

HOXIE WATERWORKS AND SEWER FUND

Audited Financial Statements

For the Years Ended December 31, 2022, and 2021

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A Professional Association of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
Hoxie Waterworks and Sewer Fund
Hoxie, Arkansas 72433

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Hoxie Waterworks and Sewer Fund (of the City of Hoxie, Arkansas) as of and for the years ended December 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise Hoxie Waterworks and Sewer Fund'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 of the Hoxie Waterworks and Sewer Fund, as of December 31, 2022, and 2021, and the respective changes in financial position and 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 section of our report. We are required to be independent of the Hoxie Waterworks and Sewer Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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 Hoxie Waterworks and Sewer Fund'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 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 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.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment 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 Hoxie Waterworks and Sewer Fund'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 Hoxie Waterworks and Sewer Fund'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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hoxie Waterworks and Sewer Fund's basic financial statements. The accompanying combining and comparative financial statements and schedules listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

The financial statements for the year ended December 31, 2021, were audited by a predecessor auditor issuing an unmodified opinion in the report dated August 27, 2022, and are included for comparative purposes in the accompanying financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023, on our consideration of the Hoxie Waterworks and Sewer Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Lawrence County Regional Water District's 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 Hoxie Waterworks and Sewer Fund's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
November 8, 2023

Hoxie Waterworks and Sewer Fund
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
	<u>ASSETS</u>	
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 269,097	\$ 319,395
Customer accounts receivable	65,849	66,413
Total current assets	334,946	385,808
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted for debt service	149,577	205,170
Capital assets		
Capital assets, net of accumulated depreciation	893,554	937,293
Total non-current assets	1,043,131	1,142,463
TOTAL ASSETS	<u>\$ 1,378,077</u>	<u>\$ 1,528,271</u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 29,225	\$ 46,870
Sales tax payable	4,111	4,051
Accrued interest	608	615
Due to general fund	15,680	22,516
Current portion of long-term debt	19,652	-
Total current liabilities	69,276	74,052
LONG-TERM DEBT, net of current portion	309,701	348,532
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	105,109	102,091
TOTAL LIABILITIES	484,086	524,675
NET POSITION		
Net investment in capital assets	564,201	588,761
Restricted for debt service	149,577	103,079
Unrestricted	180,213	311,756
Total net position	893,991	1,003,596
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,378,077</u>	<u>\$ 1,528,271</u>

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

Hoxie Waterworks and Sewer Fund
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water and sewer services	\$ 548,026	\$ 591,477
Other income	41,998	20,837
Total operating revenue	<u>590,024</u>	<u>612,314</u>
OPERATING EXPENSES		
Water purchases	235,452	223,524
Salaries and wages	133,397	120,670
Repairs , materials and supplies	83,183	89,518
Utilities	43,867	43,243
Insurance	8,905	2,314
Truck expense	15,066	10,666
Payroll taxes	11,050	9,231
Group insurance	24,611	18,853
Dues and travel	132	1,064
Fees and license	10,770	9,857
Lab fees	3,153	3,940
Professional services	11,965	8,800
Miscellaneous	23,239	11,290
Depreciation	83,530	79,031
Total operating expenses	<u>688,320</u>	<u>632,001</u>
OPERATING INCOME (LOSS)	<u>(98,296)</u>	<u>(19,687)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,172	768
Interest expense	<u>(12,481)</u>	<u>(12,751)</u>
Non-operating revenues (expenses)	<u>(11,309)</u>	<u>(11,982)</u>
CHANGE IN NET POSITION	(109,605)	(31,670)
NET POSITION, DECEMBER 31, 2021	<u>1,003,596</u>	<u>1,035,266</u>
NET POSITION, DECEMBER 31, 2022	<u><u>\$ 893,991</u></u>	<u><u>\$ 1,003,596</u></u>

