

**City of Hazen, Arkansas  
Waterworks and Sewer System**

**Financial Statements  
December 31, 2022 and 2021**

**(With Independent Auditor's Report Thereon)**

# City of Hazen, Arkansas

## Waterworks and Sewer System

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council  
City of Hazen, Arkansas

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the modified cash basis financial statements of the **City of Hazen, Arkansas Waterworks and Sewer System** (the System) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the modified cash basis financial position of the System as of December 31, 2022 and 2021, and the changes in modified cash basis financial position and cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) 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* section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Emphasis of Matter – Basis of Accounting***

We draw attention to Note 2, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### ***Emphasis of Matter – Other***

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the City of Hazen, Arkansas as of December 31, 2022 and 2021, the changes in its financial position or its cash flows for the years then ended in accordance with the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

## **Report on the Audit of the Financial Statements (*Continued*)**

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

### ***Auditor's Responsibilities 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 opinion. 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 U.S. GAAS 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 U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 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.

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 audits.

The Honorable Members of the City Council  
City of Hazen, Arkansas

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of 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 System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas  
June 7, 2023

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Statements of Net Position – Modified Cash Basis December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 343,856	\$ 332,545
<b>Restricted Assets</b>		
Cash and cash equivalents	44,331	45,262
Investments	54,938	54,683
<b>Total Restricted Assets</b>	<u>99,269</u>	<u>99,945</u>
<b>Capital Assets, Net</b>	<u>1,475,527</u>	<u>1,497,973</u>
<b>Total Assets</b>	<u>1,918,652</u>	<u>1,930,463</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred Loss on Refunding of Bonds Payable	<u>14,962</u>	<u>16,323</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u><u>\$ 1,933,614</u></u>	<u><u>\$ 1,946,786</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities Payable from Current Assets</b>		
Customer deposits	\$ 22,883	\$ 23,413
Over billings due to customer	<u>-</u>	<u>13,996</u>
	22,883	37,409
<b>Current Liabilities Payable from Restricted Assets</b>		
Current portion of long-term debt	<u>45,000</u>	<u>45,000</u>
<b>Total Current Liabilities</b>	<u>67,883</u>	<u>82,409</u>
<b>Long-Term Debt, Net</b>	<u>1,415,216</u>	<u>1,458,635</u>
<b>Total Liabilities</b>	<u>1,483,099</u>	<u>1,541,044</u>
<b>Net Position</b>		
Net investment in capital assets	30,273	10,661
Restricted - expendable:		
Debt service	99,269	99,945
Unrestricted	<u>320,973</u>	<u>295,136</u>
<b>Total Net Position</b>	<u>450,515</u>	<u>405,742</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 1,933,614</u></u>	<u><u>\$ 1,946,786</u></u>

See accompanying notes to financial statements.

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Statements of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Collections for water and sewer sales and services	\$ 529,556	\$ 550,496
Collections for sewer recovery funds	23,914	16,640
Collection for leachate sales and services	206,400	200,160
Penalties	20,464	17,775
Customer repairs and other	10,663	11,923
<b>Total Operating Revenues</b>	<u>790,997</u>	<u>796,994</u>
<b>OPERATING EXPENDITURES</b>		
Salaries and wages	174,819	152,270
Payroll taxes	12,758	11,381
Depreciation and amortization	165,984	201,923
Utilities and telephone	63,008	59,477
Repairs and maintenance	59,950	83,439
Professional services	11,500	11,500
Operating supplies	100,726	90,120
Insurance	29,886	22,771
Office supplies	5,520	6,566
Retirement plan contributions	26,469	21,989
Other general operating expenses	27,002	20,034
<b>Total Operating Expenditures</b>	<u>677,622</u>	<u>681,470</u>
<b>Operating Income</b>	<u>113,375</u>	<u>115,524</u>
<b>NONOPERATING REVENUES (EXPENDITURES)</b>		
Interest received	1,001	764
Interest paid	(58,755)	(60,105)
Amortization	(2,942)	(2,942)
<b>Net Nonoperating Expenditures</b>	<u>(60,696)</u>	<u>(62,283)</u>
<b>Income Before Operating Transfers</b>	52,679	53,241
<b>NET OPERATING TRANSFERS TO OTHER CITY FUNDS</b>	<u>(7,906)</u>	<u>(18,260)</u>
<b>Increase in Net Position</b>	44,773	34,981
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>405,742</u>	<u>370,761</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 450,515</u></u>	<u><u>\$ 405,742</u></u>

See accompanying notes to financial statements.

