operating Assets:		
Accounts Receivable	8,010	(9,448)
Prepaid Insurance	(1,737)	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(3,408)	902
Accrued Expenses	177	1,545
Customer Deposits	4,072	4,643
	<u>34,059</u>	<u>30,510</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>77,244</u>	<u>70,094</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expansion of Distribution System and Purchase of Fixed Assets	(12,766)	0
Interest Income	1,119	749
	<u>(11,647)</u>	<u>749</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Revenue Bonds and Notes	(8,910)	(9,040)
Interest Paid on Revenue Bonds and Notes	(14,982)	(16,802)
	<u>(23,892)</u>	<u>(25,842)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,705	45,001
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>540,011</u>	<u>495,010</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 581,716</u>	<u>\$ 540,011</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Reconciliation of Cash to the Statement of Net Position		
Unrestricted Cash	\$ 420,568	\$ 405,881
Restricted Cash	161,148	134,130
	<u>\$ 581,716</u>	<u>\$ 540,011</u>

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018 amounted to \$26,945 and \$32,868. Repairs and maintenance are expenses as incurred.

Organization

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

Regulatory Environment

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

Income Tax

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

Cash and Cash Equivalents

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

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

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

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2019 and 2018, the System had unrestricted and restricted cash shown as follows:

<u>Unrestricted</u>	<u>2019</u>	<u>2018</u>
Operations and Maintenance Fund	\$ 324,717	\$ 309,368
Water System General Funds	42,549	42,403
Certificates of Deposit	<u>53,302</u>	<u>54,110</u>
	<u>420,568</u>	<u>405,881</u>
 <u>Restricted</u>		
Meter Fund	77,127	73,055
Debt Service Fund	<u>84,021</u>	<u>61,075</u>
	<u>161,148</u>	<u>134,130</u>
	<u>\$ 581,716</u>	<u>\$ 540,011</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, 2019 and 2018 are \$84,021 and \$61,075.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts Receivable consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Amounts Billed to Customers	\$ 33,082	\$ 38,200
Accrued Revenues	<u>17,102</u>	<u>19,994</u>
	50,184	58,194
Less Allowance for Doubtful Accounts	<u>5,500</u>	<u>5,500</u>
	<u>\$ 44,684</u>	<u>\$ 52,684</u>

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4: 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, 2019 and 2018:

	<u>2019</u>	<u>2018</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.	\$ 539,509	\$ 548,419
Less current installments	<u>9,158</u>	<u>8,910</u>
	<u>\$ 530,351</u>	<u>\$ 539,509</u>

The principal and interest payments due on long-term notes and bonds payable for the fiscal years succeeding December 31, 2019 are:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,158	\$ 14,722	\$ 23,880
2021	9,413	14,467	23,880
2022	9,676	14,204	23,880
2023	9,945	13,935	23,880
2024	10,222	13,658	23,880
2025-2029	55,542	63,858	119,400
2030-2034	63,719	55,681	119,400
2035-2039	73,100	46,300	119,400
2040-2044	83,862	35,538	119,400
2045-2049	96,208	23,192	119,400
2050-2054	110,372	9,028	119,400
Thereafter	<u>8,292</u>	<u>49</u>	<u>8,341</u>
	<u>\$ 539,509</u>	<u>\$ 304,632</u>	<u>\$ 844,142</u>

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

	<u>Balance at December 31, 2018</u>	<u>Debt Additions</u>	<u>Principal Payments</u>	<u>Balance at December 31, 2019</u>
United States Department of Agriculture Rural Development	\$ 548,419		\$ 8,910	\$ 539,509

NOTE 5: INTEREST EXPENSE

Total interest expense incurred in the years ended December 31, 2019 and 2018 amounted to \$44,692 and \$44,566, respectively.

HARTMAN WATER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7: 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, 2019.

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>331,716</u>
	<u>\$ 581,716</u>

NOTE 8: CUSTOMERS

The number of customers using the Water services as of December 31, 2019 and 2018 were 373 and 372 respectively.

NOTE 9: PROPERTY AND EQUIPMENT

Activity of the Property and Equipment consists of the following:

	<u>Balance at</u> <u>December 31, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>December 31, 2019</u>
Water System	\$ 1,590,046	\$ 12,766		\$ 1,602,812
Equipment	48,670			48,670
Office Equipment	15,045			15,045
Land	<u>5,360</u>			<u>5,360</u>
	<u>\$ 1,659,121</u>	<u>\$ 12,766</u>		<u>\$ 1,671,887</u>

NOTE 10: SCHEDULE OF RATES

Monthly Water Rates	\$ 26.79 Minimum Charge
	5.44 per 1,000 gallons

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated events through December 1, 2020, which is the date the financial statements were available to be issued.