

OZARK WATER & SEWER DEPARTMENT
Independent Auditors' Report
and
Financial Statements

December 31, 2022 and 2021

OZARK WATER & SEWER DEPARTMENT
Table of Contents
December 31, 2022 and 2021

	PAGE
Independent Auditors’ Report.....	1
Statements of Net Position.....	3
Statements of Revenues and Expenses and Changes in Net Position.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements	8
Independent Auditors’ Report on Compliance and Internal Control	17

King Jacobs Lorfing

Certified Public Accountants • Since 1958

Adele King Jacobs, CPA
Rhonda B. Lorfing, CPA

1216 South Rogers
Clarksville, AR 72830

T: 479.754.2478
F: 479.754.2473

Independent Auditors' Report

To the City Council
Ozark Water & Sewer Department
Ozark, AR 72949

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements Ozark Water & Sewer Department, enterprise fund of the City of Ozark, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Ozark Water & Sewer Department'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, the respective financial position of the Ozark Water & Sewer Department, an enterprise fund of the City of Ozark, Arkansas, as of December 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years 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 Ozark Water & Sewer Department 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Ozark Water & Sewer Department and do not purport to, and do not, present fairly the financial position of City of Ozark, Arkansas as of December 31, 2022 and 2021, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management's Responsibility 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, 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.

Auditor's Responsibility 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.

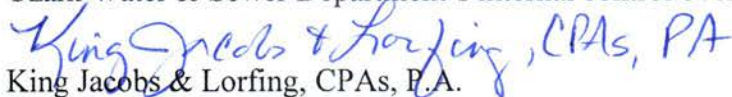
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Ozark Water & Sewer Department'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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2023, on our consideration of Ozark Water & Sewer Department'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 Ozark Water & Sewer Department'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 Ozark Water & Sewer Department's internal control over financial reporting and compliance.


King Jacobs & Lorfing, CPAs, P.A.
Clarksville, Arkansas
October 25, 2023

OZARK WATER & SEWER DEPARTMENT**Statements of Net Position
December 31, 2022 and 2021****ASSETS**

	<u>2022</u>	<u>2021</u>
Current Assets		
Cash & Cash Equivalents	\$ 2,093,445	\$ 1,955,857
Accounts Receivables	211,549	198,169
Unbilled Receivables	32,563	35,707
Inventories	90,895	73,969
Prepaid Expenses	30,856	27,433
Total Current Assets	<u>2,459,308</u>	<u>2,291,134</u>
Restricted Funds		
Cash and Cash Equivalents	<u>1,339,417</u>	<u>1,170,794</u>
Capital Assets		
Real Estate and Buildings	438,813	438,813
Water System	13,548,780	13,382,693
Sewer System	6,717,019	6,687,406
Trucks and Equipment	897,573	857,684
Office Equipment	101,478	101,478
Construction in Progress	290,865	150,055
	<u>21,994,528</u>	<u>21,618,128</u>
Less: Accumulated Deprecation	<u>(13,101,569)</u>	<u>(12,642,528)</u>
Net Capital Assets	<u>8,892,960</u>	<u>8,975,600</u>
Other Assets		
Investment in Arkansas Valley Electric	<u>114,528</u>	<u>107,373</u>
Deferred Outflow of Resources		
Deferred Amounts from Refunding of Debt	<u>44,243</u>	<u>51,517</u>
Total Assets	<u><u>\$ 12,850,456</u></u>	<u><u>\$ 12,596,419</u></u>

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

OZARK WATER & SEWER DEPARTMENT**Statements of Net Position
December 31, 2022 and 2021****LIABILITIES AND NET POSITION**