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

Hoxie Waterworks and Sewer Fund
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 590,588	\$ 604,719
Cash payments to suppliers for goods and services	(495,813)	(424,965)
Cash payments to employees	(133,397)	(120,670)
Net cash provided by (used in) operating activities	(38,622)	59,084
Cash flows from capital and related financing activities:		
Asset purchases	(39,791)	(29,506)
Principal payments on long-term debt	(19,180)	(18,876)
Interest payments on long-term debt	(12,488)	(12,789)
Net cash provided by (used in) financing activities	(71,459)	(61,171)
Cash flows from non-capital financing activities:		
Customer meter deposits (net activity)	3,018	(104)
Net cash provided by (used in) non-capital financing activities	3,018	(104)
Cash flows from investing activities:		
Interest received	1,172	768
Net cash provided by (used in) investing activities	1,172	768
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(105,891)	(1,423)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	524,565	525,988
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 418,674</u>	<u>\$ 524,565</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (98,296)	\$ (19,687)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	83,530	79,031
(Increase)/Decrease In:		
Customer accounts receivable	564	(7,595)
Increase/(Decrease) In:		
Accounts payable	(17,645)	25,084
Sales tax payable	60	(1,475)
Due to general fund	(6,836)	(16,274)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (38,622)</u>	<u>\$ 59,084</u>

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

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Nature of Entity and Activities

The Hoxie Waterworks and Sewer Fund is an enterprise fund of the City of Hoxie, Arkansas. The Hoxie Waterworks and Sewer Fund was established to provide water and sewer services to the citizens of the City of Hoxie.

Measurement Focus and Financial Statement Preparation

The term “measurement focus” is used to denote what is being measured and reported in the Hoxie Waterworks and Sewer Fund operating statement. The Hoxie Waterworks and Sewer Fund is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hoxie Waterworks and Sewer Fund is better or worse off economically as a result of events and transactions of the period.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

- Invested in capital assets, net of related debt—This component of net position consists of capital assets, including restricted 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same Statements of Net Position component as unspent proceeds.
- Restricted—This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets—This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Basis of Accounting

The Hoxie Waterworks and Sewer Fund maintains its accounting records on the cash basis during the year and adjusts its financial statements to the accrual basis of accounting at year end for reporting purposes. The accrual basis of accounting recognizes revenues when they are earned, and expenses are recognized when they are incurred.

Cash and Cash Equivalents

Cash, demand deposits (checking accounts), time deposits, money market funds, and certificates of deposit (maturing twelve months or less) are considered to be cash equivalents for the purpose of the statements of cash flows.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Accounts Receivable Allowance for Doubtful Accounts

Generally accepted accounting principles require an allowance for doubtful accounts to be accrued. Water and sewer revenues are recorded net of uncollectible amounts using the direct write-off method. This practice does not have a material effect on the financial statements because customers are required to make a deposit that is usually greater than an average monthly billing.

Inventory

The Hoxie Waterworks and Sewer Fund uses the purchase method for accounting for inventory. Materials and supplies are purchased on an as needed basis and charged as expenses when acquired. Small quantities are maintained for emergency purposes.

Capital Assets

Capital assets are recorded at historical cost. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives using the straight-line method. Service lives by type of asset are as follows:

Water and Sewer Systems (& Improvements)	10 to 50 Years
Tools & Equipment	5 to 15 Years
Office Building	20 Years

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 the reported amounts of assets and liabilities and disclosures. Accordingly, the actual results could differ from those estimates.

Tax Status

The Hoxie Waterworks and Sewer Fund is a part of the City of Hoxie and is not subject to filing of Federal or State income tax returns. The Department is subject to filing of reports and payment of taxes to various taxing jurisdictions such as the Internal Revenue Service and the Arkansas Department of Finance & Administration by the various taxing jurisdictions for periods ranging from three to six years from the filing date.

NOTE 2: RESTRICTED CASH AND UNRESTRICTED CASH

General Revenue Accounts

The unrestricted amount represents funds available for the purpose of paying the cost of operating and maintaining the water and sewer systems.

Meter Deposit Accounts

These funds are required to have a balance equal to the outstanding customer meter deposit liability.

