

HOXIE WATERWORKS AND SEWER FUND

Audited Financial Statements

For the Years Ended December 31, 2023, and 2022

Thomas, Speight & Noble
Certified Public Accountants
1120 Windover Road
Jonesboro, AR 72401
(870) 932-5858

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THOMAS, SPEIGHT & NOBLE, CPAs

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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, 2023, and 2022, 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, 2023, and 2022, 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.

1120 Windover Rd
PO Box 17167
Jonesboro, AR 72403
870-932-5858
Fax 870-932-2030

420 West Walnut
PO Box 205
Blytheville, AR 72315
870-762-5831
Fax 870-762-5833

1400 West Keiser
PO Box 644
Osceola, AR 72370
870-563-2638
Fax 870-563-3794

915 Townsend Drive
PO Box 700
Pocahontas, AR 72455
870-892-2575
Fax 870-892-2576

501 Ward Avenue
PO Box 1154
Caruthersville, MO 63830
573-333-4225
Fax 573-333-4443

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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2024, 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 Hoxie Waterworks and Sewer Fund’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
August 28, 2024

Hoxie Waterworks and Sewer Fund
Statements of Net Position
December 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 202,140	\$ 269,097
Customer accounts receivable	105,075	65,849
Total current assets	307,215	334,946
 NON-CURRENT ASSETS		
Cash and cash equivalents - restricted for debt service	159,993	149,577
Capital assets		
Capital assets, net of accumulated depreciation	1,048,282	893,554
Total non-current assets	1,208,275	1,043,131
TOTAL ASSETS	\$ 1,515,490	\$ 1,378,077
 <u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 10,086	\$ 29,225
Sales tax payable	4,698	4,111
Accrued interest	566	608
Due to general fund	14,222	15,680
Current portion of long-term debt	20,316	19,652
Total current liabilities	49,888	69,276
LONG-TERM DEBT, net of current portion	289,210	309,701
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	115,396	105,109
TOTAL LIABILITIES	454,494	484,086
 NET POSITION		
Net investment in capital assets	738,756	564,201
Restricted for debt service	159,993	149,577
Unrestricted	162,247	180,213
Total net position	1,060,996	893,991
TOTAL LIABILITIES AND NET POSITION	\$ 1,515,490	\$ 1,378,077

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, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water and sewer services	\$ 604,843	\$ 548,026
Grants	226,956	-
Other income	29,054	41,998
Total operating revenue	860,853	590,024
 OPERATING EXPENSES		
Water purchases	243,383	235,452
Salaries and wages	120,918	133,397
Repairs , materials and supplies	78,365	83,183
Utilities	42,629	43,867
Insurance	2,287	8,905
Truck expense	14,006	15,066
Payroll taxes	11,573	11,050
Group insurance	20,745	24,611
Dues and travel	4,503	132
Fees and license	6,058	10,770
Lab fees	3,815	3,153
Professional services	8,315	11,965
Miscellaneous	30,958	23,239
Depreciation	96,103	83,530
Total operating expenses	683,658	688,320
OPERATING INCOME (LOSS)	177,195	(98,296)
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,606	1,172
Interest expense	(11,797)	(12,480)
Non-operating revenues (expenses)	(10,191)	(11,308)
 CHANGE IN NET POSITION	167,004	(109,604)
 NET POSITION, DECEMBER 31, 2022	893,992	1,003,596
 NET POSITION, DECEMBER 31, 2023	\$ 1,060,996	\$ 893,992