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Current Installments of Long-Term Debt (Payable from Restricted Assets)	\$ 330,000	\$ 305,000
Accounts Payable	96,348	60,828
Accrued Expenses	86,513	51,438
Accrued Interest Payable (Payable from Restricted Assets)	28,293	33,715
FEMA Payable	46,647	69,247
Total Current Liabilities	<u>587,801</u>	<u>520,228</u>
Long-Term Debt, Net of Current Maturities & Discounts	<u>4,166,752</u>	<u>4,154,543</u>
Other Liabilities		
Customer Deposits	<u>150,961</u>	<u>145,800</u>
Total Liabilities	<u>4,905,514</u>	<u>4,820,571</u>
Net Position		
Invested in Capital Assets, Net of Related Debt	4,440,450	4,567,574
Restricted	1,339,417	1,170,794
Unrestricted	2,165,074	2,037,480
Total Net Position	<u>7,944,941</u>	<u>7,775,848</u>
Total Liabilities and Net Position	<u>\$ 12,850,456</u>	<u>\$ 12,596,419</u>

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

OZARK WATER & SEWER DEPARTMENT
Statements of Revenues and Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenue		
Water Revenue	\$ 2,032,445	\$ 1,869,491
Sewer Revenue	265,315	271,249
Total Operating Revenue	<u>2,297,760</u>	<u>2,140,740</u>
Operating Expenses		
Depreciation	463,647	464,266
Dues, Schools, and Meetings	13,027	11,635
Insurance	56,626	49,889
Miscellaneous	2,308	3,644
Office Expense	42,965	42,690
Payroll Taxes and Employee Benefits	111,727	100,544
Professional Expenses	20,551	23,128
Salaries	438,453	414,936
Sewer Plant/ Lift Station Operation Expense	128,683	114,367
Uniforms and Safety	5,980	6,311
Fuel & Vehicle Expense	37,815	29,867
Water Plant and Distribution Expense	586,996	478,762
Total Operating Expenses	<u>1,908,779</u>	<u>1,740,036</u>
Income from Operations	<u>388,981</u>	<u>400,704</u>
Other Nonoperating Income (Expense)		
Interest Income	10,320	6,117
Interest Expense	(135,826)	(154,696)
Miscellaneous Income	19,169	61,558
Bond Issuance Expense	(136,148)	-
Grant Income	22,600	-
Total Other Income (Expense)	<u>(219,886)</u>	<u>(87,021)</u>
Changes in Net Position	169,095	313,681
Net Position - Beginning of the Year	7,775,846	7,462,166
Net Position - End of the Year	<u>\$ 7,944,941</u>	<u>\$ 7,775,848</u>

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

OZARK WATER & SEWER DEPARTMENT
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,287,523	\$ 2,131,195
Cash Paid for Goods and Services	(895,681)	(782,706)
Cash Paid to Employees for Services	(545,884)	(514,434)
Net Cash Provided by Operating Activities	<u>845,958</u>	<u>834,054</u>
Cash Flows from Non-Capital & Related Financing Activities:		
Increase (Decrease) in Meter Deposits	<u>5,161</u>	<u>4,139</u>
Net Cash Provided by Non-Capital & Related Financing Activities	<u>5,161</u>	<u>4,139</u>
Cash Flows from Capital & Related Financing Activities:		
2022 Bond Issue	4,680,000	-
Issuance expense	(136,148)	-
Payments on Debt Obligations	(4,650,000)	(300,000)
Interest paid on Debt Obligations	(126,764)	(141,059)
Net Cash Provided by Capital & Related Financing Activities	<u>(232,913)</u>	<u>(441,059)</u>
Cash Flows from Investing Activities:		
Capital Expenditures	(334,280)	(317,256)
Investment Income	10,269	6,117
Miscellaneous Income	9,454	61,558
Refunding of Arkansas Valley Electric Coop Certificates of Equity	2,560	2,098
Net Cash Provided by Investing Activities	<u>(311,997)</u>	<u>(247,483)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	306,210	149,651
Cash & Cash Equivalents at Beginning of Year	3,126,653	2,977,001
Cash & Cash Equivalents at End of Year	<u>\$ 3,432,863</u>	<u>\$ 3,126,653</u>

