

POCAHONTAS WATER AND SEWER COMMISSION
(A COMPONENT UNIT OF
THE CITY OF POCAHONTAS, ARKANSAS)

Audited Financial Statements
For the Years Ended September 30, 2023 and 2022

Thomas, Speight & Noble
CERTIFIED PUBLIC ACCOUNTANTS
915 Townsend Drive
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Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Audited Financial Statements
For the Years Ended September 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Pocahontas Water & Sewer Commission
Pocahontas, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Pocahontas Water and Sewer Commission (a component unit of the city of Pocahontas, Arkansas) as of and for the years ended September 30, 2023, and 2022, and the related notes to the financial statements, which collectively comprise the Commission's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Pocahontas Water and Sewer Commission as of September 30, 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 Pocahontas Water and Sewer Commission 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Pocahontas Water and Sewer Commission'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.

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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 Pocahontas Water & Sewer Commission'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 Pocahontas Water and Sewer Commission'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 Pocahontas Water and Sewer Commission's basic financial statements. The accompanying schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2024, on our consideration of Pocahontas Water and Sewer Commission'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 Pocahontas Water and Sewer Commission'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 Pocahontas Water and Sewer Commission's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs

Pocahontas, Arkansas

January 5, 2024

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Statements of Net Position
September 30, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,954,553.54	\$ 2,157,162.28
Certificates of deposit - unrestricted	209,676.71	202,122.44
Customer accounts receivable	320,738.28	244,401.22
Materials and supplies inventory	175,479.48	182,572.42
Total current assets	2,660,448.01	2,786,258.36
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	697,968.64	685,933.66
Certificates of deposit - restricted	404,823.00	142,823.00
Capital assets, (accumulated depreciation net of \$9,458,268 and \$9,091,827, respectively)	11,036,164.42	11,397,094.48
Construction work in progress	1,454,665.06	205,920.00
Total non-current assets	13,593,621.12	12,431,771.14
TOTAL ASSETS	\$16,254,069.13	\$15,218,029.50
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 52,587.71	\$ 64,107.63
Accrued compensation	33,490.16	23,314.78
Retirement contributions payable	26,388.00	22,243.44
Sales and payroll taxes payable	19,043.62	15,564.92
Accrued interest	12,361.64	13,529.87
Current portion of long-term debt	483,624.00	478,083.00
Total current liabilities	627,495.13	616,843.64
LONG-TERM DEBT, net of current portion	4,107,295.00	4,590,919.00
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	325,500.00	315,765.00
TOTAL LIABILITIES	5,060,290.13	5,523,527.64
NET POSITION		
Invested in capital assets, net of related debt	7,899,910.48	6,534,012.48
Restricted for debt service	527,291.64	512,991.66
Restricted for capital improvements	250,000.00	-
Unrestricted	2,516,576.88	2,647,497.72
Total net position	11,193,779.00	9,694,501.86
TOTAL LIABILITIES AND NET POSITION	\$16,254,069.13	\$15,218,029.50

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

Pocahontas Water and Sewer Commission
(A Component Unit of Pocahontas, Arkansas)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water sales	\$ 1,629,115.17	\$ 1,532,484.70
Sewer charges	1,111,077.07	1,041,577.11
Collection fees	41,552.51	42,080.94
Other income	99,126.10	158,077.01
Total operating revenues	2,880,870.85	2,774,219.76
 Total Operating Expenses	 1,983,469.70	 1,886,093.50
OPERATING INCOME (LOSS)	897,401.15	888,126.26
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	63,119.42	11,030.00
Interest expense	(116,893.76)	(122,893.80)
Capital grants and contributions	636,493.65	-
Gain (loss) on disposal of assets	19,778.68	-
Paying agent fees	(622.00)	(616.00)
Total non-operating revenues (expenses)	601,875.99	(112,479.80)
 CHANGE IN NET POSITION	 1,499,277.14	 775,646.46
 NET POSITION AT THE BEGINNING OF YEAR	 9,694,501.86	 8,918,855.40
 NET POSITION AT END OF YEAR	 \$11,193,779.00	 \$ 9,694,501.86

