

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

**Financial Statements
December 31, 2023 and 2022**

(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, 2023 and 2022, 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, 2023 and 2022, and the changes in financial position – modified cash basis and cash flows – modified cash basis, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), 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 opinions.

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 opinions are 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, 2023 **and 2022**, 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 the 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 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 GAAS and GAS 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 GAAS and GAS, 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 audits 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 audits.

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

Other Reporting Required by GAS

In accordance with GAS, we have also issued our report dated June 21, 2024, 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 GAS in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a simpler, blocky font.

Little Rock, Arkansas
June 21, 2024

City of Hazen, Arkansas Waterworks and Sewer System

Statements of Net Position – Modified Cash Basis December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 216,197	\$ 343,856
Restricted Assets		
Cash and cash equivalents	46,040	44,331
Investments	55,348	54,938
Total Restricted Assets	101,388	99,269
Capital Assets, Net	1,599,272	1,475,527
Total Assets	1,916,857	1,918,652
DEFERRED OUTFLOW OF RESOURCES		
Deferred Loss on Refunding of Bonds Payable	13,601	14,962
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 1,930,458	\$ 1,933,614
LIABILITIES AND NET POSITION		
Current Liabilities Payable from Current Assets		
Customer deposits	\$ 23,018	\$ 22,883
Current Liabilities Payable from Restricted Assets		
Current portion of long-term debt	45,000	45,000
Total Current Liabilities	68,018	67,883
Long-Term Debt, Net	1,371,797	1,415,216
Total Liabilities	1,439,815	1,483,099
Net Position		
Net investment in capital assets	196,076	30,273
Restricted - expendable:		
Debt service	101,388	99,269
Unrestricted	193,179	320,973
Total Net Position	490,643	450,515
TOTAL LIABILITIES AND NET POSITION	\$ 1,930,458	\$ 1,933,614

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, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Collections for water and sewer sales and services	\$ 505,552	\$ 529,556
Collections for sewer recovery funds	19,804	23,914
Collection for leachate sales and services	172,320	206,400
Penalties	20,698	20,464
Customer repairs and other	10,900	10,663
Total Operating Revenues	729,274	790,997
OPERATING EXPENDITURES		
Salaries and wages	201,010	174,819
Payroll taxes	14,814	12,758
Depreciation and amortization	168,916	165,984
Utilities and telephone	75,715	63,008
Repairs and maintenance	72,296	59,950
Professional services	12,000	11,500
Operating supplies	107,081	100,726
Insurance	39,803	29,886
Office supplies	7,982	5,520
Retirement plan contributions	30,194	26,469
Other general operating expenses	33,530	27,002
Total Operating Expenditures	763,341	677,622
Operating (Loss) Income	(34,067)	113,375
NONOPERATING REVENUES (EXPENDITURES)		
Interest received	4,920	1,001
Interest paid	(57,405)	(58,755)
Amortization	(2,942)	(2,942)
Net Nonoperating Expenditures	(55,427)	(60,696)
(Loss) Income Before Operating Transfers	(89,494)	52,679
NET OPERATING TRANSFERS FROM (TO) OTHER CITY FUNDS	129,622	(7,906)
Increase in Net Position	40,128	44,773
NET POSITION, BEGINNING OF YEAR	450,515	405,742
NET POSITION, END OF YEAR	\$ 490,643	\$ 450,515

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts For		
Water and sewer sales and services	\$ 505,687	\$ 515,030
Sewer recovery	19,804	23,914
Leachate sales and services	172,320	206,400
Penalties	20,698	20,464
Customer repairs and other	15,057	10,691
Total Operating Receipts	733,566	776,499
Disbursements For		
Salaries, wages, and employee benefits	246,018	214,046
Goods and services	348,407	297,592
Total Operating Disbursements	594,425	511,638
Net Cash Provided by Operating Activities	139,141	264,861
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net operating transfers from (to) other city funds	129,622	(7,906)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of long-term debt	(45,000)	(45,000)
Purchases of capital assets	(296,818)	(143,566)
Interest paid	(57,405)	(58,755)
Net Cash Used by Capital and Related Financing Activities	(399,223)	(247,321)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(410)	(255)
Interest received	4,920	1,001
Net Cash Provided by Investing Activities	4,510	746
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(125,950)	10,380
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	388,187	377,807
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 262,237	\$ 388,187

(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, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES		
Operating (Loss) Income	\$ (34,067)	\$ 113,375
Adjustments to Reconcile Operating (Loss) Income to Net Cash		
Provided by Operating Activities		
Depreciation and amortization	168,916	165,984
Loss on disposal of capital assets	4,157	28
Changes in operating assets and liabilities:		
Customer deposits	135	(530)
Over billings due to customer	-	(13,996)
	<u>\$ 139,141</u>	<u>\$ 264,861</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>\$ 139,141</u>	<u>\$ 264,861</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENTS OF NET POSITION - MODIFIED CASH BASIS		
Current Assets - cash and cash equivalents	\$ 216,197	\$ 343,856
Restricted Assets - cash and cash equivalents	46,040	44,331
	<u>\$ 262,237</u>	<u>\$ 388,187</u>
TOTAL CASH AND CASH EQUIVALENTS		
	<u>\$ 262,237</u>	<u>\$ 388,187</u>

See accompanying notes to financial statements.