Bond Reserve Accounts

These funds are maintained for the purpose of complying with debt covenants and agreements. The bond payable agreements with USDA – Rural Development requires that an amount equal to a full year of payments be accumulated over a ten-year period in a bond reserve fund. As of December 31, 2022, this restricted asset was required to have a balance of \$10,896; the actual balance was \$43,791.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 2: RESTRICTED CASH AND UNRESTRICTED CASH (Continued)

The following is a summary of the cash (and cash equivalents) maintained as restricted and unrestricted as of December 31:

	2022			2021		
	Total	Restricted	Unrestricted	Total	Restricted	Unrestricted
Waterworks Fund:						
Petty Cash	\$ 300	\$ -	\$ 300	\$ 300	\$ -	\$ 300
General Revenue - Checking	230,459	-	230,459	285,694	-	285,694
Meter Deposit - Checking	76,585	76,585	-	88,020	88,020	-
Meter Deposit - CD	29,201	29,201	-	29,128	29,128	-
Totals for Waterworks Fund	<u>\$ 336,545</u>	<u>\$ 105,786</u>	<u>\$ 230,759</u>	<u>\$ 403,142</u>	<u>\$ 117,148</u>	<u>\$ 285,994</u>
Sewer Fund:						
General Revenue - Checking	\$ 38,338	\$ -	\$ 38,338	\$ 33,401	\$ -	\$ 33,401
Bond Reserve - CD	10,000	10,000	-	56,582	56,582	-
Bond Reserve - Savings	-	-	-	8,089	8,089	-
ANRC - Payment Account	33,791	33,791	-	23,351	23,351	-
	<u>\$ 82,129</u>	<u>\$ 43,791</u>	<u>\$ 38,338</u>	<u>\$ 121,423</u>	<u>\$ 88,022</u>	<u>\$ 33,401</u>
Total Waterworks & Sewer Fund	<u>\$418,674</u>	<u>\$ 149,577</u>	<u>\$ 269,097</u>	<u>\$ 524,565</u>	<u>\$ 205,170</u>	<u>\$ 319,395</u>

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Hoxie Waterworks and Sewer Fund has a number of financial instruments (i.e., cash in depositories, accounts receivable, accounts payable, bonds payable, etc.) none of which are held for trading purposes. The Hoxie Waterworks and Sewer Fund, unless otherwise indicated, estimates that the fair values of all financial instruments at December 31, 2022, does not differ materially from the aggregate carrying values as stated in the accompanying Statements of Net Position. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Hoxie Waterworks and Sewer Fund could realize in a current market exchange.

NOTE 4: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, Hoxie Waterworks and Sewer Fund's deposits may not be returned to it. Hoxie Waterworks and Sewer Fund's deposit policy for custodial risk is compliant with bond requirements. Due to the dollar amounts of cash deposits and investments, and the limits of the Federal Deposit Insurance Corporation (FDIC), Hoxie Waterworks and Sewer Fund was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department or agent at year end December 31, 2022. At year end December 31, 2022, Hoxie Waterworks and Sewer Fund had bank deposits in the amount of \$419,444. There are no unsecured cash deposits as of December 31, 2022.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: CAPITAL ASSETS

As summary of changes in capital assets for the years ended December 31, 2022, and 2021 are as follows:

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 10,041	\$ -	\$ -	\$ 10,041
Total capital assets not being depreciated	<u>10,041</u>	<u>-</u>	<u>-</u>	<u>10,041</u>
Other capital assets				
Water system	951,020	-	-	951,020
Improvements	44,000	-	-	44,000
Water equipment	89,828	21,471	-	111,299
New well	40,807	-	-	40,807
Office building	8,667	-	-	8,667
Sewer system	2,467,465	-	-	2,467,465
Sewer equipment	<u>191,563</u>	<u>18,320</u>	<u>-</u>	<u>209,883</u>
Total other assets at historical cost	<u>3,793,350</u>	<u>39,791</u>	<u>-</u>	<u>3,833,141</u>
Less accumulated depreciation for:				
Water system	(834,221)	(8,908)	-	(843,129)
Improvements	(44,000)	-	-	(44,000)
Water equipment	(77,453)	(3,535)	-	(80,988)
New well	(40,807)	-	-	(40,807)
Office building	(8,667)	-	-	(8,667)
Sewer system	(1,701,345)	(62,772)	-	(1,764,117)
Sewer equipment	<u>(159,605)</u>	<u>(8,315)</u>	<u>-</u>	<u>(167,920)</u>
Total accumulated depreciation	<u>(2,866,098)</u>	<u>(83,530)</u>	<u>-</u>	<u>(2,949,628)</u>
Total capital assets, being depreciated, net	<u>927,252</u>	<u>(43,739)</u>	<u>-</u>	<u>883,513</u>
Total capital assets, net	<u><u>\$ 937,293</u></u>	<u><u>\$ (43,739)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 893,554</u></u>