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

Pocahontas Water and Sewer Commission
(A Component Unit of Pocahontas, Arkansas)
Statements of Cash Flows
For the Years Ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers	\$2,814,268.79	\$ 2,759,997.58
Cash payments to suppliers for goods and services	(979,236.93)	(821,372.41)
Cash payments to employees	(564,336.37)	(514,658.47)
Net cash provided by (used in) operating activities	1,270,695.49	1,423,966.70
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(478,083.00)	(467,544.00)
Interest payments on long-term debt	(118,397.62)	(124,093.76)
Capital grants and contributions	636,493.65	-
Payments for paying agent	(622.00)	(616.00)
Proceeds from disposal of capital assets	24,975.00	-
Acquisition and construction of capital assets	(1,319,536.06)	(932,526.36)
Net cash provided by (used in) financing activities	(1,255,170.03)	(1,524,780.12)
Cash flows from investing activities:		
Purchase of certificates of deposit	(262,000.00)	(12,000.00)
Redemption of certificates of deposit	-	500,000.00
Interest received	55,900.78	9,721.82
Net cash provided by (used in) investing activities	(206,099.22)	497,721.82
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(190,573.76)	396,908.40
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,843,095.94	2,446,187.54
CASH AND CASH EQUIVALENTS - END OF YEAR	\$2,652,522.18	\$ 2,843,095.94
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 897,401.15	\$ 888,126.26
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	426,524.74	468,517.07
(Increase)/Decrease In:		
Customer accounts receivable	(76,337.06)	(21,115.18)
Prepaid expenses	-	-
Materials and supplies inventory	7,092.94	61,987.75
Increase/(Decrease) In:		
Accounts payable	(11,519.92)	13,426.87
Accrued compensation	10,175.38	3,433.36
Retirement contributions payable	4,144.56	2,075.00
Sales and payroll taxes payable	3,478.70	622.57
Customer deposits	9,735.00	6,893.00
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$1,270,695.49	\$ 1,423,966.70
SUMMARY OF ENDING CASH AND CASH EQUIVALENTS		
Cash and cash equivalents - unrestricted	\$1,954,553.54	\$ 2,157,162.28
Cash and cash equivalents - restricted	697,968.64	685,933.66
	\$2,652,522.18	\$ 2,843,095.94

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

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The Pocahontas Water and Sewer Commission (the “Commission”) is governed by a Board of Commissioners as set forth in the City of Pocahontas, Arkansas (the “City”) Ordinance No. 165. The original Board of Commissioners was appointed by the mayor of the City. The Commission is a component unit of the City as any changes to rate and fees of the Commission must be approved by the City Council. The accompanying financial statements present the financial position, results of operations, and cash flows of the Commission and are not intended to present that of the City of Pocahontas, Arkansas, or any of its other activities.

Basis of Presentation and Accounting

The accounts of the Commission are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Commission’s assets, liabilities, net position, revenues, and expenses. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. Net position is segregated into invested in capital assets, restricted, and unrestricted components.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Commission considers all cash on hand and in banks and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Customer Accounts Receivable

The Commission uses the direct write-off method for accounting for bad debt. Customer accounts receivable as shown on the statements of net position are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

Materials and Supplies Inventory

Inventory, consisting of supplies and materials, is stated at the lower of cost or marking using the first-in first-out method.

Restricted Assets

Certain debt agreements require prescribed amounts of resources (consisting of cash and certificates of deposit) to be established and maintained that can be used only to service outstanding debt or replacement of depreciated assets. The debt reserve amount is in compliance with the bond agreement and is reported on the statements of net position as cash and cash equivalents – restricted or certificates of deposit - restricted. Customer deposits held by the Commission until the customer’s service is terminated, at which time the deposit is applied to the final bill, are reported as cash and cash equivalents – restricted.

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Commission defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred.

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Water and sewer plant in service	10-50 Years
Fixtures and equipment	3-10 Years

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Customer Deposits

Customer deposits are non-interest bearing and are held until the customer's service is terminated, at which time the deposit is applied to the customer's final bill or refunded.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary 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, 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 net position component as the unspent proceeds.

Restricted – This component of net position consists of 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. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Commission's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Unrestricted – 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."

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Vested or accumulated vacation, sick leave, and compensatory time is recorded as an expense and a liability as the benefits accrue to employees and is included as accrued compensation on the statements of net position.

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)
Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Board of Commissioners adopts an annual budget for the Commission. The budget is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and non-operating income and expense items are not considered. All annual appropriations lapse at year-end.

NOTE 2: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned to it. At the year ended September 30, 2023, and 2022, the Commission had bank deposits in the amount of \$3,359,728 and \$3,206,289 respectively. Due to the dollar amounts of cash deposits and certificates of deposit, and the limits of the Federal Deposit Insurance Corporation (FDIC), the Commission is required to and has secured additional deposits by pledging securities held by the pledging financial institution’s trust department or agent at years ended September 30, 2023, and 2022.

NOTE 3: RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents restricted as of September 30, 2023, and 2022 consisted of the following:

	2023	2022
Customer deposits	\$ 325,500	\$ 315,765
Debt service	372,469	370,169
	\$ 697,969	\$ 685,934

Certificates of deposit totaling \$404,823 and \$142,823 for years ended September 30, 2023, and 2022 were restricted by a debt agreement for the replacement of depreciated assets or the sewer expansion project and are reported on the statements of net position as certificates of deposit – restricted.

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 4: CAPITAL ASSETS

Summaries of changes in capital assets for the years ended September 30, 2023, and 2022 are as follows:

	Balance 9/30/2022	Additions	Deletions	Balance 9/30/2023
Capital assets not being depreciated:				
Construction work in progress	\$ 205,920	\$ 1,248,745	\$ -	\$ 1,454,665
Total capital assets not being depreciated	<u>205,920</u>	<u>1,248,745</u>	<u>-</u>	<u>1,454,665</u>
Capital assets being depreciated:				
Water plant in service	10,459,975	15,775	-	10,475,058
Sewer plant in service	7,953,431	-	-	7,938,348
Meter replacement project	1,042,884	-	-	1,042,884
Fixtures and equipment	1,032,631	55,016	(65,280)	1,022,367
Total capital assets being depreciated	<u>20,488,921</u>	<u>70,791</u>	<u>(65,280)</u>	<u>20,494,432</u>
Less accumulated depreciation for:				
Water plant in service	(5,035,242)	(190,224)	-	(5,225,466)
Sewer plant in service	(3,280,989)	(162,564)	-	(3,443,553)
Meter replacement project	(56,015)	(23,135)	-	(79,150)
Fixtures and equipment	(719,581)	(50,602)	60,084	(710,099)
Total accumulated depreciation	<u>(9,091,827)</u>	<u>(426,525)</u>	<u>60,084</u>	<u>(9,458,268)</u>
Net capital assets being depreciated	<u>11,397,094</u>	<u>(355,734)</u>	<u>(5,196)</u>	<u>11,036,164</u>
Total capital assets, net	<u>\$ 11,603,014</u>	<u>\$ 893,011</u>	<u>\$ (5,196)</u>	<u>\$ 12,490,829</u>