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Statements of Cash Flows – Modified Cash Basis Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts For</b>		
Water and sewer sales and services	\$ 515,030	\$ 564,477
Sewer recovery	23,914	16,640
Leachate sales and services	206,400	200,160
Penalties	20,464	17,775
Customer repairs and other	10,691	7,698
<b>Total Operating Receipts</b>	<u>776,499</u>	<u>806,750</u>
<b>Disbursements For</b>		
Salaries, wages, and employee benefits	214,046	185,640
Goods and services	297,592	293,907
<b>Total Operating Disbursements</b>	<u>511,638</u>	<u>479,547</u>
<b>Net Cash Provided by Operating Activities</b>	<u>264,861</u>	<u>327,203</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Net operating transfers to other city funds	<u>(7,906)</u>	<u>(30,260)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments of long-term debt	(45,000)	(45,000)
Proceeds from sale of capital assets	-	4,725
Purchases of capital assets	(143,566)	(46,481)
Interest paid	<u>(58,755)</u>	<u>(60,105)</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(247,321)</u>	<u>(146,861)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in investments, net	(255)	1,050
Interest received	<u>1,001</u>	<u>764</u>
<b>Net Cash Provided by Investing Activities</b>	<u>746</u>	<u>1,814</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	10,380	151,896
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>377,807</u>	<u>225,911</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 388,187</u>	<u>\$ 377,807</u>

*(Continued)*

See accompanying notes to financial statements.



# City of Hazen, Arkansas

## Waterworks and Sewer System

### Statements of Cash Flows – Modified Cash Basis *(Continued)* Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>		
<b>PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 113,375	\$ 115,524
Adjustments to Reconcile Operating Income to Net Cash		
<b>Provided by Operating Activities</b>		
Depreciation and amortization	165,984	201,923
Loss (gain) on disposal of capital assets	28	(4,225)
Changes in operating assets and liabilities:		
Customer deposits	(530)	(15)
Over billings due to customer	(13,996)	13,996
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 264,861</u>	<u>\$ 327,203</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b>		
<b>STATEMENTS OF NET POSITION - MODIFIED CASH BASIS</b>		
Current Assets - cash and cash equivalents	\$ 343,856	\$ 332,545
Restricted Assets - cash and cash equivalents	44,331	45,262
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 388,187</u>	<u>\$ 377,807</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS</b>		
Donated capital asset included in net operating transfers to other city funds	<u>\$ -</u>	<u>\$ 12,000</u>

See accompanying notes to financial statements.

# **City of Hazen, Arkansas**

## **Waterworks and Sewer System**

### **Notes to Financial Statements** **December 31, 2022 and 2021**

#### ***NOTE 1: REPORTING ENTITY***

The City of Hazen, Arkansas Waterworks and Sewer System (the System) provides water sales and sewer treatment services to the citizens of the City of Hazen, Arkansas (the City), and to commercial and industrial customers located within the System's service area. The City Council serves as the governing board of the System and approves rates and fees for user charges.

These financial statements present only balances and transactions that are directly attributable to the System, and are not intended to present, and do not present, the financial position and changes therein of the City or its other proprietary funds.

#### ***NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

##### **Measurement Focus and Basis of Accounting**

Although the System is not included in the regulatory financial statements of the City, the System is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported. However, as explained in the paragraph that follows, certain modifications to the economic resources measurement focus result from the basis of accounting utilized by the System.

The System's transactions are recorded on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, the System generally recognizes assets, deferred outflows of resources, deferred inflows of resources and liabilities, revenues and expenditures when cash is received or paid. Therefore, these financial statements do not report accounts receivable and revenues for services billed or provided but not collected. In addition, these financial statements do not reflect deferred outflows of resources, deferred inflows of resources and liabilities or expenditures for goods or services received before year end for which payment has not yet been made. The only transactions reported in these financial statements that are not directly attributable to the receipts or disbursements of cash are depreciation of the System's capital assets over the estimated useful lives of the assets and the amortization of the deferred loss on refunding of bonds payable.

# City of Hazen, Arkansas

## Waterworks and Sewer System

Notes to Financial Statements  
December 31, 2022 and 2021

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Basis of Presentation**

The presentation of the System's financial statements follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the System's net position is categorized into net investment in capital assets, restricted and unrestricted, as applicable.