City of Hazen, Arkansas

Waterworks and Sewer System

Notes to Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022

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, 2023 and **2022**, 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, 2023 and 2022

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, 2023 and **2022** are as follows:

	2023	2022
Bond fund	\$ 46,040	\$ 44,331
Debt service reserve fund	55,348	54,938
Restricted assets	<u>\$ 101,388</u>	<u>\$ 99,269</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:

		2023			
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	25,390	-	451,956	
	440,268	25,390	-	465,658	
Depreciable:					
Water and wastewater plants and systems	15 - 40 years	5,781,666	175,874	(15,516)	5,942,024
Equipment and vehicles	3 - 7 years	381,119	95,554	(15,150)	461,523
		6,162,785	271,428	(30,666)	6,403,547
Less accumulated depreciation		(5,127,526)	(168,916)	26,509	(5,269,933)
		1,035,259	102,512	(4,157)	1,133,614
Capital assets, net		<u>\$ 1,475,527</u>	<u>\$ 127,902</u>	<u>\$ (4,157)</u>	<u>\$ 1,599,272</u>

City of Hazen, Arkansas Waterworks and Sewer System

Notes to Financial Statements December 31, 2023 and 2022

NOTE 5: CAPITAL ASSETS (Continued)

	Estimated Useful Life	2022			Balance End of Year
		Balance Beginning of Year	Increases	Decreases	
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	376,473	9,064	(4,418)	381,119
		<u>6,023,637</u>	<u>143,566</u>	<u>(4,418)</u>	<u>6,162,785</u>
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>\$ 1,497,973</u>	<u>\$ (22,418)</u>	<u>\$ (28)</u>	<u>\$ 1,475,527</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:

	2023	2022
\$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.	\$ 1,450,000	\$ 1,495,000
Less original bond issue discount	<u>(33,203)</u>	<u>(34,784)</u>
	1,416,797	1,460,216
Less current portion	<u>(45,000)</u>	<u>(45,000)</u>
Long-term debt, net of current portion	<u>\$ 1,371,797</u>	<u>\$ 1,415,216</u>

City of Hazen, Arkansas
Waterworks and Sewer System

Notes to Financial Statements
December 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT (Continued)

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

	2023	2022
Total long-term debt, beginning of year	\$ 1,495,000	\$ 1,540,000
Retirements	(45,000)	(45,000)
Total long-term debt, end of year	\$ 1,450,000	\$ 1,495,000

Scheduled principal and interest payments of long-term debt at December 31, 2023 are as follows:

Year	Principal	Interest	Total
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	55,000	49,474	104,474
2029-2033	295,000	217,898	512,898
2034-2038	360,000	157,006	517,006
2039-2043	440,000	77,550	517,550
2044	105,000	4,331	109,331
	\$ 1,450,000	\$ 720,860	\$ 2,170,860

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, 2023 and 2022, the deferred loss on refunding of bonds payable balance was \$13,601 and \$14,962, 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, 2023 and 2022.

City of Hazen, Arkansas

Waterworks and Sewer System

Notes to Financial Statements December 31, 2023 and 2022

NOTE 7: ECONOMIC DEPENDENCY

Water and sewer sales to one industrial customer accounted for approximately 10% and 6% of total operating revenues for the years ended December 31, 2023 and 2022, respectively.

NOTE 8: 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, 2023 **and 2022**. 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, 2023 and 2022 were approximately \$30,200 and \$26,500, respectively, which were equal to the required contributions for each year.

NOTE 9: 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 cost 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.

City of Hazen, Arkansas

Waterworks and Sewer System

Notes to Financial Statements December 31, 2023 and 2022

NOTE 9: TRANSACTIONS WITH OTHER CITY FUNDS (Continued)

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 \$129,622 and (\$7,906) during the years ended December 31, 2023 and 2022, respectively.

NOTE 10: 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, 2023 and 2022. In addition, there have been no settlements in excess of the System's coverage in any of the prior three fiscal years.

NOTE 11: 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 12: SUBSEQUENT EVENTS

On March 21, 2024, City Council voted and approved an increase to the minimum charge for zero to one thousand gallons from \$13.90 to \$15.00 and an increase of the consumption of water over one thousand gallons from \$5.25 to \$5.67 per thousand gallons. These rate increases became effective May 1, 2024.

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, 2023, 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 21, 2024.

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 opinions 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 System’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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-1 that we consider to be a material weakness.

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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

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 21, 2024

City of Hazen, Arkansas

Waterworks and Sewer System

Schedule of Findings and Responses Year Ended December 31, 2023

Material Weakness in Internal Control over Financial Reporting

Finding

2023-1

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, 2023, 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