

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

APPLIED FOR THE PERIOD BEGINNING JULY 1, 2022 THROUGH JUNE 30, 2023

SHOPTAW, LABAHN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

City Council of Dover, Arkansas
City of Dover Municipal Water and Sewer System
Dover, Arkansas

We have performed the procedures enumerated below, which were agreed to by the City Council of Dover, Arkansas, as specified in the Agreed Upon Procedures as required under Arkansas Code Annotated 14-234-119, solely to assist the specified parties in evaluating the City of Dover Municipal Water and Sewer System's compliance with the *Guidelines and Rules* specified below, as of June 30, 2023. The City of Dover's Municipal Water and Sewer System's management is responsible for the compliance with those requirements.

The procedures and associated findings are as follows:

1. Cash and Investments

- a. Prepared a proof of cash for the year for all accounts and reconciled the year-end bank balances to book balances.
- b. Acquired deposit confirmations for all cash accounts.
- c. Agreed the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

We found no exceptions as a result of the procedures.

2. Receipts

- a. Agreed the deposits per proof of cash for the year for all accounts with the deposits per the journal within 5% or \$500, whichever is greater.
- b. Agreed ten customer payments on the accounts receivable subledger to deposit and billing information.
- c. For ten deposits, agreed the cash/check composition of the deposit with receipt information.

We found no exceptions as a result of the procedures.

3. Accounts Receivable

- a. Agreed ten customer billings to the accounts receivable subledger.
- b. Determined that five customer adjustments were properly authorized.

We found no exceptions as a result of the procedures.

4. Disbursements

- a. Agreed the disbursements per the proof of cash for the year for all accounts with the disbursements per the journal with 5% or \$500, whichever is greater.

- b. There were no property, plant and equipment additions identified during the operating period meeting the Systems capital policy.
- c. Determined all disbursements paid to employees other than payroll and ten other disbursements were adequately documented.

We found no exceptions as a result of the procedures.

5. Property, Plant, and Equipment

- a. Determined that disposals were properly accounted for in the records. There were no property, plant and equipment additions identified during the operating period meeting the Systems capital policy.

We found no exceptions as a result of the procedures.

6. Long-term Debt

- a. Scheduled long-term debt and verified changes in all balances for the year.
- b. Confirmed bonds payable with the lender/trustee/contractor.
- c. Determined that the appropriate debt service accounts have been established and maintained.

We found no exceptions as a result of the procedures.

7. General

- a. Determined that any items of financial significance were approved and documented in the minutes of the governing body's meeting.

We found no exceptions as a result of the procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, on the effectiveness of internal controls over compliance. Accordingly, we do not express such an opinion or conclusion. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you. The sufficiency of the procedures is solely the responsibility of the City Council of Dover, Arkansas. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose.

This report is intended solely for the information and use of the City Council of Dover, Arkansas, management of the City of Dover Water and Sewer System, and the Arkansas Department of Finance and Administration, Office of Intergovernmental Services and is not intended to be and should not be used by anyone other than these specified parties.

Shoptaw, Labahn, & Company, P.A.

Shoptaw, Labahn & Company, P.A.

August 14, 2024

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Compiled Financial Statements

June 30, 2023 and 2022

(with Accountants' Compilation Report thereon)

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

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Accountants' Compilation Report

Water and Sewer Committee
City Council of Dover
Dover, Arkansas

Management is responsible for the accompanying financial statements of the business-type activities of the City of Dover Municipal Water and Sewer System as of and for the year ended June 30, 2023, and related notes to the financial statements, which collectively comprise the City of Dover Municipal Water and Sewer System's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

The financial statements of City of Dover Municipal Water and Sewer System as of June 30, 2022, were subjected to a compilation engagement by other accountants, whose report dated May 15, 2023, stated that they have not audited or reviewed the 2022 financial statements and do not express an opinion, a conclusion, nor provide any assurance on those financial statements.