In addition, operating revenues and expenditures derived from or related directly to the distribution of water and treatment of wastewater are distinguished from nonoperating revenues and expenditures for purposes of presentation in the System's statements of revenues, expenses and changes in net position – modified cash basis. Operating revenues consist primarily of user charges, and operating expenditures include the costs of maintaining and operating the water distribution and wastewater systems. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net position available, it is the System's policy to first apply that expenditure to restricted net position to the extent available and then to unrestricted net position.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of all demand deposit, money market accounts and certificates of deposit with original maturities of three months or less.

#### **Investments**

Investments consist of certificates of deposit with original maturities in excess of three months. Investments are carried at cost, which approximates market value.

#### **Capital Assets**

The System's capital assets are reported at historical cost. Contributed assets are recorded at their estimated fair value at the time of contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

The System capitalizes all significant direct costs, including salaries, materials and supplies, related to construction and improvements completed by System personnel, while costs of repairs and maintenance that do not add significant value or extend the useful life of the related asset are expensed as incurred.

# **City of Hazen, Arkansas**

## **Waterworks and Sewer System**

**Notes to Financial Statements**  
**December 31, 2022 and 2021**

### ***NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***

#### **Deferred Outflow of Resources**

In addition to assets, the statements of net position – modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expenditure) until then. The only item that qualifies for reporting in this category on the System's financial statements is the deferred loss on a refunding of bonds payable. Deferred loss on refunding results from the difference in the carrying value of refunded debt and its related reacquisition price. These deferred charges are amortized using the straight-line method over the shorter of the life of the refunded or refunding debt.

#### **Long-Term Debt**

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

#### **Tax Status**

The City, and thus the System, is exempt from income taxes under Section 115 of the Internal Revenue Code.

#### **Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### **Fund Transfers**

All reallocations of resources between the System and other funds of the City are considered permanent in nature for financial statement reporting purposes. Thus, all interfund transfers affecting the System have been classified as operating transfers as reflected in the statements of revenues, expenditures and changes in net position – modified cash basis.

### ***NOTE 3: DEPOSITS WITH FINANCIAL INSTITUTIONS***

State of Arkansas (State) statutes require the City, and thus the System, to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the System. To mitigate this risk, it is generally the System's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the System's name by an agent of the System. At December 31, 2022 and 2021, unrestricted and restricted deposit balances that were not FDIC insured, if any, were secured by collateral held by the System's agent in the System's name.

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Notes to Financial Statements December 31, 2022 and 2021

#### **NOTE 4: RESTRICTED ASSETS**

Certain proceeds of the water and sewer system improvement and refunding revenue bonds (see Note 6), as well as certain resources set aside for their repayment, are classified as restricted assets in the statements of net position – modified cash basis since their use is limited by applicable bond covenants. The bond fund is used to provide funds for the payment of principal and interest on the bonds as they become due and payable. The bond agreement requires monthly deposits to the bond fund equal to one-sixth of the next interest payment and one-twelfth of the next scheduled principal payment. In the event the monies held in the bond fund are not sufficient to pay scheduled principal and interest payments, amounts held in the debt service reserve fund will be used to the extent necessary. Balances in these funds at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Bond fund	\$ 44,331	\$ 45,262
Debt service reserve fund	<u>54,938</u>	<u>54,683</u>
Restricted assets	<u><u>\$ 99,269</u></u>	<u><u>\$ 99,945</u></u>

#### **NOTE 5: CAPITAL ASSETS**

The following is a summary of changes in major components of the System's capital assets and related activities resulting from modified cash basis transactions for the years ended December 31:

		<u>2022</u>			
	<u>Estimated Useful Life</u>	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Non-depreciable:					
Land and improvements		\$ 13,702	\$ -	\$ -	\$ 13,702
Construction in progress		426,566	-	-	426,566
		<u>440,268</u>	<u>-</u>	<u>-</u>	<u>440,268</u>
Depreciable:					
Water and wastewater plants and systems	15 - 40 years	5,647,164	134,502	-	5,781,666
Equipment and vehicles	3 - 7 years	<u>376,473</u>	<u>9,064</u>	<u>(4,418)</u>	<u>381,119</u>
		6,023,637	143,566	(4,418)	6,162,785
Less accumulated depreciation		<u>(4,965,932)</u>	<u>(165,984)</u>	<u>4,390</u>	<u>(5,127,526)</u>
		<u>1,057,705</u>	<u>(22,418)</u>	<u>(28)</u>	<u>1,035,259</u>
Capital assets, net		<u><u>\$ 1,497,973</u></u>	<u><u>\$ (22,418)</u></u>	<u><u>\$ (28)</u></u>	<u><u>\$ 1,475,527</u></u>