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:				
Land	\$ 10,041	\$ -	\$ -	\$ 10,041
Total capital assets not being depreciated	<u>10,041</u>	<u>-</u>	<u>-</u>	<u>10,041</u>
Other capital assets				
Water system	951,020	-	-	951,020
Improvements	44,000	-	-	44,000
Water Equipment	85,030	4,798	-	89,828
New Well	40,807	-	-	40,807
Office Building	8,667	-	-	8,667
Sewer System	2,467,465	-	-	2,467,465
Sewer Equipment	<u>166,855</u>	<u>24,708</u>	<u>-</u>	<u>191,563</u>
Total other assets at historical cost	<u>3,763,844</u>	<u>29,506</u>	<u>-</u>	<u>3,793,350</u>
Less accumulated depreciation for:				
Water system	(829,421)	(4,800)	-	(834,221)
Improvements	(44,000)	-	-	(44,000)
Water Equipment	(74,630)	(2,823)	-	(77,453)
New Well	(40,807)	-	-	(40,807)
Office Building	(8,667)	-	-	(8,667)
Sewer System	(1,638,574)	(62,771)	-	(1,701,345)
Sewer Equipment	<u>(150,968)</u>	<u>(8,637)</u>	<u>-</u>	<u>(159,605)</u>
Total accumulated depreciation	<u>(2,787,067)</u>	<u>(79,031)</u>	<u>-</u>	<u>(2,866,098)</u>
Total capital assets, being depreciated, net	<u>976,777</u>	<u>(49,525)</u>	<u>-</u>	<u>927,252</u>
Total capital assets, net	<u>\$ 986,818</u>	<u>\$ (49,525)</u>	<u>\$ -</u>	<u>\$ 937,293</u>

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT

Long-term debt on December 31, 2022, consisted of the following:

	<u>2022</u>	<u>2021</u>
2003 Sewer Revenue Bond issue – USDA, 4.500%, \$200,000; principal and interest payable monthly beginning July 25, 2003; matures June 25, 2043	137,183	141,793
2014 Sewer Revenue Bond issue – ANRC, 3.000%, \$309,000; principal and interest payable annually beginning December 1, 2013; matures December 1, 2033	192,170	206,739
	<u>\$ 329,353</u>	<u>\$ 348,532</u>

All bonds are secured by revenues and sewer system of Hoxie Waterworks and Sewer Fund.

Maturities and analysis of long-term debt changes to Hoxie Waterworks and Sewer Fund's long-term debt are as follows:

	<u>2022</u>	<u>2021</u>
Total long-term debt at beginning of year	\$ 348,532	\$ 367,083
Note payable retirements	(19,179)	(18,551)
Debt proceeds	-	-
Total long-term debt at the end of the year	329,353	348,532
Less: current portion	(19,652)	(19,178)
Long-term debt, net of current portion	<u>\$ 309,701</u>	<u>\$ 329,354</u>

Maturities of long-term debt on December 31, 2022, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	19,652	12,014	31,666
2024	20,316	11,350	31,666
2025	21,003	10,663	31,666
2026	21,714	9,952	31,666
2027	22,450	9,216	31,666
2028-2032	124,236	34,094	158,330
2033-2037	60,070	15,179	75,249
Thereafter	39,912	4,323	44,235
	<u>\$ 329,353</u>	<u>\$ 106,791</u>	<u>\$ 436,144</u>

Interest expenses were \$12,481 for the year ended December 31, 2022, and \$12,751 for the year ended December 31, 2021.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2022, and 2021

NOTE 5: LONG-TERM DEBT (Continued)

Hoxie Waterworks and Sewer Fund's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and executed or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

Hoxie Waterworks and Sewer Fund's outstanding note to the Arkansas Natural Resources Commission (ANRC) contains a provision that in the event of a default of the note, including a failure to comply with any covenant, term, or condition therein, ANRC may exercise any remedy available at law or in equity in order to cause Hoxie Waterworks and Sewer Fund to comply with the provisions of the note.