We are not independent with respect to City of Dover Municipal Water and Sewer System as of and for the year ended June 30, 2023, because we performed certain management accounting functions in preparing the financial statements and underlying accounting records supporting the presentation of the financial statements.

August 14, 2024

Shoptaw, Labahn & Company, P.A.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Statements of Net Position

June 30, 2023 and 2022

Assets

	<u>2023</u>	<u>2022</u>
Assets:		
Cash in bank	\$ 134,264	81,357
Restricted cash	186,161	109,539
Total cash	<u>320,425</u>	<u>190,896</u>
Accounts receivable	59,128	56,107
Other receivable	2,880	-
Utility plant and equipment:		
Plant in service	1,905,117	4,227,995
Equipment	63,922	160,773
Furniture and Fixtures	-	3,977
Vehicles	46,573	65,770
Land	<u>121,497</u>	<u>121,497</u>
	2,137,109	4,580,012
Less accumulated depreciation	<u>(1,044,335)</u>	<u>(2,463,033)</u>
Net utility plant and equipment	<u>1,092,774</u>	<u>2,116,979</u>
Total assets	<u>1,475,207</u>	<u>2,363,982</u>
Liabilities:		
Accounts payable	17,085	31,392
Taxes payable	3,677	5,697
Accrued interest	1,155	1,699
Customers' deposits	61,402	58,381
Long-term liabilities:		
Due within one year	25,718	30,988
Due in more than one year	<u>396,788</u>	<u>596,518</u>
Total liabilities	<u>505,825</u>	<u>724,675</u>
Net position:		
Net investment in capital assets	669,113	1,487,774
Restricted for debt service and construction activities	186,161	109,539
Unrestricted	<u>114,108</u>	<u>41,994</u>
Total net position	<u>\$ 969,382</u>	<u>1,639,307</u>

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Statements of Revenue and Expenses

Years ended June 30, 2023 and 2022

	2023	2022
Operating revenue:		
Water	278,922	273,203
Sewer	387,335	378,314
Other	5,531	242,173
Total operating revenues	671,788	893,690
Operating expenses:		
Salaries	190,566	197,247
Payroll taxes	14,830	16,129
Retirement	29,443	30,985
Health insurance	33,286	39,181
Workers' comp insurance	3,276	3,702
Supplies and other expenses	43,181	85,137
Postage	3,585	2,914
Training and seminars	4,310	4,223
Chemicals	16,882	12,121
Utilities	35,983	45,818
Repairs, maintenance and supplies	18,776	40,081
Sewer treatment	182,105	290,435
Water purchased	10,497	10,420
Professional fees	-	4,000
Fuel	7,144	3,614
Total operating expense	593,864	786,007
Net operating revenue before provision for depreciation	77,924	107,683
Depreciation	76,745	72,409
Operating income	1,179	35,274
Other revenue (expense):		
Interest income	453	22
City contribution in aid	13,905	-
Interest expense	(16,882)	(22,004)
Loss on property and equipment sold	(699,580)	-
Total other revenue (expense)	(702,104)	(21,982)
Change in net position	(700,925)	13,292

See Accountants' Compilation Report and notes to financial statements.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Statements of Changes in Net Position

Years ended June 30, 2023 and 2022

	Invested in Capital Assets	Restricted Deposits and Reserve Funds	Unrestricted	Total Net Assets
Net position, July 1, 2021	\$ 1,530,894	58,093	37,028	1,626,015
Change in net position	<u>(43,120)</u>	<u>51,446</u>	<u>4,966</u>	<u>13,292</u>
Net position, June 30, 2022	1,487,774	109,539	41,994	1,639,307
Contribution to capital by City	-	-	31,000	31,000
Change in net position	<u>(818,661)</u>	<u>76,622</u>	<u>41,114</u>	<u>(700,925)</u>
Net position, June 30, 2023	<u>\$ 669,113</u>	<u>186,161</u>	<u>114,108</u>	<u>969,382</u>