# City of Hazen, Arkansas

## Waterworks and Sewer System

**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**NOTE 5: CAPITAL ASSETS (Continued)**

		2021			
	Estimated Useful Life	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Non-depreciable:					
Land and improvements		\$ 13,702	\$ -	\$ -	\$ 13,702
Construction in progress		426,566	-	-	426,566
		<u>440,268</u>	<u>-</u>	<u>-</u>	<u>440,268</u>
Depreciable:					
Water and wastewater plants and systems	15 - 40 years	5,636,035	11,129	-	5,647,164
Equipment and vehicles	3 - 7 years	366,364	47,351	(37,242)	376,473
		6,002,399	58,480	(37,242)	6,023,637
Less accumulated depreciation		<u>(4,800,752)</u>	<u>(201,923)</u>	<u>36,743</u>	<u>(4,965,932)</u>
		<u>1,201,647</u>	<u>(143,443)</u>	<u>(499)</u>	<u>1,057,705</u>
Capital assets, net		<u>\$ 1,641,915</u>	<u>\$ (143,443)</u>	<u>\$ (499)</u>	<u>\$ 1,497,973</u>

Certain balances and transactions, as reflected above, represent the System's portion of assets shared with other departments or funds of the City.

**NOTE 6: LONG-TERM DEBT**

Balances and repayment terms of the System's long-term debt are as follows at December 31:

	2022	2021
\$1,810,000 City of Hazen, Arkansas Water and Sewer System Improvement and Refunding Revenue Bonds, Series 2014; term bonds payable annually through 2044; interest payable semiannually at rates ranging from 2.00% to 4.125%; payable from pledged operating revenues.	\$ 1,495,000	\$ 1,540,000
Less original bond issue discount	<u>(34,784)</u>	<u>(36,365)</u>
	1,460,216	1,503,635
Less current portion	<u>(45,000)</u>	<u>(45,000)</u>
Long-term debt, net of current portion	<u>\$ 1,415,216</u>	<u>\$ 1,458,635</u>

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Notes to Financial Statements December 31, 2022 and 2021

**NOTE 6: LONG-TERM DEBT (Continued)**

Long-term debt activity is summarized as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Total long-term debt, beginning of year	\$ 1,540,000	\$ 1,585,000
Retirements	<u>(45,000)</u>	<u>(45,000)</u>
Total long-term debt, end of year	<u><u>\$ 1,495,000</u></u>	<u><u>\$ 1,540,000</u></u>

Scheduled principal and interest payments of long-term debt at December 31, 2022 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 45,000	\$ 57,405	\$ 102,405
2024	45,000	56,055	101,055
2025	50,000	54,536	104,536
2026	50,000	52,849	102,849
2027	50,000	51,161	101,161
2028-2032	285,000	228,085	513,085
2033-2037	345,000	170,611	515,611
2038-2042	425,000	94,981	519,981
2043-2044	<u>200,000</u>	<u>12,581</u>	<u>212,581</u>
	<u><u>\$ 1,495,000</u></u>	<u><u>\$ 778,264</u></u>	<u><u>\$ 2,273,264</u></u>

The Water and Sewer System Improvement and Refunding Revenue Bonds, Series 2014 (Series 2014 Bonds) were issued to finance the cost of certain capital improvements, to establish a debt service reserve and to refund the then outstanding Series 2003 Bonds. The difference between the reacquisition price and the net carrying amount of the refunded bonds is reported as a deferred outflow of resources in the statements of net position – modified cash basis and is being amortized through the year 2033 using the straight-line method. At December 31, 2022 and 2021, the deferred loss on refunding of bonds payable balance was \$14,962 and \$16,323, respectively. The Series 2014 Bonds are special obligations of the System, payable solely from the stabilized net revenues of the System, as defined in the related bond agreements. Principal and interest payments are due semi-annually with the final payment scheduled in 2044.

In addition to requiring the maintenance of certain restricted account balances (see Note 4), related bond covenants require that the System maintain rates as necessary to ensure at least 110% debt service coverage, as defined in related documents. The System was in compliance with the debt service coverage ratio for the years ended December 31, 2022 and 2021.