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers	\$ 821,631	\$ 590,588
Cash payments to suppliers for goods and services	(486,648)	(495,813)
Cash payments to employees	(120,919)	(133,397)
Net cash provided by (used in) operating activities	214,064	(38,622)
Cash flows from capital and related financing activities:		
Asset purchases	(250,831)	(39,791)
Principal payments on long-term debt	(19,827)	(19,180)
Interest payments on long-term debt	(11,840)	(12,488)
Net cash provided by (used in) financing activities	(282,498)	(71,459)
Cash flows from non-capital financing activities:		
Customer meter deposits (net activity)	10,287	3,018
Net cash provided by (used in) non-capital financing activities	10,287	3,018
Cash flows from investing activities:		
Interest received	1,606	1,172
Net cash provided by (used in) investing activities	1,606	1,172
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(56,541)	(105,891)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	418,674	524,565
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 362,133	\$ 418,674
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 177,195	\$ (98,296)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	96,103	83,530
(Increase)/Decrease In:		
Customer accounts receivable	(39,224)	564
Increase/(Decrease) In:		
Accounts payable	(19,139)	(17,645)
Sales tax payable	587	60
Due to general fund	(1,458)	(6,835)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 214,064	\$ (38,622)

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

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

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, 2023, and 2022

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, 2023, this restricted asset was required to have a balance of \$10,896; the actual balance was \$43,786.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

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:

	2023			2022		
	Total	Restricted	Unrestricted	Total	Restricted	Unrestricted
Waterworks Fund:						
Petty Cash	\$ 300	\$ -	\$ 300	\$ 300	\$ -	\$ 300
General Revenue - Checking	133,694	-	133,694	230,459	-	230,459
Meter Deposit - Checking	20,228	20,228	-	76,585	76,585	-
Meter Deposit - CD	95,979	95,979	-	29,201	29,201	-
Totals for Waterworks Fund	\$ 250,201	\$ 116,207	\$ 133,994	\$ 336,545	\$ 105,786	\$ 230,759
Sewer Fund:						
General Revenue - Checking	\$ 68,146	\$ -	\$ 68,146	\$ 38,338	\$ -	\$ 38,338
Bond Reserve - CD	10,000	10,000	-	10,000	10,000	-
ANRC - Payment Account	33,786	33,786	-	33,791	33,791	-
	\$ 111,932	\$ 43,786	\$ 68,146	\$ 82,129	\$ 43,791	\$ 38,338
Total Waterworks & Sewer Fund	\$ 362,133	\$ 159,993	\$ 202,140	\$ 418,674	\$ 149,577	\$ 269,097

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, 2023, 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, 2023. At year end December 31, 2023, Hoxie Waterworks and Sewer Fund had bank deposits in the amount of \$382,033. There are no unsecured cash deposits as of December 31, 2023.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: CAPITAL ASSETS

As summary of changes in capital assets for the years ended December 31, 2023, and 2022 are as follows:

	<u>Balance</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2023</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	113,478	-	157,478
Water equipment	111,299	5,493	-	116,792
New well	40,807	-	-	40,807
Office building	8,667	-	-	8,667
Sewer system	2,467,465	-	-	2,467,465
Improvements	-	113,478	-	113,478
Sewer equipment	209,883	18,382	-	228,265
Total other assets at historical cost	<u>3,833,141</u>	<u>250,831</u>	<u>-</u>	<u>4,083,972</u>
Less accumulated depreciation for:				
Water system	(843,129)	(8,908)	-	(852,037)
Improvements	(44,000)	(4,728)	-	(48,728)
Water equipment	(80,988)	(6,246)	-	(87,234)
New well	(40,807)	-	-	(40,807)
Office building	(8,667)	-	-	(8,667)
Sewer system	(1,764,117)	(62,772)	-	(1,826,889)
Improvements	-	(4,728)	-	(4,728)
Sewer equipment	(167,920)	(8,721)	-	(176,641)
Total accumulated depreciation	<u>(2,949,628)</u>	<u>(96,103)</u>	<u>-</u>	<u>(3,045,731)</u>
Total capital assets, being depreciated, net	<u>883,513</u>	<u>154,728</u>	<u>-</u>	<u>1,038,241</u>
Total capital assets, net	<u>\$ 893,554</u>	<u>\$ 154,728</u>	<u>\$ -</u>	<u>\$ 1,048,282</u>

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: CAPITAL ASSETS (Continued)