See Accountants' Compilation Report
and notes to financial statements.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 668,767	656,629
Interest received	453	22
Interest paid	(3,521)	(22,123)
Cash payment to suppliers	(405,454)	(327,056)
Cash paid to employees for payroll and related payroll taxes	(204,737)	(213,376)
Net cash provided by operating activities	<u>55,508</u>	<u>94,096</u>
Cash flows from non-capital and related financing activities:		
Customer deposits received, net	<u>3,021</u>	<u>288</u>
Net cash provided by non-capital and related financing activities	<u>3,021</u>	<u>288</u>
Cash flows from capital and related financing activities:		
Capital contribution - city	31,000	-
Principal paid on notes payable	(205,000)	(30,988)
Net cash provided (used) by capital and related financing activities	<u>(174,000)</u>	<u>(30,988)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	<u>245,000</u>	<u>-</u>
Net cash used by investing activities	<u>245,000</u>	<u>-</u>
Increase in cash	129,529	63,396
Cash, beginning of year	<u>190,896</u>	<u>127,500</u>
Cash, end of year	<u>\$ 320,425</u>	<u>190,896</u>

Reconciliation of Cash to the Balance Sheet

Cash in bank	\$ 134,264	81,357
Restricted cash	<u>186,161</u>	<u>109,539</u>
	<u>\$ 320,425</u>	<u>190,896</u>

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Statements of Cash Flows (Continued)

Years ended June 30, 2023 and 2022

Reconciliation of operating loss to net cash provided by operating activities:

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net position	\$ (700,925)	13,292
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	76,745	72,409
Loss on disposition of property and equipment	699,580	-
Changes in assets and liabilities		
Increase (decrease) in accounts receivable	(3,021)	5,134
Decrease in trade accounts payable	(14,307)	(473)
Increase (decrease) in taxes payable	(2,020)	3,853
Decrease in interest payable	<u>(544)</u>	<u>(119)</u>
Increase in customer deposits	<u>-</u>	<u>-</u>
Total adjustments	<u>756,433</u>	<u>80,804</u>
Net cash provided by operating activities	<u>\$ 55,508</u>	<u>94,096</u>

See Accountants' Compilation Report and notes to financial statements.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements

June 30, 2023 and 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

The City of Dover Municipal Water and Sewer System (the "System") provides water and sewer services to local, residential and commercial customers in the City of Dover, Arkansas.

The System is a municipally operated system and is governed by the Dover City Council of the City of Dover, Arkansas. The System is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The accompanying financial statements are intended to present only the net financial position and results of operations of the Dover Municipal Water and Sewer System and not the City of Dover, Arkansas.

(b) Basis of Accounting and Presentation

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

Enterprise funds are used to account for operations 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 and services to the general public on a continuing basis be financed primarily through user charges. The System applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In accordance with GAAP, the System's operations are accounted for as a business type activity. In this regard, the System follows the accrual basis of accounting, whereby income is recognized when it is earned and expenses are recorded when they are incurred, irrespective of when paid.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(c) Property, Plant and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Vehicles and other moveable equipment	5-7 years
Water plant and related line infrastructure	5-70 years
Sewer plant and related infrastructure	5-70 years

Depreciation expense for the years ended June 30, 2023 and 2022 was \$76,922 and \$72,409, respectively. Expenditures for maintenance and repairs are expensed as incurred; replacements and betterments that extend the useful lives of property and equipment are capitalized. Property and equipment used by the System are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In the event that facts and circumstances indicate an impairment exists, an evaluation of recoverability would be performed.

Management evaluates the condition of property, plant, and equipment on a continuing basis and has accumulated reserves it believes are adequate to fund major repairs and replacements. Amounts accumulated in reserve funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the System has the right, subject to regulatory authority, to increase user rates, obtain additional bond funding, or delay repairs and replacements until funds are available.