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Notes to Financial Statements December 31, 2022 and 2021

#### **NOTE 7: RETIREMENT PLANS**

The pension plan in which System employees participate meets the criteria set forth in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as amended. Although reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements, required disclosures related to the description of the plan, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

##### Plan Description

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing multiple-employer defined benefit plan created by the State Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefits are fully vested upon reaching five years of service and are established by State Statute. APERS issues a stand-alone financial report which may be obtained by making a written request to 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

##### Contributions

Plan participants hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the System is required to contribute a percent of covered salary at rates established by the APERS Board of Trustees, based on actuarially determined rates. Employer contribution rates were 15.32% for both of the years ended December 31, 2022 and 2021. Contribution requirements are set forth in State statute. The System's proportionate share of contributions for employees directly involved in management and operation of the System for the years ended December 31, 2022 and 2021 were approximately \$26,500 and \$22,000, respectively, which were equal to the required contributions for each year.

#### **NOTE 8: TRANSACTIONS WITH OTHER CITY FUNDS**

Management has estimated that the economic benefit of certain administrative services provided by the City without charge to the System are immaterial, and thus has not allocated any portion of such expenses to the System. However, certain asset purchases and common expenditures funded partially by the System and partially by other city funds are reflected in the System's financial statements.

Transfers (to) from other city funds for operations and capital improvements are reflected as operating transfers (to) from other city funds in the statements of revenues, expenditures and changes in net position – modified cash basis and totaled (\$7,906) and (\$18,260) during the years ended December 31, 2022 and 2021, respectively.



# **City of Hazen, Arkansas**

## **Waterworks and Sewer System**

### **Notes to Financial Statements** **December 31, 2022 and 2021**

#### ***NOTE 9: RISK MANAGEMENT***

The System is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased commercial insurance to address these risks. There have been no significant reductions in the System's coverage during the years ended December 31, 2022 and 2021. In addition, there have been no settlements in excess of the System's coverage in any of the prior three fiscal years.

#### ***NOTE 10: SEWER RECOVERY FUNDS***

During the year ended December 31, 2020, it was determined that sewer rates had not been updated to reflect the appropriate sewer rates since 2017, and thus were lower than they should have been. Management of the System calculated the amount of sewer under billings for each citizen and commercial and industrial customer of the City, as applicable, and will be billed over thirty-six months. These sewer under billings are recorded as collections for sewer recovery funds on the statements of revenues, expenditures and changes in net position – modified cash basis.

#### ***NOTE 11: OVER BILLINGS DUE TO CUSTOMER***

During the year ended December 31, 2021, it was determined that the water meter for one of the System's customers was broken, resulting in increased meter readings and water revenue payments from September 2021 through February 2022. Management estimated the total water over billings to be \$18,679. On May 20, 2022, the System paid the customer these over billings in full.

## **Supplementary Information**



**INDEPENDENT AUDITOR'S 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***

The Honorable Members of the City Council  
City of Hazen, 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 modified cash basis financial statements of the **City of Hazen, Arkansas Waterworks and Sewer System** (the System), which comprise the statement of net position – modified cash basis as of December 31, 2022, and the related statements of revenues, expenditures and changes in net position – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-1 that we consider to be a material weakness.

The Honorable Members of the City Council  
City of Hazen, Arkansas

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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 financial statements. 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*.

### **The System's Response to Findings**

The System's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas  
June 7, 2023

# City of Hazen, Arkansas

## Waterworks and Sewer System

### Schedule of Findings and Responses Year Ended December 31, 2022

#### Material Weakness in Internal Control over Financial Reporting

*Finding* **2022-1**

*Criteria* A good system of internal control provides for a proper segregation of accounting functions. Although proper segregation is not always possible in a small system, segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud.

*Condition* During the year ended December 31, 2022, there were inherent limitations in the System's controls primarily due to the limited number of personnel.

*Effect* The limitations could allow the misappropriations of System funds.

*Cause* Internal controls showed a lack of segregation of duties primarily due to the limited number of personnel. This will likely be an ongoing issue due to its impracticality from a cost benefit standpoint.

*Recommendation* We recommend that management take steps to develop and implement new procedures to improve segregation of duties.

*Response* Client diligently attempts to segregate duties, but it is beyond current staffing capabilities.

**See Independent Auditor's Report**