	<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	191,563	18,320	-	209,883
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	(159,605)	(8,315)	-	(167,920)
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>\$ 937,293</u>	<u>\$ (43,739)</u>	<u>\$ -</u>	<u>\$ 893,554</u>

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

NOTE 5: LONG-TERM DEBT

Long-term debt on December 31, 2023, consisted of the following:

	2023	2022
2003 Sewer Revenue Bond issue – USDA, 4.500%, \$200,000; principal and interest payable monthly beginning July 25, 2003; matures June 25, 2043	132,361	137,183
2014 Sewer Revenue Bond issue – ANRC, 3.000%, \$309,000; principal and interest payable annually beginning December 1, 2013; matures December 1, 2033	177,165	192,170
	\$ 309,526	\$ 329,353

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:

	2023	2022
Total long-term debt at beginning of year	\$ 329,353	\$ 348,532
Note payable retirements	(19,827)	(19,179)
Total long-term debt at the end of the year	309,526	329,353
Less: current portion	(20,316)	(19,652)
Long-term debt, net of current portion	\$ 289,210	\$ 309,701

Maturities of long-term debt on December 31, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	23,234	8,432	31,666
2029-2033	128,587	29,743	158,330
2033-2038	41,904	12,576	54,480
Thereafter	30,318	18,714	49,032
	\$ 309,526	\$ 110,646	\$ 420,172

Interest expenses were \$11,797 for the year ended December 31, 2023, and \$12,480 for the year ended December 31, 2022.

Hoxie Waterworks and Sewer Fund
Notes to the Financial Statements
December 31, 2023, and 2022

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 August 28, 2024, the date on which these financial statements were available for release.

Hoxie Waterworks and Sewer Fund
Departmental Statements of Net Position
December 31, 2023 and 2022

	2023		2022	
	<u>Waterworks</u>	<u>Sewer</u>	<u>Waterworks</u>	<u>Sewer</u>
CURRENT ASSETS				
Cash and cash equivalents - unrestricted	\$ 133,994	\$ 68,146	\$ 230,759	\$ 38,338
Due from water fund	-	12,974	-	14,643
Customer accounts receivable	53,582	51,493	40,737	25,111
Total current assets	<u>187,576</u>	<u>132,613</u>	<u>271,496</u>	<u>78,092</u>
NON-CURRENT ASSETS				
Cash and cash equivalents - restricted for debt service	116,207	43,786	105,786	43,791
Capital assets				
Capital assets, net of accumulated depreciation	247,243	801,039	148,244	745,310
Total non-current assets	<u>363,450</u>	<u>844,825</u>	<u>254,030</u>	<u>789,101</u>
TOTAL ASSETS	<u>\$ 551,026</u>	<u>\$ 977,438</u>	<u>\$ 525,526</u>	<u>\$ 867,193</u>
<u>LIABILITIES AND NET POSITION</u>				
CURRENT LIABILITIES				
Accounts payable	\$ 4,158	\$ 5,928	\$ 26,688	\$ 2,538
Sales tax payable	4,698	-	4,111	-
Accrued interest	-	566	-	608
Due to general fund	14,222	-	15,680	-
Due to sewer fund	12,974	-	14,643	-
Current portion of long-term debt	-	20,316	-	19,652
Total current liabilities	<u>36,052</u>	<u>26,810</u>	<u>61,122</u>	<u>22,799</u>
LONG-TERM DEBT, net of current portion	-	289,210	-	309,700
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Customer deposits	115,396	-	105,108	-
TOTAL LIABILITIES	<u>151,448</u>	<u>316,020</u>	<u>166,230</u>	<u>332,499</u>
NET POSITION				
Net investment in capital assets	247,243	491,513	148,244	415,957
Restricted for debt service	116,207	43,786	105,786	43,791
Unrestricted	36,128	126,119	105,266	74,946
Total net position	<u>399,578</u>	<u>661,418</u>	<u>359,296</u>	<u>534,694</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 551,026</u>	<u>\$ 977,438</u>	<u>\$ 525,526</u>	<u>\$ 867,193</u>