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>9/30/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2022</u>
Capital assets not being depreciated:				
Construction work in progress	\$ -	\$ 205,920	\$ -	\$ 205,920
Total capital assets not being depreciated	<u>-</u>	<u>205,920</u>	<u>-</u>	<u>205,920</u>
Capital assets being depreciated:				
Water plant in service	10,438,298	21,677	-	10,459,975
Sewer plant in service	7,392,827	560,604	-	7,953,431
Meter replacement project	1,042,884	-	-	1,042,884
Fixtures and equipment	888,306	144,325	-	1,032,631
Total capital assets at historical cost	<u>19,762,315</u>	<u>726,606</u>	<u>-</u>	<u>20,488,921</u>
Less accumulated depreciation for:				
Water plant in service	(4,799,015)	(236,227)	-	(5,035,242)
Sewer plant in service	(3,125,304)	(155,685)	-	(3,280,989)
Meter replacement project	(32,880)	(23,135)	-	(56,015)
Fixtures and equipment	(666,111)	(53,470)	-	(719,581)
Total accumulated depreciation	<u>(8,623,310)</u>	<u>(468,517)</u>	<u>-</u>	<u>(9,091,827)</u>
 Total capital assets, net	 <u>\$ 11,139,005</u>	 <u>\$ 464,009</u>	 <u>\$ -</u>	 <u>\$ 11,603,014</u>

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 5: LONG-TERM DEBT

Long-term debt as of September 30, 2023, and 2022 respectively consisted of the following:

	<u>2023</u>	<u>2022</u>
2017 Refunding and Construction Revenue Bond - Stephens, Inc.; \$5,560,000; principal and interest payable annually beginning August 1, 2018; interest payable semi-annually beginning February 1, 2018 (scheduled below); Secured by net revenues of the Pocahontas Water and Sewer Commission	3,760,000	4,130,000
2019 Water and Sewer Revenue Bond - Stephens, Inc.; \$1,046,546; principal and service fees payable semi-annually beginning October 15, 2021; (scheduled below); Secured by net revenues of the Pocahontas Water and Sewer Commission.	830,919	939,002
	<u>\$ 4,590,919</u>	<u>\$ 5,069,002</u>

Maturities and analysis of long-term debt changes to the Commission's long-term debt are as follows:

	<u>2023</u>	<u>2022</u>
Total long-term debt at beginning of year	\$ 5,069,002	\$ 5,536,546
Note payable retirements	(478,083)	(467,544)
Total long-term debt at the end of the year, net	4,590,919	5,069,002
Less current portion	(483,624)	(478,083)
Long-term debt, net of current portion	<u>\$ 4,107,295</u>	<u>\$ 4,590,919</u>

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 5: LONG-TERM DEBT (Continued)

Maturities of long-term debt on September 30, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 483,624	\$ 109,494	\$ 593,118
2025	489,168	100,588	589,756
2026	504,715	91,563	596,278
2027	515,263	80,700	595,963
2028	525,815	69,563	595,378
Thereafter	2,072,334	146,813	2,219,147
	<u>\$ 4,590,919</u>	<u>\$ 598,721</u>	<u>\$ 5,189,640</u>

The Commission's outstanding loans from direct borrowings are secured by revenues of the water system. The outstanding loan balance of \$830,919 for the 2019 Revenue Bond contains a provision that in the event of a default of the loan, including a failure to comply with any covenant, term, or condition therein, Arkansas Development Finance Authority, may exercise any remedy available at law or in equity in order to cause the Commission to comply with the provisions of the loan.

The Commission's outstanding loans from direct borrowings are secured by revenues of the water system. The outstanding loan balance of \$3,760,000 for the 2017 Revenue Bond contains a provision that in the event of a default of the loan, including a failure to comply with any covenant, term or condition therein, First National Bank of Lawrence County, may apply a proper action to a court of competent jurisdiction with power to charge and collect rates sufficient to provide for the payment of the expenses of operation, maintenance and repair and to pay any bonds and interest outstanding and to apply the revenues in conformity with the laws of the State and with this ordinance.

Interest expenses were \$116,894 for year ended September 30, 2023 and \$122,894 for year ended September 30, 2022. For the 2017 Revenue Bond, interest is payable semiannually on February 1 and August 1 and principal is paid annually on August 1. For the 2019 Revenue Bond, both principal and service fee will be paid October 1 and April 1 beginning in 2021.