(d) 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.

(e) Regulatory Environment

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department. The System may be assessed penalties should a violation occur with respect to regulatory requirements.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(f) Income Tax

The System is a municipally owned system that is exempt from federal and state income tax.

(g) Receivables

All receivables are reported at their gross value and where appropriate are reduced by the estimated portion that is expected to be uncollectible. The System assesses late fees on accounts determined to be past due but does not assess finance charges on such accounts. The System collects a customer deposit when initiating service. The customer deposit may be applied to outstanding account balances at the termination of service.

(h) Cash

The System defines cash for purposes of the statement of cash flows as cash on hand and in banks, including restricted cash.

(i) Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the relatively short maturity of these instruments. The carrying value of bonds payable approximates fair value because those financial instruments bear interest at rates that approximate current market rates for bonds with similar maturities and credit quality.

(j) Revenue Recognition, Contract Assets and Contract Liabilities

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments (“ASC 606”), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to fulfill a contract. The System recognizes revenue when performance obligations are satisfied. Generally, the System’s performance obligations are satisfied when the control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the System’s right to consideration is unconditional at the

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

time, the System currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities). The adoption of ASC 606 did not result in a change of timing of the System's revenue recognition.

(2) CASH AND RESTRICTIONS

At June 30, 2023 and 2022, the Systems cash consisted of the following balances:

	<u>2023</u>	<u>2022</u>
Unrestricted accounts		
Operations and maintenance fund	\$ 71,677	13,681
Revenue fund	<u>62,587</u>	<u>67,676</u>
	<u>134,264</u>	<u>81,357</u>
Restricted accounts		
Meter deposit fund	61,456	58,381
Depreciation reserve	88,220	51,158
Sewer reduction reserve	<u>36,485</u>	<u>-</u>
	<u>186,161</u>	<u>109,539</u>
	<u>\$ 320,425</u>	<u>190,896</u>

(a) Depreciation reserve

The depreciation reserve was established as part of bond obligations. The account is funded by a 6% monthly transfer of system revenue and is to be used for replacement or repairs to the system.

(b) Sewer reduction reserve

The sewer reduction fund was established with proceeds received from the sale of a component of the sewer lift station infrastructure to a neighboring municipality. The funds are used to fund the payment of sewer bond obligations.

(b) Meter deposit fund

The meter deposit fund is a custodial account for meter deposits paid to the System by water and sewer customers. Deposits are collected at the time service is set up. Meter deposits can be applied to final billing of customers discontinuing service.

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(3) METER DEPOSIT FUND

The meter deposit fund is a custodial account for meter deposits paid to the System by water customers.

	<u>2023</u>	<u>2022</u>
Cash in fund	\$ 61,456	58,381
Customer meter deposits	<u>(61,402)</u>	<u>(58,381)</u>
Meter deposit cash funds over (under) liability	<u>\$ 54</u>	<u>-</u>

(4) ACCOUNTS RECEIVABLE

The accounts receivable due for water and sewer services at June 30, 2023 is as follows:

	<u>2023</u>
Current (0-30 days)	\$ 50,379
Past due (30-60 days)	4,614
Past due (over 60 days)	<u>4,135</u>
Total accounts receivable	59,128
Allowance for doubtful accounts	<u>-</u>
Net accounts receivable	<u>\$ 59,128</u>

The system expects that the balance of customer receivables will be collected and no reserve is believed to be required.