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

OZARK WATER & SEWER DEPARTMENT
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Earnings from Operations to		
Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 388,981	\$ 400,704
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	463,647	464,266
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivables	(13,380)	(1,210)
(Increase) Decrease in Unbilled Receivables	3,143	(8,336)
(Increase) Decrease in Inventory	(16,926)	(16,162)
(Increase) Decrease in Prepaid Expenses	(3,423)	(5,622)
Increase (Decrease) in Accounts Payable	(11,159)	1,719
Increase (Decrease) in Accrued Expenses	35,075	(1,307)
Net Cash Provided by Operating Activities	<u>\$ 845,958</u>	<u>\$ 834,052</u>
Non-Cash Investing, Capital & Financing Activities:		
Purchase of Equipment in Accounts Payable	\$ -	\$ -
Capital Credits Issued for Arkansas Valley Electric	\$ 7,155	\$ (2,099)
Amortization Deferred Bond Discount & Deferred		
Amounts from Debt Refunding	\$ 14,483	\$ 15,187

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

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Ozark Water & Sewer Department is an enterprise fund of the City of Ozark, Arkansas and is responsible for the operation and maintenance of their water and sewer system. The Department is governed by the mayor and the city council.

Basis of Accounting

The Department is accounted for in an enterprise fund, which is considered a proprietary fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises or for which periodic determination of revenues, expenses and net income is desirable. These funds render services to the general public on a user-charge basis. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The Department accounts for its activities in accordance with generally accepted accounting principles in Governmental Accounting Standards Board (GASB) Codification, Technical Bulletins, Implementation Guides, and literature of the AICPA cleared by GASB.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include checking accounts, savings, money market accounts, certificates of deposit, and short-term investments with maturities of three months or less in which the Department can effectively deposit or withdraw cash at any time without significant prior notice or penalty.

Permitted Investments

As per the City of Ozark's Ordinance No. 2022-07 authorizing the Series 2022 Water and Sewer Refunding Construction and Revenue Bond Section 7.01(d), "Permitted Investments" are defined to mean (i) direct or fully guaranteed obligations of the United States of America ("Government Securities"), (ii) direct obligations of an agency, instrumentally or government-sponsored enterprise created by an act of the United States Congress and authorized to issue securities or evidences of indebtedness, regardless of whether the securities or evidences of indebtedness are guaranteed for repayment by the United States Government, (iii) certificates of deposit of banks, including the Trustee, which are members of the Federal Deposit Insurance Corporation, or, if in excess of insurance coverage, collateralized by Government Securities or other securities authorized by State law to secure public funds, (iv) money market funds invested exclusively in

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

Government Securities and obligations described in (ii) above, or (v) any other investment authorized by applicable laws of the State of Arkansas.

Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services.

The Department uses the direct write-off method for uncollectible receivables. Uncollectible accounts written off for 2022 were \$950 and for 2021 were \$1,921. Revenues are adjusted for the uncollectible accounts written off. No allowance for uncollectible accounts has been estimated. Prior amounts written off as uncollectible accounts have not been significant and no significant uncollectible accounts have been determined as of December 31, 2022.

Inventory Valuation

Material and supplies inventories are stated at lower of cost (computed on a first-in, first-out basis) or market.

Capital Assets and Depreciation

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but are charged to expense as incurred. Acquisitions of property and equipment in excess of \$500 and useful life over one year are capitalized at cost or fair market value of the donation. Depreciation on construction in progress begins at the time the asset is completed and placed in service. The estimated useful lives are as follows:

Buildings	7-40 years
Water System	7-40 years
Sewer System	7-40 years
Trucks & Equipment	5-15 years
Office Equipment	5-7 years

Equity Classifications

The Department classifies net assets into the following three components:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of the carrying amount of

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

bonds, mortgages or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Consists of amounts which have external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations imposed by law.

Unrestricted Net Position – Consists of net assets that do not meet the definition of “Invested in Capital Assets, Net of Related Debt” or “Restricted Net Position”.

Operating Revenues and Expenses

Operating revenues and expenses are distinguished from other revenues (expenses) items. Operating revenues generally result from providing services in connection with the Department’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues (expenses), but remain a major component of the overall revenues and expenses of the Department.

Compensated Absences

The Department accrues accumulated unpaid vacation when earned by the employee. Paid vacation time is accrued as follows: 0 to 6 months – none, 6 months to 1 year – 5 days, 1 to 10 years – 10 days, 10 to 20 years – 15 days, after 20 years – 20 days. Accrued time will be paid if the employee leaves employment of the Department. Accrued vacation is recorded as a current liability.

Eligible employees accrue sick leave at the rate of one working day per month. Any accumulated sick leave which is not used in any calendar year may be carried over as accumulated sick leave days for the succeeding calendar year up to maximum of 480 hours. Employees are not paid for accrued sick leave upon termination of employment; therefore, no liability is accrued.

Restricted and Unrestricted Funds

When both restricted and unrestricted resources are available for use, generally it is the Department’s policy to use unrestricted resources first and to transfer restricted funds as needed. For projects funded by tax-exempt debt proceeds, the debt proceeds are used first.

Income Taxes

As a municipally owned utility, the Department is exempt from federal and state income taxes.

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 - CASH AND CASH EQUIVALENTS

The Department follows GASB Codification 150 *Cash Deposits with Financial Institutions*.

The deposits and money market funds are stated at fair values.

Deposits and Money Market Funds

The Ozark Water and Sewer Department maintained cash, certificates of deposit, and treasury notes at five financial institutions on December 31, 2022. Deposits are required to be held in banks with FDIC membership. Deposits in excess of FDIC insured limits are to be collateralized by pledged securities or invested in United States government direct obligations. Cash accounts at banks are insured by the FDIC up to \$250,000. Details of cash insured and uninsured are as follows:

Total Bank Balances	\$ 3,365,391
FDIC Insured Time and Demand Deposits	(1,367,890)
Collateral Pledged by Financial Institutions and/or held in U.S. Government direct obligations	<u>(1,997,501)</u>
Uncollateralized Deposits	<u><u>\$ -</u></u>

Custodial Credit Risk

The Department's policy is that deposits and investments be insured or collateralized at a minimum of 100% of the deposits and investments fair value. On December 31, 2022, the department had \$0 in uncollateralized deposits. On December 31, 2021, the department had \$0 in uncollateralized deposits.

NOTE 3 - RESTRICTED FUNDS

Certain resources of the Department, set aside for the repayment of the Department's revenue bonds, are classified as restricted assets on the statements of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Security Deposits Checking	\$ 175,762	\$ 171,145
Depreciation Fund Checking	450,284	407,196
Construction Accounts Checking	348,676	254,979
2015 Debt Service Reserve Fund	-	64,813
2015 Debt Service Bond Fund	-	32,641
2016 Debt Service Bond Fund	-	80,996
2016 Debt Service Reserve Fund	-	159,025
2022 Bond Project Fund	250,370	-
2022 Debt Service Bond Fund	<u>114,055</u>	<u>-</u>
Total Restricted Fund Accounts	<u>\$ 1,339,147</u>	<u>\$ 1,170,794</u>

NOTE 4 - CAPITAL ASSET SCHEDULE

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2022</u>
Buildings and Real Property	\$ 363,616	\$ -	\$ -	\$ 363,616
Water System	13,382,693	166,088	-	13,548,780
Sewer System	6,687,406	33,873	(4,260)	6,717,019
Trucks and Equipment	857,684	44,445	(4,556)	897,573
Office Equipment	<u>101,478</u>	<u>-</u>	<u>-</u>	<u>101,478</u>
Total Capital Assets at Cost	21,392,877	244,405	(8,816)	21,628,466
Less: Accumulated				
Depreciation	<u>(12,642,528)</u>	<u>(463,647)</u>	<u>4,607</u>	<u>(13,101,569)</u>
Total Depreciable Assets	<u>8,750,348</u>	<u>(219,242)</u>	<u>(4,209)</u>	<u>8,526,898</u>
Land	75,197	-	-	75,197
Construction in Progress	<u>150,055</u>	<u>232,018</u>	<u>(91,208)</u>	<u>290,865</u>
Net Capital Assets	<u>\$ 8,975,600</u>	<u>\$ 12,777</u>	<u>\$ (95,417)</u>	<u>\$ 8,892,959</u>

Depreciation expense for 2022 and 2021 was \$463,647 and \$464,266, respectively.

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 5 - LONG TERM DEBT

Long Term Debt Schedule

	Balance 12/31/2021	Additions	Deletions	Balance 12/31/2022	Amounts Due In One Year
2015 Utility Refunding and Revenue Bonds	\$ 1,400,000	\$ -	\$ (1,400,000)	\$ -	\$ -
2016 Utility Refunding and Revenue Bonds	3,115,000	-	(3,115,000)	\$ -	-
2022 Utility Refunding and Revenue Bonds	-	4,680,000	(135,000)	\$ 4,545,000	330,000
Total LTD	<u>\$ 4,515,000</u>	<u>\$ 4,680,000</u>	<u>\$ (4,515,000)</u>	<u>\$ 4,545,000</u>	<u>\$ 330,000</u>
Bond Discounts	<u>(55,457)</u>	<u>-</u>	<u>7,208</u>	<u>(48,249)</u>	
Carrying Value	<u>\$ 4,459,543</u>	<u>\$ 4,680,000</u>	<u>\$ (4,507,792)</u>	<u>\$ 4,496,751</u>	

2015 Utility Water & Sewer Construction Bonds, dated August 25, 2015, final bond due October 1, 2035. Interest rates vary from 1.0% to 3.7%, and are payable in April and October each year. Bonds are collateralized by a pledge of the net revenues from the system. The Series 2015 bonds were issued for the purpose of expanding the water and sewer systems. The Series 2015 bonds were refunded with the Series 2022 Bonds.

2016 Utility Water & Sewer Construction Bonds, dated October 26, 2016, final bond due October 1, 2033. Interest rates vary from 2.0% to 3.0%, and are payable in April and October each year. Bonds are collateralized by a pledge of the net revenues from the system. The Series 2016 Bonds were issued for the purpose of refunding the Series 2011 Bonds. The Series 2016 Bonds were refunded by the Series 2022 Bonds.

2022 Utility Water & Sewer Refunding and Construction Bonds Revenue Bonds, dated April 22, 2022, final bond due October 1, 2034. Interest rate is 2.49% payable in April and October. Principal payments due in October each year. Bonds are collateralized by a pledge of the net revenues from the system. The Series 2022 Bonds were issued for the purpose of refunding the 2015 and 2016 Bonds and for construction of system improvements.

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

The 2015, 2016, and 2022 bond issues are special obligation bond issues of the City of Ozark, Arkansas secured by revenues of the water and sewer departments.

The maturity schedule of the 2022 Utility Water & Sewer Refunding and Construction Revenue Bonds is as follows:

Date Due	Interest Due	Principal Due	Total
2023	\$ 113,171	\$ 330,000	\$ 443,171
2024	104,954	340,000	444,954
2025	96,488	350,000	446,488
2026	87,773	355,000	442,773
2027	78,933	365,000	443,933
2028-2033	253,856	1,960,000	2,213,856
2034	31,623	845,000	876,623
Total Debt	<u>\$ 766,796</u>	<u>\$ 4,545,000</u>	<u>\$ 5,311,796</u>

NOTE 6 - DEBT SERVICE REQUIREMENTS

Instructions from the underwriters of the Series 2015, 2016, and 2022 bond issues require monthly transfers from operating revenues to a debt service reserve to be used to pay the principal and interest expense on the bond issues. The Department has met all its debt service requirements for the years ending December 31, 2022 and 2021.

NOTE 7 – SERIES 2016 AND SERIES 2022 REFUNDING BONDS

On October 26, 2016 Ozark Water & Sewer Department issued \$4.18 million in Refunding Bonds with interest rates ranging from 2.0% to 3.0% to refund \$4.085 million of outstanding 2011 Refunding and Construction Revenue Bonds with interest rates varying from 2.0% to 4.5%. The refunding resulted in a difference between the re-acquisition price and the net carrying amount of the old debt of \$102,181. This difference, reported in the accompanying financial statements as a Deferred Outflow of Resources, is charged to operations through 2033 using the effective interest method. The economic gain (difference between present values of the old and new debt service payments) is \$346,528 using the effective interest rate of 3.14%. The refunding reduced the debt service payments by \$554,463 over the life of the bonds.