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 5: LONG-TERM DEBT (Continued)

The 2017 Revenue Bond Issue schedule of interest rates is as follows:

Fiscal Year Ended	Interest Rate	Payable on Principal of	Fiscal Year Ended	Interest Rate	Payable on Principal of
9/30/2024	2.000	375,000	9/30/2029	3.000	425,000
9/30/2025	2.375	380,000	9/30/2030	3.000	440,000
9/30/2026	2.375	395,000	9/30/2031	3.000	455,000
9/30/2027	2.750	405,000	9/30/2032	3.250	470,000
9/30/2028	2.750	415,000			

The 2019 Revenue Bond Issue schedule of service fee rates is as follows:

Fiscal Year Ended	Service Fee Rate	Payable on Principal of	Fiscal Year Ended	Service Fee Rate	Payable on Principal of
9/30/2024	0.500	108,624	9/30/2028	0.500	110,815
9/30/2025	0.500	109,168	9/30/2029	0.500	111,371
9/30/2026	0.500	109,715	9/30/2030	0.500	111,928
9/30/2027	0.500	110,263	9/30/2031	0.500	59,035

NOTE 6: DEBT SERVICE REQUIREMENTS

Funds restricted by a debt agreement for the retirement of principal and interest of the 2017 revenue bonds are funded by monthly transfers from general revenues at the monthly rate of 1/12th for the next principal installment and 1/6th of the next interest installment of the annual bond requirements are reported as cash and cash equivalents – restricted on the statements of net position. The monthly installment amount changes annually as the bond payments and associated interest rates thereon changes. Additionally, ½ of the maximum annual debt service is required to be maintained as a debt service reserve.

Funds restricted by a debt agreement for replacement of depreciated assets are funded by transfers from general revenues at the rate of \$1,000 per month and are reported as certificates of deposit – restricted.

NOTE 7: RISK MANAGEMENT AND LITIGATION

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Pocahontas Water and Sewer Commission
(A Component Unit of the City of Pocahontas, Arkansas)
Notes to the Financial Statements
September 30, 2023, and 2022

NOTE 8: MONTHLY WATER RATES

On June 13, 2023, the Pocahontas City Council approved the following water rates effective September 15, 2023:

The first	1,000 gallons	\$ 13.85 per 1,000 gallons
The next	5,000 gallons	\$ 6.00 per 1,000 gallons
The next	100,000 gallons	\$ 5.00 per 1,000 gallons
The next	1,000,000 gallons	\$ 4.50 per 1,000 gallons
The next	5,000,000 gallons	\$ 3.50 per 1,000 gallons
The next	10,000,000 gallons	\$ 3.00 per 1,000 gallons
All over	10,000,000 gallons	\$ 2.35 per 1,000 gallons

Customers outside the city limits are charged an additional 10% surcharge. Multiple services on one meter are charged the applicable minimum by meter size plus \$8.10 for each additional service.

Sewer rates are set at 100% of a 3-month average water bill for the previous December thru February beginning January 1, 2022. If there is no wintertime average, sewer usage is determined by actual water usage. Sewer charge where there is no water charge is the sewer minimum plus \$5.70 for each additional person.

Total water customers were 3,691 and 3,670 as of September 30, 2023 and 2022, respectively. Sewer customers were 3,620 and 3,589 as of the same dates, respectively.

NOTE 9: RETIREMENT PLAN

The Commission matches contributions on the amount of \$2 for every \$1 made by the eligible employees to Individual Retirement Accounts in amounts up to \$2,000 per employee. The amount contributed by the Commission was \$32,948 and \$27,888 for the years ended September 30, 2023 and 2022, respectively. In order to be eligible, an employee must have been continuously employed for one full calendar year.

Additionally, only those employees that are employed as of December 31 of each year are eligible for the matching benefits.

NOTE 10: SUBSEQUENT EVENTS

On July 11, 2023, the Commission accepted terms of financial assistance of \$12,891,313 from Arkansas Department of Agriculture Natural Resources Division to fund the ongoing expansion of the water and sewer system. These terms include an anticipated repayment term of twenty (20) years with a combined rate of 1.75% per annum. These terms are contingent on full closing currently expected to be April of 2024 with the first disbursement of funds being on or before July 1, 2024.