NOTE 6: ENTERPRISE FUND

The Hoxie Waterworks and Sewer Fund is an Enterprise Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements present only the Hoxie Waterworks and Sewer Fund (Enterprise Fund) and are not intended to present the financial position, the results of operations and the cash flows of the City of Hoxie, Arkansas.

NOTE 7: RISK MANAGEMENT

The Hoxie Waterworks and Sewer Fund is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hoxie Waterworks and Sewer Fund carries insurance to cover the various risks of loss that it is exposed to with the Arkansas Municipal League and other commercial insurance companies.

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events up through November 8, 2023, the date on which these financial statements were available for release.

Hoxie Waterworks and Sewer Fund
Departmental Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022		2021	
	<u>Waterworks</u>	<u>Sewer</u>	<u>Waterworks</u>	<u>Sewer</u>
OPERATING REVENUES				
Water and sewer services	\$ 355,024	\$ 192,999	\$ 382,296	\$ 209,181
Other income	31,129	10,869	10,456	10,381
Total operating revenue	386,153	203,868	392,752	219,562
OPERATING EXPENSES				
Water purchases	235,452	-	223,524	-
Salaries and wages	69,637	63,760	60,901	59,769
Repairs , materials and supplies	29,043	54,141	43,374	46,144
Utilities	7,432	36,435	7,280	35,964
Insurance	4,374	4,531	1,472	842
Truck expense	8,079	6,987	5,357	5,309
Payroll taxes	6,273	4,777	4,659	4,572
Group insurance	14,316	10,294	9,037	9,816
Dues and travel	132	-	1,064	-
Fees and license	10,620	150	9,752	105
Lab fees	3,153	-	1,730	2,210
Professional services	5,982	5,982	4,400	4,400
Miscellaneous	15,182	8,057	9,264	2,026
Depreciation	12,443	71,087	7,622	71,409
Total operating expenses	422,118	266,201	389,435	242,566
OPERATING INCOME (LOSS)	(35,965)	(62,333)	3,317	(23,004)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	1,013	159	589	179
Interest expense	-	(12,481)	-	(12,751)
Non-operating revenues (expenses)	1,013	(12,322)	590	(12,571)
CHANGE IN NET POSITION	(34,952)	(74,655)	3,906	(35,576)
NET POSITION, DECEMBER 31, 2021	394,247	609,349	390,341	644,925
NET POSITION, DECEMBER 31, 2022	<u>\$ 359,295</u>	<u>\$ 534,694</u>	<u>\$ 394,247</u>	<u>\$ 609,349</u>

Hoxie Waterworks and Sewer Fund
Departmental Statements of Revenues, Expenses, and Changes in Net Position
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	2022		2021	
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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*

To the Honorable Mayor and Members of the City Council of
The Hoxie Waterworks and Sewer Fund
Hoxie, Arkansas 72433

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 Hoxie Waterworks and Sewer Fund, as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hoxie Waterworks and Sewer Fund's basic financial statements and have issued our report thereon dated November 8, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hoxie Waterworks and Sewer Fund'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 Hoxie Waterworks and Sewer Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hoxie Waterworks and Sewer Fund'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 were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a material weakness.

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The Hoxie Waterworks and Sewer Fund's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend that the financial accounting duties be segregated among employees to the extent possible.

Management responded and indicated that accounting duties related to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hoxie Waterworks and Sewer Fund'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 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 Hoxie Waterworks and Sewer Fund's Response to Findings

Management's response to the findings identified in our audit is described above. Management'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 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.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

November 8, 2023