OZARK WATER & SEWER DEPARTMENT

Notes to Financial Statements

December 31, 2022 and 2021

On April, 22, 2022 Ozark Water & Sewer Department issued \$4.68 million in Refunding Bonds and Construction Bonds with interest rates 2.49% to refund \$4.515 million of outstanding 2015 and 2016 Refunding and Construction Revenue Bonds with interest rates varying from 2.0% to 3.7%. The economic gain (difference between present values of the old and new debt service payments) is \$259,357 using the effective interest rate of 2.379%. The refunding reduced the debt service payments by estimated \$168,000 over the life of the bonds.

NOTE 8 - CONCENTRATIONS IN THE VOLUME OF BUSINESS TRANSACTED WITH PARTICULAR CUSTOMERS

The amount of gross income from major customers is as follows:

	2022		2021	
Butterball, LLC	\$ 847,667	36.9%	\$ 679,097	31.7%
River South Water Users	282,780	12.3%	286,514	13.4%
City of Altus Water Dept.	245,881	10.7%	215,656	10.1%
Watalula Water Assoc.	159,110	6.9%	159,860	7.5%
Pleasant View Water Asso	152,037	6.6%	131,229	6.1%
Totals	<u>\$ 1,687,474</u>	<u>73.4%</u>	<u>\$ 1,472,357</u>	<u>68.8%</u>
Total Sales	<u>\$ 2,297,760</u>		<u>\$ 2,140,739</u>	

Approximately 73.4% and 68.8% of the Department's water sales were provided by Butterball LLC, River South Water Users, City of Altus Water Department, Watalula Water Association, and Pleasant View Water Association in 2022 and 2021 respectively.

NOTE 9 – CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Department to concentrations of credit risk consist primarily of trade receivables with a variety of customers. Concentrations of credit risk with respect to accounts receivable are limited due to the Department's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Department generally does not require collateral other than the required customer deposit to support accounts receivables.

NOTE 10 - SIMPLE IRA

Ozark Water and Sewer Department maintains a simple IRA plan through Capital Guardian Trust. The Department will match an employee's salary reduction contributions up to 3% of the employee's annual compensation. The cost of this plan was \$9,982 in 2022 and \$5,887 in 2021.

OZARK WATER & SEWER DEPARTMENT
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 11 – FEMA PAYABLE

In January 2020, FEMA funds were received to repair 2019 flood damages at the Wastewater Treatment Plant and Chrisman Pump Station. Due to delays caused by change in personnel and Covid 19, the repairs were not completed during the period of performance stated in the FEMA contract. This issue has been discussed with FEMA and requests are in process to extend to June 8, 2023.

NOTE 12 – ACCOUNTS RECEIVABLE

Accounts Receivable are as follows:

	<u>January 1, 2021</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Accounts Receivable	\$ 196,959	198,169	211,549

NOTE 13 - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 25, 2023 which is the date the financial statements were to be issued.

King & Jacobs & Lorfing

Certified Public Accountants • Since 1958

Adele King Jacobs, CPA
Rhonda B. Lorfing, CPA

1216 South Rogers
Clarksville, AR 72830

T: 479.754.2478
F: 479.754.2473

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 City Council of Ozark
Ozark Water & Sewer Department
Ozark, 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 governmental activities, the business-type, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ozark Water and Sewer Department of the City of Ozark, Arkansas, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Ozark Water and Sewer Department of the City of Ozark, Arkansas's basic financial statements, and have issued our report thereon dated October 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ozark Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ozark Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of Ozark Water and Sewer Department'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. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ozark Water and Sewer Department'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 results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In January 2020, FEMA funds were received to repair 2019 flood damages at the Wastewater Treatment Plant and Chrisman Pump Station. Due to delays caused by change in personnel and Covid 19, the repairs were not completed during the period of performance stated in the FEMA contract. This issue has been discussed with FEMA and the performance period has been extended to June 8, 2023.

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.



King Jacobs & Lorfing, CPAs, PA
Clarksville, AR
October 25, 2023