Management has evaluated all other subsequent events through January 5, 2024, the date on which the financial statements were available to be issued.



INDEPENDENT AUDITORS' 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 Board of Commissioners
Pocahontas Water and Sewer Commission
Pocahontas, 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 financial statements of the Pocahontas Water and Sewer Commission (a component of the city of Pocahontas, Arkansas), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Pocahontas Water and Sewer Commission's basic financial statements and have issued our report thereon dated January 5, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pocahontas Water and Sewer Commission'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 Pocahontas Water and Sewer Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pocahontas Water and Sewer Commission'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 identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2023-001 that we consider to be material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pocahontas Water and Sewer Commission'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

915 Townsend Drive PO Box 700 Pocahontas, AR 72455 870-892-2575 Fax 870-892-2576	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	1120 Windover Rd PO Box 17167 Jonesboro, AR 72403 870-932-5858 Fax 870-932-2030	501 Ward Avenue PO Box 1154 Caruthersville, MO 63830 573-333-4225 Fax 573-333-4443
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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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pocahontas Water and Sewer Commission's Response to Findings

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

Pocahontas, Arkansas

January 5, 2024

**Pocahontas Water and Sewer Commission
(A Component Unit of Pocahontas, Arkansas)
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 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?	<u>x</u> Yes <u> </u> No
Any significant deficiency(ies) identified?	<u> </u> Yes <u>x</u> No
Any noncompliance material to financial statements noted?	<u> </u> Yes <u>x</u> No

Section II - Financial Statement Findings

Finding: 2023-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: Pocahontas Water and Sewer Commission 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 Pocahontas Water and Sewer Commission's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: Pocahontas Water and Sewer Commission'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.

Pocahontas Water and Sewer Commission
(A Component Unit of Pocahontas, Arkansas)
Schedules of Operating Expenses
For the Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>
Water and Sewer Operations				
Salaries and wages	\$ 466,976.20	16.21	\$ 420,575.95	15.16
Power	160,007.88	5.55	152,399.75	5.49
Purification	223,078.39	7.74	195,578.46	7.05
Transmission and distribution	17,538.92	0.61	6,383.31	0.23
Transportation expense	21,691.92	0.75	25,795.23	0.93
Repairs and maintenance	210,531.98	7.31	188,353.28	6.79
Depreciation	426,524.74	14.81	468,517.07	16.89
Total water and sewer operations	<u>1,526,350.03</u>	<u>52.98</u>	<u>1,457,603.05</u>	<u>52.54</u>
Office Expense				
Salaries and wages	107,535.55	3.73	97,515.88	3.52
Postage	13,740.47	0.48	17,294.20	0.62
Stationary and printing	13,020.65	0.45	12,923.57	0.47
Utilities	20,801.15	0.72	20,129.04	0.73
Other office expense	38,665.70	1.34	15,999.46	0.58
Total office expense	<u>193,763.52</u>	<u>6.73</u>	<u>163,862.15</u>	<u>5.91</u>
General Expense				
Commissioner fees	4,800.00	0.17	5,100.00	0.18
Retirement	32,947.97	1.14	27,887.64	1.01
Bad debts	(296.64)	-0.01	7,615.49	0.27
Special services	14,155.00	0.49	13,580.00	0.49
Insurance	133,501.75	4.63	133,434.49	4.81
Operating taxes	44,916.32	1.56	40,970.07	1.48
Other general expense	33,331.75	1.16	36,040.61	1.30
Total general expense	<u>263,356.15</u>	<u>9.14</u>	<u>264,628.30</u>	<u>9.54</u>
Total Operating Expenses	<u>\$ 1,983,469.70</u>	<u>68.85</u>	<u>\$ 1,886,093.50</u>	<u>67.99</u>