(5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2023:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Water				
Utility plant	\$ 711,037	-	25,369	\$ 685,668
Equipment	62,237	-	24,841	37,396
Furniture and fixtures	3,977	-	3,977	-
Vehicles	<u>55,095</u>	<u>-</u>	<u>19,197</u>	<u>35,898</u>
	<u>\$ 832,346</u>	<u>-</u>	<u>73,384</u>	<u>\$ 758,962</u>
Accumulated depreciation	<u>\$ 525,520</u>	<u>17,348</u>	<u>62,374</u>	<u>\$ 480,494</u>
Sewer				
Utility plant	\$3,516,958	-	2,297,509	\$1,219,449
Equipment	98,536	-	72,010	26,526
Vehicles	10,675	-	-	10,675
Land	<u>121,497</u>	<u>-</u>	<u>-</u>	<u>121,497</u>
	<u>\$3,747,666</u>	<u>-</u>	<u>2,369,519</u>	<u>\$1,378,147</u>
Accumulated depreciation	<u>\$1,937,513</u>	<u>59,397</u>	<u>1,433,069</u>	<u>\$ 563,841</u>

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

Property and equipment consists of the following at June 30, 2022:

	Beginning Balance	Additions	Disposals	Ending Balance
Water				
Utility plant	\$ 711,037	-	-	\$ 711,037
Equipment	62,237	-	-	62,237
Furniture and fixtures	3,977	-	-	3,977
Vehicles	55,095	-	-	55,095
	\$ 832,346	-	-	\$ 832,346
Accumulated depreciation	\$ 507,744	17,776	-	\$ 525,520
Sewer				
Utility plant	\$ 3,516,958	-	-	\$ 3,516,958
Equipment	98,536	-	-	98,536
Vehicles	10,675	-	-	10,675
Land	121,497	-	-	121,497
	\$ 3,747,666	-	-	\$ 3,747,666
Accumulated depreciation	\$ 1,882,880	54,633	-	\$ 1,937,513

(5) LONG-TERM NOTES AND BONDS PAYABLE

Long-term notes payable collateralized by pledge of water and sewer revenue consisted of the following at June 30, 2023 and 2022:

	Interest Rate	2023	2022
Centennial Bank floating interest rate sales and use tax refunding and improvement bonds, series 2006, beginning Decemebr 1, 2006 and reissued June 18, 2013 with a scheduled final payment due on December 1, 2035.	3.8% to 4.5%	\$ 422,506	627,506
		422,506	627,506
Notes payable due within one year		25,718	30,988
		\$ 396,788	596,518

Maturities of long-term debt for each of the years ending June 30, 2024 through 2029 and thereafter are as follows:

CITY OF DOVER MUNICIPAL WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 25,718	14,202	39,920
2025	29,392	13,403	42,795
2026	29,392	12,550	41,942
2027	29,392	11,647	41,039
2028	33,066	10,632	43,698
2029 and thereafter	275,546	43,972	319,518

Interest expense incurred for 2023 and 2022 totaled \$2,977 and \$22,004, respectively.

(6) EMPLOYEE PENSION PLAN

The City of Dover participates in the Arkansas Public Employees Retirement system. The System's retirement expense for the years ended June 30, 2023 and 2022 totaled \$29,443 and \$30,985, respectively.

(7) CONCENTRATIONS

All funds are deposited in financial institutions insured by the FDIC. Deposits in excess of the insured amount total approximately \$77,500.

The System contracts with the neighboring municipal water and sewer department to provide sewer treatment services. All of the cost of sewer treatment processing was provided by this municipality.

(8) OPERATING REVENUES

Operating revenues are as follows:

	<u>2023</u>	<u>2022</u>
Water - schools and meetings	\$ 278,922	273,203
Sewer	<u>387,335</u>	<u>378,314</u>
Total operating revenue	<u>\$ 666,257</u>	<u>651,517</u>

(10) INFRASTRUCTURE SALE

During 2023, the System sold three sewer lift stations to a neighboring municipality for \$245,000. Proceeds from the sale were used to pay down bond obligations for \$205,000. Remaining proceeds are retained for use in funding replacements and repairs to the System.

(9) SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 14, 2024, which is the date the financial statements were available to be issued.

(10) RECLASSIFICATION

Certain amounts are reclassified in the prior year to conform with the current year presentation.