Hoxie Waterworks and Sewer Fund
Departmental Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2023 and 2022

	2023		2022	
	<u>Waterworks</u>	<u>Sewer</u>	<u>Waterworks</u>	<u>Sewer</u>
OPERATING REVENUES				
Water and sewer services	\$ 374,946	\$ 229,897	\$ 355,027	\$ 192,999
Grants	113,478	113,478	-	-
Transfer	-	7,760	-	-
Other income	4,426	24,628	31,129	10,869
Total operating revenue	<u>492,850</u>	<u>375,763</u>	<u>386,156</u>	<u>203,868</u>
OPERATING EXPENSES				
Water purchases	243,383	-	235,452	-
Salaries and wages	51,156	69,762	69,637	63,760
Repairs , materials and supplies	51,871	26,494	29,042	54,141
Utilities	9,982	32,647	7,431	36,436
Insurance	1,513	774	4,374	4,531
Truck expense	7,717	6,289	8,079	6,987
Payroll taxes	4,861	6,712	6,273	4,777
Group insurance	11,293	9,452	14,317	10,294
Dues and travel	3,720	783	132	-
Fees and license	6,058	-	10,620	150
Lab fees	3,815	-	3,153	-
Professional services	4,157	4,158	5,983	5,982
Miscellaneous	26,534	4,424	15,182	8,057
Transfers	7,760	-	-	-
Depreciation	19,971	76,132	12,443	71,087
Total operating expenses	<u>453,791</u>	<u>237,627</u>	<u>422,118</u>	<u>266,202</u>
OPERATING INCOME (LOSS)	<u>39,059</u>	<u>138,136</u>	<u>(35,962)</u>	<u>(62,334)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	1,220	386	1,013	159
Interest expense	-	(11,797)	-	(12,480)
Non-operating revenues (expenses)	<u>1,220</u>	<u>(11,411)</u>	<u>1,013</u>	<u>(12,321)</u>
CHANGE IN NET POSITION	40,279	126,725	(34,949)	(74,655)
NET POSITION, DECEMBER 31, 2022	<u>359,298</u>	<u>534,694</u>	<u>394,247</u>	<u>609,349</u>
NET POSITION, DECEMBER 31, 2023	<u>\$ 399,577</u>	<u>\$ 661,419</u>	<u>\$ 359,298</u>	<u>\$ 534,694</u>



THOMAS, SPEIGHT & NOBLE, CPAs

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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, 2023 and 2022, 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 August 28, 2024.

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 in the accompanying schedule of findings and questioned costs as item 2023-001, that we consider to be a material weakness.

1120 Windover Rd
PO Box 17167
Jonesboro, AR 72403
870-932-5858
Fax 870-932-2030

420 West Walnut
PO Box 205
Blytheville, AR 72315
870-762-5831
Fax 870-762-5833

1400 West Keiser
PO Box 644
Osceola, AR 72370
870-563-2638
Fax 870-563-3794

915 Townsend Drive
PO Box 700
Pocahontas, AR 72455
870-892-2575
Fax 870-892-2576

501 Ward Avenue
PO Box 1154
Caruthersville, MO 63830
573-333-4225
Fax 573-333-4443

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

Government Auditing Standards requires the auditor to perform limited procedures on the Hoxie Waterworks and Sewer Fund's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Hoxie Waterworks and Sewer Fund'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 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

August 28, 2024

**Hoxie Waterworks and Sewer Fund
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Any material weakness(es) identified?

x Yes No

Any significant deficiency(ies) identified?

 Yes x No

Any noncompliance material to financial statements noted?

 Yes x No

Section II - Financial Statement Findings

Finding: 2023-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: Hoxie Waterworks and Sewer Fund does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

Effect: Inadequate segregation of duties reduces the Hoxie Waterworks and Sewer Fund's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: Hoxie Waterworks and Sewer Fund's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

Views of responsible officials and planned corrective actions: Additional employees for the purpose of improving internal controls would not be cost-beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly.